**HUNGARIAN BANKING ASSOCIATION**

# *REPORT*

# *ON 2008 ACTIVITIES OF THE HUNGARIAN BANKING ASSOCIATION*

***BUDAPEST, APRIL 2009***

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# I. THE HUNGARIAN BANKING SECTOR IN 2008

Operations in the banking sector in 2008 were influenced by two major factors: the increasingly difficult availability of external funds, felt from the beginning of the year and impacts of the financial crisis appearing from the 3rd quarter of the year significantly narrowed the sector's room for manoeuvre. The lack of confidence became general, and due to the ensuing difficulties in the availability of external funds (in terms of both size and maturities), risks, and therefore, risk surcharges increased significantly. The impacts of the financial crisis on the real economy were reflected in the deterioration of the quality of portfolios, decline in profitability and, particularly, a high exchange rate volatility: the continuous weakening of the domestic currency in the 4th quarter of the year posed serious balance sheet management challenges for all banks.

Another effect, felt throughout the year, was the impact of regulatory efforts and measures aimed at enforcing - sometimes excessive and misconceived - consumer protection aspects in retail banking. It should be clearly seen: consumer protection issues are becoming increasingly important in EU legislation (vide the Consumer Credit Directive, the MasterCard and VISA interchange fee proceedings, etc.). These were added to by Hungarian government and authority initiatives (such as the Várhegyi Commitee).

Mitigating the adverse affects of the global financial crisis, preparing and promoting common actions and developing proposals for reasonable self regulatory and legislative measures were key priorities in the Associations operations in 2008.

**The banking sector's performance in 2008 can be summarised as follows:**

Overall the sector saw a successful year in 2008, growth figures were satisfactory. Although declining, profitability was also satisfactory, as was the portfolio quality and capitalisation. The trends, however, warn that there are some significant points of tension.

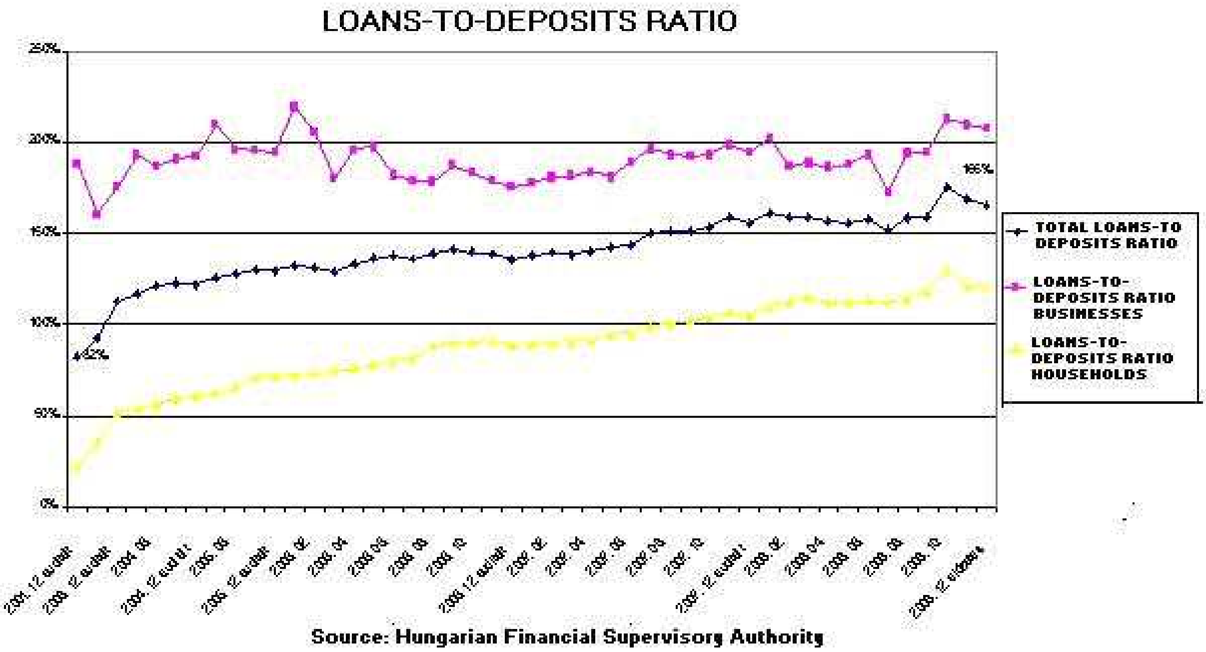
The last year increasingly revealed tensions in the sector's balance sheet structure:

Currency structure of assets and liabilities of banks operating as joint stock companies (%)

| | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008 Preliminary** |
|---|---|---|---|---|---|---|---|---|
| Foreign currency liabilities to total liabilities | 24 | 27 | 28 | 27 | 32 | 36 | 39 | 42 |
| Foreign currency assets to total assets | | 29.9 | 32.3 | 33.6 | 38.4 | 43.0 | 49.3 | 54.0 |

*Source: Hungarian Financial Supervisory Authority*

**Loans-to-deposits ratio**

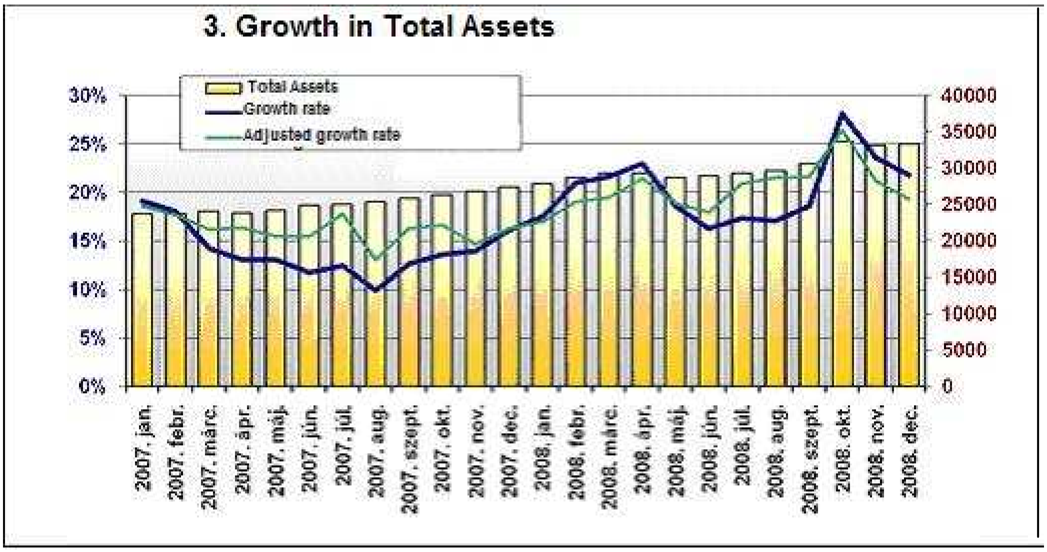



Source: Hungarian Financial Supervisory Authority

The deterioration in the currency structure is a consequence of the low savings propensity and the fact that growth in the past years was mainly achieved through foreign fundraising. This is reflected in the continuous deterioration of the loans-to-deposits ratio.

Aggregate total assets in the banking sector grew by 21.8% over the previous year, the same rate as in 2007. However, given that exchange rate fluctuations significantly influence total assets in the sector, the exchange rate adjusted growth was 2.5% lower: 19.3%.

Total assets grew especially rapidly in October 2008, reflecting a rapid increase in both corporate and retail loans. This growth could not be explained by seasonality: it was probably the financial market anomalies beginning to show on October 8 that prompted customers to use their credit lines.

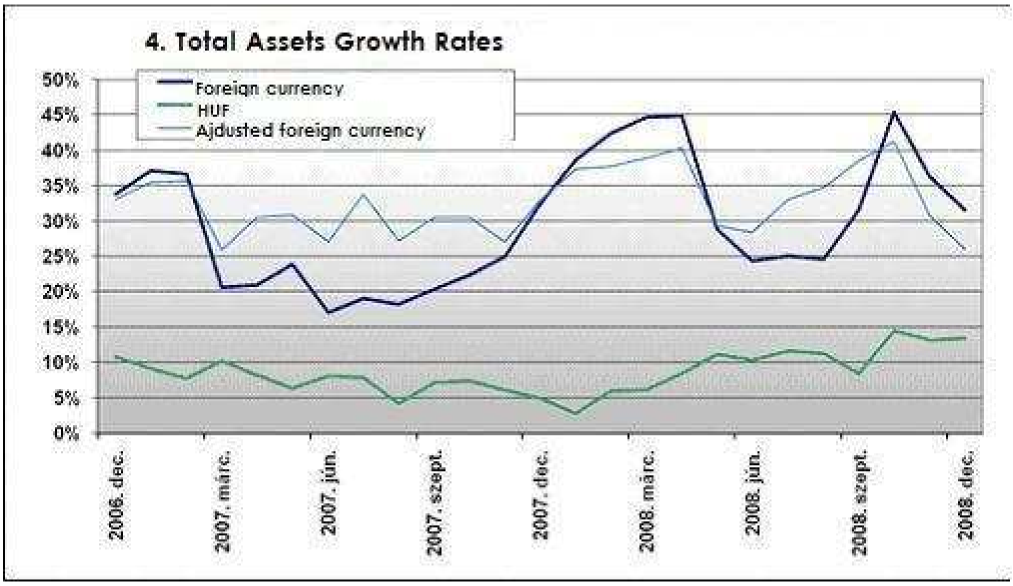



*Source: MNB*

Figures reveal that total assets in the banking sector decreased significantly in nominal terms from October, with the exchange rate adjusted figures showing an even greater decrease.

Accordingly, total assets in the sector as of the end of the year were HUF 500 billion less than at the end of September. The decrease - for the time being - was not in the retail lending market but in the corporate and other markets, such as the financial firms markets. At the same time, it was only for exchange rate fluctuations that the portfolios remained stagnant, mainly as a result of the change in the value of CHF mortgage loans granted for any purpose. Adjusted figures show a decrease even in the retail market in the last two months of the year.

HUF lending activity increased slightly, however, the share of foreign currency loans is still high. Foreign currency loans are still available, although loans in CHF have been replaced with EUR loans. Although there is a perceived intention in the market - and particularly in the retail market - to increase the share of HUF lending, HUF borrowings have not increased substantially for the time being. Fundraising in the international financial markets continues to be difficult. This situation just underlines the importance of banks' liquidity management.




*Source: MNB*

**Retail banking market**

***Loans***

Retail loans increased by 31% in 2008, growing only in October by nearly HUF 800 billion, several times the average monthly growth rate. Foreign currency loans grew significantly in 2008, although here, one should take into account the significant devaluation of the HUF at the end of the year. Loans in CHF fell to a fraction of their previous level in December, while loans in EUR started to increase, although at a slower pace.

The share of foreign currency loans in total retail loans continued to grow at a pace of more than 50%, while the stock of HUF loans continued to decrease slowly. Analysing the trends, it seems that despite increased costs, foreign currency borrowings continue to be attractive due to the high HUF interest rates.

There was no major change in the structure of lending: mortgage loans continue to have a major share in total loans. Residential mortgage loans and mortgage loans granted for any purpose grew at a rate similar to that of retail loans.

### *Deposits*

The rate of increase in deposits from households continued to be significantly lower than the increase in corporate deposits. However, due to successful promotions, the stock of retail deposits, and especially short-term deposits, had grown by more than HUF 500 billion by the end of the year. This growth primarily resulted from investment unit redemptions. An increasing price sensitivity in retail savings and a shift in the deposit portfolio structure is reflected in the decrease in current account savings, shifting into short-term deposits. Based on these trends, banks should anticipate a gradual reprising of retail funds.

The rate of increase in deposits in 2008 was still less than one third of the rate of increase in loans. Accordingly, the banking sector's demand for foreign funds continued to rise.

## Corporate banking market

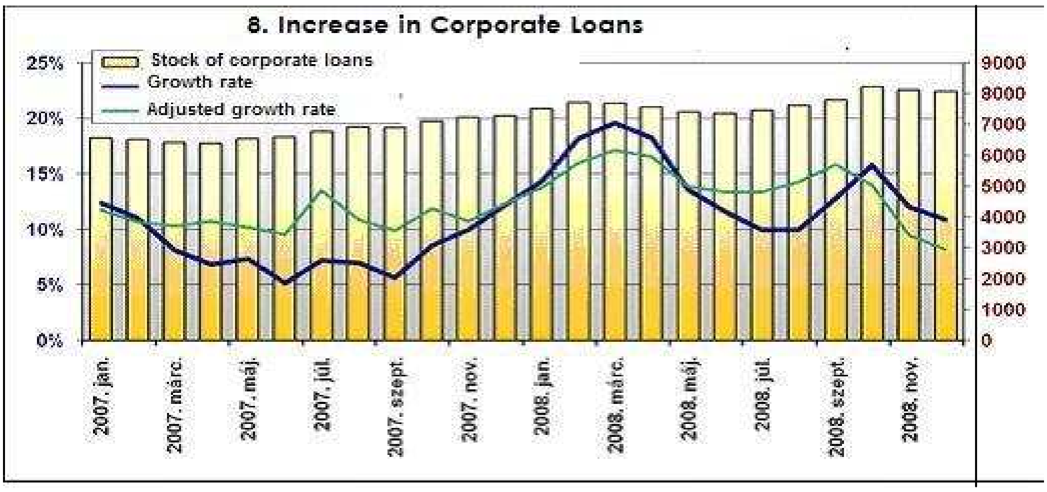
### *Loans*

The rate of increase in corporate loans continued to slow in 2008, to 10% on an annual basis. As was the case with retail loans, the stock of corporate loans grew substantially in October. The corporate loans portfolio decreased in the last two months of the year due to financing difficulties and banks' more cautious lending policy due to the financial crisis.

Although the stock of SME loans grew by 2% in 2008, the number of customers fell in the 4th quarter relative to the 3rd quarter, as did the average loan amount (except for medium-sized enterprises). The decrease primarily affected the micro enterprises sector in terms of number of borrowers (by more than 5000 customers) and the medium-sized enterprises sector in terms of share of borrowers (-11%). By the end of the $4^{th}$ quarter, the SME loans portfolio of one of the leading banks in SME lending fell by 40% over a single quarter alone.

68% of all loans to SMEs were short-term loans. This means that in the current economic downturn, business continue to face substantial risks in renewing their borrowings.

With the restrictions introduced by banks in lending to SMEs and large corporate customers in the wake of the economic downturn, no substantial increase is expected in corporate lending in short-term. In terms of sectors, lending to the transport and real estate development sectors decreased substantially. However, there may well be a rearrangement of positions in the corporate banking market, this may stimulate corporate lending.




*Source: MNB*

**Portfolio quality**

Based on audited figures, the share of problem loans (doubtful and bad debts) in total retail loans decreased from 2.3% in 2007 to 1.9% in 2008. The continuous increase in retail loans distorts the portfolio quality, given that problem cases only arise at a later point in time, when the portfolio (that is: the projection base) has grown further.

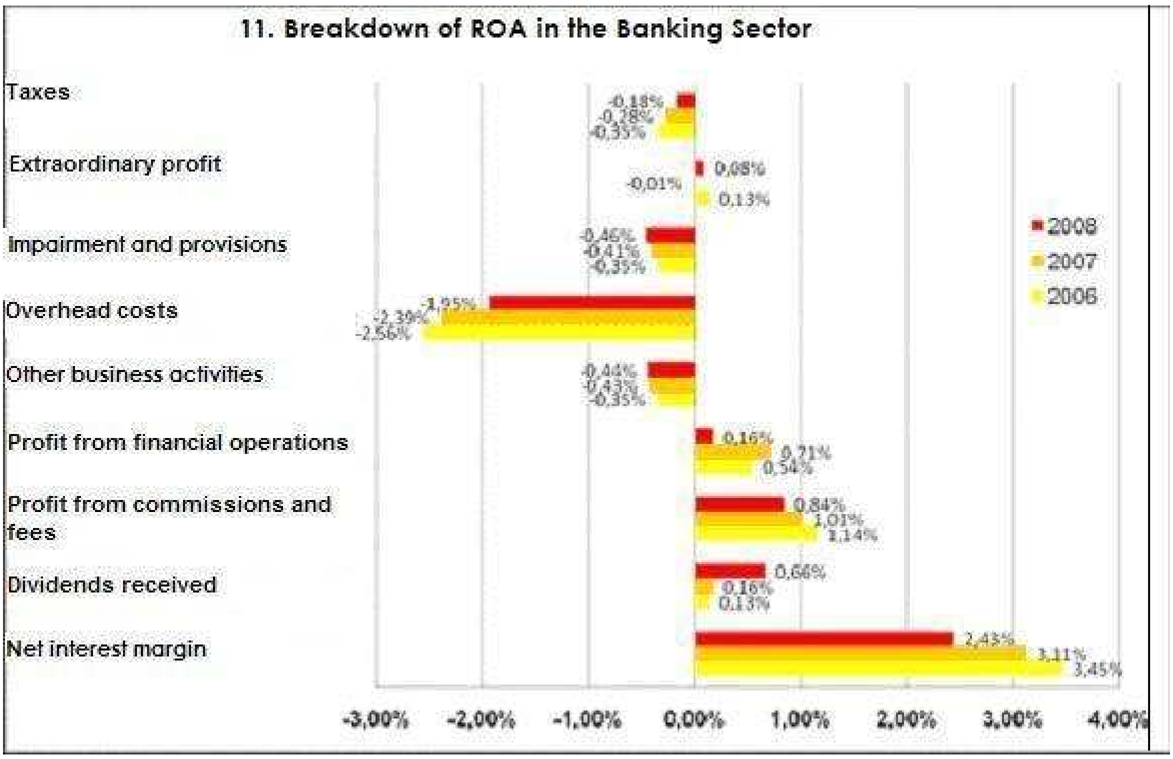
Anyhow, the decline in household incomes, in the wake of the economic downturn, (unemployment) and the weakening of the forint in 2009 project deterioration in the retail loan portfolio quality.

The corporate loans portfolio deteriorated significantly over a year. The share of problem loans (doubtful and bad debts) in total corporate loans continues to be higher than in the retail-lending sector, growing from 3.3% in 2007 to 4.1% in 2008.

**Profitability**

Given that profits in the banking sector are significantly influenced by impairments on assets, a final assessment of the sector's profitability in 2008 can only be given once audited figures are available.

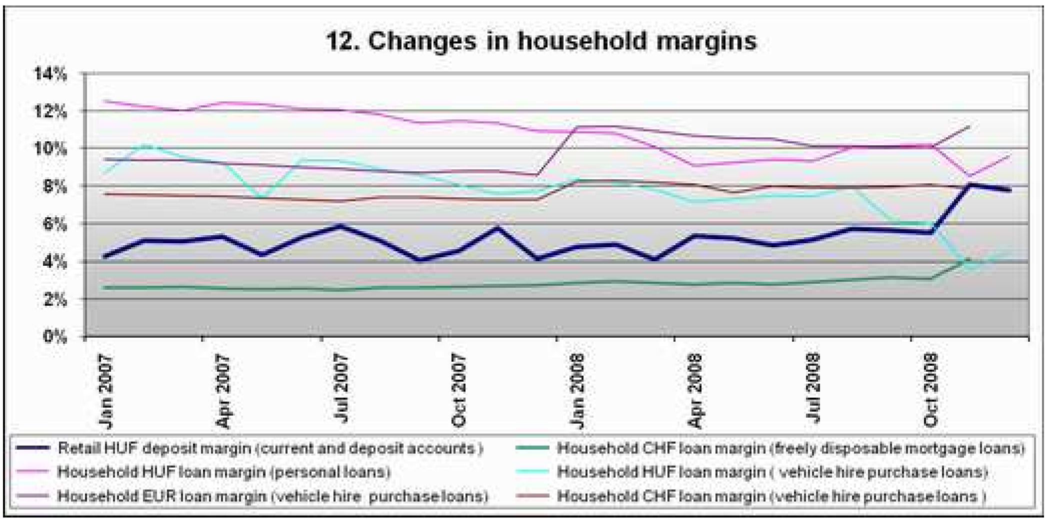
According to preliminary figures, aggregate profit after tax in the sector was HUF 303 billion in 2008, around HUF 21.5 billion or 7% lower than in 2007. The banking sector has seen a decline in profitability for the second consecutive year now, and this trend is expected to continue in the light of the economic downturn. The decline in profitability is reflected in the sector's ROA and ROE figures. Aggregate ROA and ROE in the sector declined from 1.44% and 17.5%, respectively, in the first half of the year to 1.13% and 14.1% at the end of the year. The decrease in profitability net of one-off effects was even greater.




*Source: MNB*

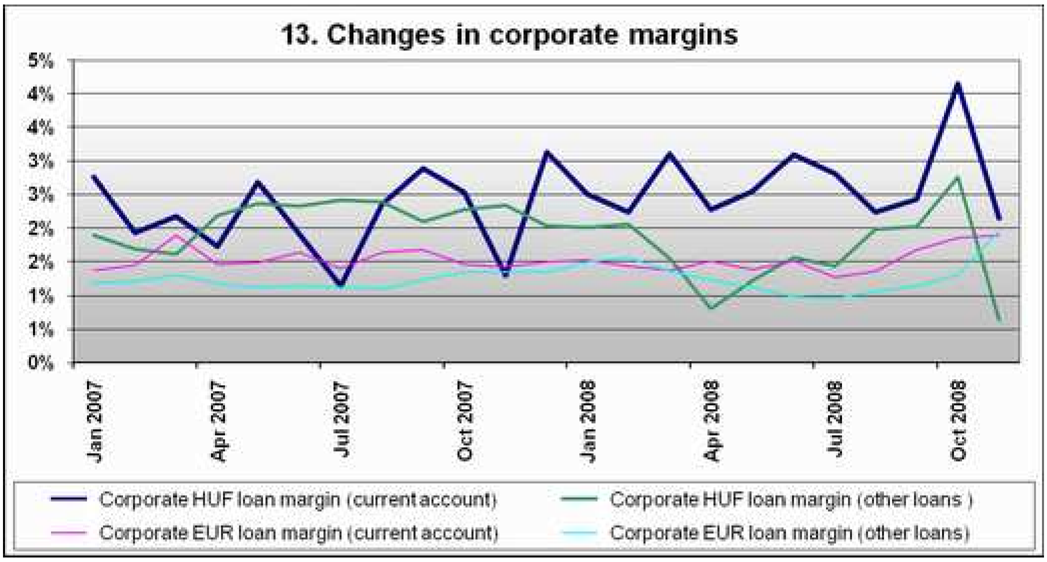
Looking at the structure of ROA, the decline in net interest margin (the net interest margin was 1 percentage point lower than two years ago) played a major role in the deterioration of profitability. Net interest margin over total assets fell from 3.1% in 2007 to 2.7% in 2008. Commissions over total assets declined, profit from financial operations basically fell to zero. This decrease was somewhat offset by the decrease in overhead costs over total assets to below 2%, as a result of cost-saving measures.

The evolution of retail interest margins reflects a change in borrowing preference at the end of the year, as the effect of the increase in funding costs appeared in pricing already at the beginning of the year. After a temporary rise, HUF interest rates fell, while foreign currency interest rates rose at the end of the year. However, the rise in HUF deposit rates projects a further deterioration in profitability in 2009.




*Source: MNB*

Corporate interest margins followed the same trend as retail interest margins. Borrowing in HUF became less expensive; borrowing in foreign currency became more expensive, foreign currency loans were provided at the same surcharge as HUF loans at the end of the year. As reflected in figures of the portfolio, this did not discourage companies, which continued to prefer borrowing in foreign currency. A reason for this may be that while the Hungarian base interest rate rose, the euro and Swiss franc key interest rates fell.




*Source: MNB*

**Capital adequacy ratio**

Capitalisation in the banking sector was stable in 2008. According to preliminary figures, aggregate capital adequacy ratio in the sector significantly exceeded the statutory minimum requirement.

**Capital adequacy ratio**

(%)

| | **2003** | **2004** | **2005** | **2006** | **2007** | **2008 preliminary** |
|---|---|---|---|---|---|---|
| Commercial banks | 11.48 | 11.93 | 11.08 | 10.68 | 11.01 | 11.06 |
| Co-operative banks | 15.13 | 15.82 | 15.42 | 15.22 | 15.69 | 13.65 |

# II. PROFESSIONAL ISSUES, LEGISLATION

## 1. Measures related to the financial crisis

Realising the difficulties in meeting the financing needs of the budget, the Hungarian government turned to the IMF and the European Union for financial support in October 2008. Upon its request for support, Hungary received EUR 12.5 billion from the IMF, 1 billion from the World Bank and EUR 6.5 billion from the European Commission (EUR 20 billion in total) in stand-by loans for a term of 17 months, expiring in March 2010. In the programme related to the loans, the Hungarian government committed to cutting government expenditures by 2% of the GDP, helping households with foreign currency loans, adopting a package to strengthen the stability of banks, introducing a positive credit registry for households and strengthening regulation and supervision of the financial sector.

In parallel with this, the European Central Bank made available a EUR 5 billion swap line to the MNB.

### 1.1 Act on strengthening the stability of the financial intermediary system

The Financial Stabilisation Act was adopted by Parliament on December 15, 2008. Pursuant to this Act, in order to strengthen the stability of the financial intermediary system, the government may provide debt guarantees to banks and increase capital in banks.

The Act applies to banks subject to the Credit Institutions Act (Act CXII of 1996), excluding banks operating as branch offices.

**A debt guarantee may be provided** upon the request of a bank subject to meeting certain conditions and subject to the joint recommendation of the Chairman of the Supervisory Council of the Hungarian Financial Supervisory Authority and the Governor of the MNB**.** The guarantee scheme is available **for obligations incurred between the effective date of the Act and the end of 2009,** denominated in Euros, Swiss francs or forints and repayable in the currency in which the obligation is denominated. The aggregate amount of guarantees available under the scheme is HUF 1,500 billion, including HUF 1,050 billion for debts maturing between a minimum of 3 months and a maximum of 3 years and HUF 450 billion for debts maturing between a minimum of 3 months and a maximum of 5 years.

A c**apital increase** in a bank may be carried out upon the request or consent of the bank, subject to the joint recommendation of the Chairman of the Supervisory Council of the Hungarian Financial Supervisory Authority and the Governor of the MNB. In certain cases specified in the Act, the government may increase a bank's capital ex officio, without the bank's consent. The government until March 31, 2009 should decide on capital increases. The first such decision was made on the last day of this deadline: the FHB mortgage Bank received HUF 30 billion in capital increase against preference shares. (Through an amendment to the Act, the deadline was extended until December 31, 2009).

If the government establishes, in a government decree, that a bank is in trouble and the insolvency of the bank would seriously harm the system of financial intermediaries in Hungary, then, during the validity of the decree, the government will have the exclusive right to decide on all matters falling under the competence of the general meeting of the bank (i.e., to exercise all shareholders' rights). The government until December 31, 2009 may issue such a decree.

Decisions adopted by the government acting in the capacity of the general meeting should be communicated without delay in writing to the bank's senior officers and supervisory board.

An amendment to the Act on Public Finances, adopted in March 2009, has **authorised the government to acquire**, from its liquid funds, **bonds issued by the MNB and to provide loans to banks based in Hungary**, subject to the recommendation of the Governor of the MNB and the Chairman of the Supervisory Council of the Hungarian Financial Supervisory Authority.

### 1.2 Raising the deposit guarantee limit

To mitigate the adverse effects of the financial crisis and to strengthen confidence in the banking system, Parliament amended the provisions of the Credit Institutions Act (Act CXII of 1996) regulating operations of the National Deposit Insurance Fund. In line with the relevant amendment to the EU Directive on Deposit Guarantee Schemes, the deposit guarantee limit was increased from HUF 6 million to HUF 13 million and the co-insurance requirement abolished effective from October 15, 2008. Parliament declared that to ensure the safety of deposits, the government would guarantee the portion of savings exceeding the level of coverage provided by the National Deposit Insurance Fund.

An amendment to the Credit Institutions Act is in progress to raise the deposit guarantee limit to HUF 15 billion and reduce the payout delay to 20 working days.

### 1.3 Changes in central bank instruments

In view of the difficulties in foreign fundraising and lack of market liquidity, the Association's Board turned to the Governor of the MNB, requesting the MNB to take measures to improve the lending capacity of banks. The MNB took important measures to ensure smooth operation of the government securities market and to improve liquidity in the market even before receipt of this letter: it concluded agreements with the Primary Dealers of government securities, made purchases in the OTC markets, introduced two-week and six-month HUF loan instruments and lowered the mandatory reserve rate from 5 per cent to 2 per cent. Also, from the middle of October it made available an overnight EUR/HUF FX-swap facility to bridge liquidity shortages in euro.

Upon the Board's letter, top-level consultations were started to promote fundraising by banks. Based on these consultations, the MNB has invited six-month EUR/HUF FX-swap tenders to provide for euro liquidity from March 2. For institutions seeking to use this facility, the MNB will set individual swap limits, not to exceed EUR 5 billion in aggregate. Participant banks must commit to increase, or maintain at the end-2008 level their stocks of corporate loans and to increase their net foreign liabilities by the same amount as their swap limits. (Banks disagreed with this condition during the consultations). From March 9, the MNB has also invited three-month EUR/HUF FX-swap tenders, with a minimum implied euro interest rate and a maximum quantity. Under an agreement between the Swiss central bank and the MNB, one-week EUR/CHF FX-swap tenders have been made available from February. Bids are to be submitted on the first trading day of each week. Also, the MNB extended the scope of central bank eligible securities to include municipality bonds with good ratings.

### 1.4 Helping households with foreign currency loans

11 leading banks in foreign currency lending signed a Statement, committing themselves to trying to mitigate, through specified measures, the burden on households caused by exchange rate fluctuations and the ensuing temporary increase in the repayment amounts.

At the request of and in agreement with the customer, banks will seek to find the best solutions within the constraints of their rules, business policies and daily business practices. The available options continue to include the extension of maturity, the conversion of loans into domestic currency, the temporary easing of repayments on a case-by-case basis, and flexibility on early repayments. At the request of the Ministry of Finance, the Hungarian Financial Supervisory Authority checked on the application of the Statement. It was established that banks do abide by their commitments, although there such measures have been rarely taken thus far, given the low number of such requests.

### 1.5 Accounting rules - special delivery repo

The general uncertainty in the international financial environment, the impacts of the financial turmoil had been felt in Hungarian government bond issues by the beginning of October: demand for Hungarian government bonds had practically disappeared. To stimulate liquidity, the government amended the provisions of the Government Decree on accounting rules for credit institutions, improving the rules for accounting for delivery repo transactions (as has been requested by the banking community for 4 years). The new accounting rule, applied to what is called special delivery repo transactions is now more aligned with the IRFS.

Previously, compliance with both the Hungarian and international accounting standards was ensured through double bookkeeping and manual record keeping. This was unmanageable for mass products. According to specialists, the volume of transactions and liquidity generated in the securities market was lower than what could be expected based on the volume of securities in the market and the Hungarian rules were hindering the optimum management of the liquidity of the budget.

Pursuant to the new rule in effect from October 10, 2008, "special" delivery repo transactions are now accounted for as loans (not sale), with the relevant securities remaining in the books. The banking industry welcomed this step aimed at convergence to the IFRS. Market turnover picked up after issue of the new regulation and the adjustment of IT systems to replace manual record keeping commenced.

### 1.6 Bailout for unemployed home-loan debtors

The government, in consultation with banks, drafted an Act to help home-loan debtors who have lost their jobs due to the financial crisis. Pursuant to the new law, the customer will have to pay a minimal monthly repayment (around HUF 10,000) per month for a period of two years and the government will provide a guarantee for the outstanding debt. Although banks will receive less in repayments, but they will not have to fear about mass defaults and the loss of value of collaterals due to oversupply.

During the consultation we achieved that through the use of a bridging loan, the facility will also be workable for combined loans (home loans combined with building society and insurance products), that is: the guarantee will apply to these products, as well, and banks will

be free to decide on whether and under what conditions to make available this facility to a particular customer.
The Act was adopted by Parliament in March 2009.

### 1.7 Amendments to certain laws affecting the supervision of the financial intermediary system

The Competition Office conducted an investigation in 2007-2008 on switching banks for certain retail and small-enterprise products. The relevant draft report formulated several proposals in relation to the issues of switching banks, APR, unilateral contact amendments and other issues. The Competition Office invited a consultation on December 18, 2008 to review the conclusions of the draft report. At the consultation, we presented our comment and the head of the Association's competent working group handed over to the Competition Office the Association's Board's Draft Recommendation for the fair exercise of the right to make unilateral contract amendments. Soon after the consultation, still before the 2-month winter legislative break, on December 23, 2008 the government, without prior professional consultations, submitted to Parliament the draft law on amendments to certain laws affecting the supervision of the financial intermediary system, addressing, inter alia, the issue of unilateral contract amendments.

In view of the above, we turned to the Prime Minister and the Minister of Finance in a letter, challenging this procedure as well as the contents of the proposed legislation. As a result, the consultations on the professional aspects of the draft law were held while the parliamentary debate of the draft law, presented to Parliament under urgency, was already in process. The Act, adopted and promulgated under urgency, needs corrections in several points. We are making continuous efforts to achieve these corrections.

### 1.8 Draft law on central credit information system

The drafting of the proposed legislation on central credit information system continued in September at the Ministry of Justice. (The setting up of a central credit information system is also included in the government's commitments to the IMF). The Association provided wording proposals to make certain provisions of the proposal more specific and drew attention to concerns regarding the complexity of the system and the weakening of the reliability of the system due to the principle of voluntariness. In relation to the initial uploading of the system, banks challenged the prescribed method, deadline and costs involved in the initial upload and objected to tying the upload to the customer's consent, given the uncertainty in obtaining such consents and given the fact that the customer may revoke his consent at any time. Based on the government's professional policy meeting and the cabinet's decision, the drafting process was accelerated and the government on October 22 adopted the proposal.

The draft law provides a compromise solution for the entry of customer data into the system and retrieval of customer data from the system. In recognising the customer's private information rights, the draft law makes the entry of contractual data into the system subject to the customer's consent. Although the draft law (No. T/6668) has been included in the Parliament's agenda since October 20, 2008; the general debate has not commenced yet. After broad consultations, the Association provided some crucial amendment proposals to the proposed legislation. The proposals were agreed with and supported by the Ministry of Finance.

## 2. Other regulatory changes and proposals

### 2.1 Amendments to certain laws affecting financial services

The law package on amendments to certain laws affecting financial services is aimed at the transposition into Hungarian legislation of EU Directive 2007/44/EC on procedural rules and evaluation criteria for the prudential assessment of acquisitions and increase of holdings in the financial sector. It contains amendments to the Credit Institutions Act, the Capital Markets Act, the Investment Services Act and the Insurance Act. The Association submitted wording proposals to make certain provisions of the draft law more specific. Some of our proposals were accepted. The draft law was presented to Parliament under No. T/6574, and was accepted by the Act on CIII of 2008.

### 2.2 Customer-friendly change in the Government Decree on Home Subsidies

Based on customer complaints in the media, the Ministry of Local Governments proposed an amendment to the Government Decree on Home Subsidies. Customers complained about the fact that although the birth of a child was registered in the government's central database, the government required the customer to also report this fact through the bank advancing the home subsidy, failing which the customer faced financial sanctions, to be - again - enforced by the bank.

The government developed a technique to link the data in the two databases, thus relieving the customer from the obligation to report the birth to the bank. However, before linking the data, the customers' consent should be obtained for data protection reasons.

Banks suggested that a standard letter, including a standard privacy statement form be drafted, to be used by all banks for notifying customers on the change. The Ministry accepted the proposal. Government notifications to customers were sent out in a standard format after due coordination with the Association. At the same time, the Ministry rejected the Association's proposal that penalties already paid be directly settled by the government with the customers (through the Hungarian State Treasury), to relieve banks from this burden.

In connection with home loans, the **State Audit Office** requested the Association's assistance in managing **the investigations affecting banks within the framework of its assessment of the system of housing subsidies**. First, we solicited member banks' opinion on the State Audit Office's proposed data request. Then, a consultation on the Association's comments made based on the inputs received was organised with the State Audit Office and banks involved. As a result of this consultation, we achieved that the mandatory reporting requirement only apply to subsidised loans and most data that would require longer search and could only be produced manually are omitted.

### 2.3 Consumer Protection Act

The Ministry of Employment and Social Affairs submitted the proposal for amendments to the Consumer Protection Act and related laws to administrative review in March. The draft law included provisions related to consumer information, complaint handling, customer service, reconciliatory bodies, and enforcement of public interest claims, authority inspections and regulations on fines.

The Ministry only consulted with NGOs and some trade associations, without involving the financial industry. Notwithstanding, we submitted our comments to the Ministry, to both the old and the new Minister. We also approached with our amendment proposals the Parliament's Consumer Protection Sub-Committee and leaders of the parliamentary groups and presented our views at a consultation held for NGOs by the Vice-Chair of the Consumer Protection Sub-Committee. Also, we discussed our position with the Association of Hungarian Insurance Companies and other trade and services associations.

It is a generally shared view that the proposed legislation disregards the specifics of financial services, the customer protection provisions of sectoral laws, and mechanically applies commercial consumer protection rules to financial services, which raises serious queries.

Also related to this issue: the **Ad-Hoc Parliamentary Committee on Consumer Protection** held a meeting on June 18, 2008. An agenda item of the meeting was banks' lending practices and consumer protection issues related to retail banking services. Issues addressed at the meeting included the activities of loan intermediaries, illegal lending, unilateral contract amendments, abuse of market power and the promotion of financial literacy. In its contributions, the Association gave detailed comments on the issues discussed. Members of the Ad-Hoc Parliamentary Committee said they would initiate regulatory amendments in certain issues affecting retail banking services and brief the competent Ministers on the conclusions of the meeting.

### 2.4. Regulation of credit brokers

The Association initiated with the Ministry of Finance that the legal status and activities of credit brokers should be regulated in more details by an Act. The enhancing of regulations on insurance and credit brokers is also included in the government's commitments to the IMF.

The banking community and other market players have voiced serious complaints regarding the activities of credit brokers in recent months and called for a more detailed and more stringent regulation. The current regulation does not provide appropriate guarantee requirements for proper credit broker operations and allows credit brokers to manipulate the market and avoid control. Credit broker operations have not been given enough attention in the Hungarian Financial Supervisory Authority's inspection operations lately. We proposed to the Ministry of Finance that the Credit Institutions Act be amended to regulate all types of agency and credit brokerage activities, and thus to provide for clear lines in the market.

### 2.5. New Civil Code

The Ministry of Justice held several consultations in 2008 with the participation of the competent Ministries and professional associations on the chapters on financial and credit relations and insurance. The Association submitted detailed text proposals for these chapters. Also, we made proposals in relation to issues related to the definition of pledge, irregular pledge, the calculation of deadlines, the reduction of stipulated interest, general terms and conditions, and guarantee rules. Several conferences were also held on the proposed new Civil Code. Representatives of the Association attended and gave presentations at these conferences.

In relation to the new Civil Code, the Association submitted to the Justice Ministry proposals for amendments to the Credit Institutions Act, the Central Bank Act, the Act on Building Societies, the Act on Mortgage Banks, the Bankruptcy Act, the Act on Capital Markets, payments regulations and the regulations on land registers, with detailed explanations for the amendments proposed. We pointed out the need for transitional provisions to harmonise the rules for interest calculation, collaterals and the relevant provisions of the Act on Judicial Distraint and lien regulations.

### 2.6. Personal bankruptcy

The Ministry conducted a review of the Justice Ministry’s discussion paper titled „Proposals for Legislation on the Re-Scheduling of Personal Debts and Rules for their Repayment” in December. In our comments we submitted that amidst the current financial and economic recession, citizens might tend to interpret personal bankruptcy as a sort of loan amnesty or debtor consolidation: this would not serve the educational objectives of the institution of personal bankruptcy. Not questioning the legitimacy of this legal institution, we believe that the institution of personal bankruptcy can only fulfil its role if it is accompanied by active employment and social policy measures.

In our view, the institution of personal bankruptcy may only be introduced in Hungary after recovery from the current economic crisis and after a comprehensive credit information system is put in place. (This latter condition is based on principle and practical reasons).

The concept of the proposed legislation was changed substantially. It was extended in scope to include in the debt rescheduling and repayment procedure not only those, who have the assets and regular income to be able to meet (at least partly) their debt services, but basically all debtors. Another important change was in the provision relieving the debtor from his remaining debts. The initial concept was only limited to a relief from public dues. **Under the new concept, all financial consequences of relieving the debtor from his remaining debts would have to be borne by the creditor. This is unacceptable for banks**.

The entire concept should be presented and interpreted together with the Social Act. It should be clarified, where the support role of the state lies and what burdens market players are expected to bear.

## 3. Self regulation - Association recommendations to strengthen confidence in the financial system

### 3.1 Annual Percentage Rate (APR)

The Association's Board, in agreement with the Ministry of Finance and the Hungarian Financial Supervisory Authority published a Recommendation under No. 1/2008. The Recommendation was aimed at removing misinterpretable APR indices from advertisements and thus, improving product comparability. The provisions on annual percentage yield on deposits (APY) and annual percentage return on securities were also complemented. Provisions were also added to regulate the use of promotion interest rates for these products and the treatment of APY for combined deposits and building society savings.

### 3.2 Code of Ethics

The Association's 2008 General Meeting adopted a new Code of Ethics. Values set out by the new Code include the equal treatment of customers, setting terms and conditions mindful of reasonable business interests of the customer, reliable information, ethical advertising, customer-focused administration, effective and systematic handling of customer complaints, cooperation between members through self-regulation and voluntary compliance, safe workplaces and professional development.

Any breach of norms adopted through self-regulation will be considered as a breach of ethics and may be sanctioned by public disclosure or, in the event of a gravely serious breach, by termination of membership.

### 3.3 Code for unilateral contract amendments

A working paper on the fair exercise of the right to unilaterally amend contacts was compiled. The Association reviewed the proposal at a joint consultation with the National Association for Consumer Protection and the Association of Bank Loan Victims. Participants did not question banks' right to change interest rate, what they challenged was the unilateral changing of commissions and fees and the introducing of new commissions and fees. At banks' initiative, the proposal was complemented with a provision on relinquishing the unilateral introduction of new commissions and fees. We handed over the Code to the Vice-President of the Competition Office on December 18 and also sent it to the Ministry of Finance.

### 3.4 Code for loan trade-offs

The Association's Board adopted a Recommendation under No. 2/2008 on practices aimed at making loan trade-offs easier. Signatories to the Code agree to use a standard form to provide information on the loan to be replaced, to allow for easier credit rating by the new bank. The process could be further accelerated through electronic data exchange between the two banks. Cooperation between banks will also give the original creditor bank the opportunity to approach the customer with better offers: the old bank and the new bank would compete to retain/acquire the customer.

The old creditor is entitled to full compensation in case of prepayment of the old loan. The rate of compensation (exclusively for consumer credits) is stipulated in EU Directive 2008/48/EC. Although the Directive is to be transposed into Hungarian legislation by 2010, the Board recommended that members settle the issue of prepayments for consumer credits in line with the Directive ahead of this deadline.

### 3.5 Guide on changing banks

The Association's competent working group compiled a publication to provide customers with advice on aspects to be considered when contemplating changing banks. The Guide is a useful aid for customers, providing, in a straightforward way, all fees and costs related to changing banks. The Guide draws attention that before terminating the contract, the customer should ask his bank, because the product offered by the new bank may already be available at his current bank, and may be at a better price. The Guide recommends that customers contemplating changing banks should compare offers from various banks and may also consult the HFSA's website.

### 3.6 Basic Accounts

A proposal for a Basic Account facility, drafted by the Association's Basic Accounts Working Group and approved by member banks was submitted to the Ministry of Finance in February

2008. After a review of the proposal, the government provided some more specific requirements. In view of the new requirements presented by the Ministry of Finance, the Working Group reviewed the proposal during October-November and amended the proposed facility in accordance with the Ministry's requests. Banks confirmed their willingness to meet the government's expectations through self-regulation and to make available a standard basic account facility effective from January 1, 2009, provided the Competition Office has no competition law queries concerning the proposed facility and provided the Hungarian Post Office agrees to provide the first two cash withdrawal card transactions free of charge. On December 19, the Ministry of Finance advised that due to some unregulated issues, the Basic Account facility would not need to be introduced in January 2009. Accordingly, no self-regulation was adopted.

### 3.7 Combating against money laundering and terrorist financing

Banks pay special attention to ensuring that their services do not support any criminal activity. Confidentiality ensured by bank secret may in no way serve criminal interests. At the same time, measures aimed at impeding money laundering and terrorist financing should not prejudice customer comfort. With this in mind, specialists formulated a minimum set of requirements and procedures for consistent and efficient implementation of the Anti-Money Laundering Act.

## 4. Competition Office - Interchange fee investigation

The Competition Office launched an investigation on interbank interchange fees charged on bankcard transactions. The investigation affected VISA, Mastercard and 23 banks. Member banks requested the Association to coordinate actions of the affected banks. The Association's Board decided to invite a CEO meeting for the affected banks to agree on terminating the agreements objected by the Competition Office and undertaking a common commitment.

Accordingly, banks terminated their interbank interchange fee agreements with MasterCard and Visa on July 28 and August 1, respectively. The Competition Office welcomed the termination of agreements. However, the new interbank interchange fees introduced by MasterCard on July 28, 2008 were barely different from those specified in the terminated agreements. This would have jeopardised the acceptance of the common commitment, in the light of the Competition Office's view that the new fees did not promote market development. Therefore, on November 20, MasterCard announced a new fee structure, with substantially lower fees.

At a meeting with banks' CEOs, held at the Association on October 15, decisions were made on a proposal prepared by specialists on a common commitment to be undertaken by banks. In accordance with the Competition Office's relevant decision, we informed the Competition Office's head of investigation on the willingness of banks to undertake a common commitment and on the proposed contents of the commitment.

The initial ruling issued by the Competition Office's Competition Council on the proposed common commitment allowed banks to adjust the commitment in accordance with the Council's expectations provided in the ruling. However, the January 2009 deadline for this was extremely tight. At our request, the deadline was extended to March 6. A new common commitment had been drafted by the new deadline. The new commitment was complemented with a programme for the development of card acceptance and a summary of comments on the Competition Council's expectations provided in the ruling.

## 5. Reporting

### 5.1 Changes in central bank reporting requirements - 2009

At the end of the summer the MNB held a consultation for banks' reporting officers and staff on proposed changes in central bank reporting requirements for 2009. The structure of regulation will be changed: the two regulations in force in 2008 will be integrated under a single reporting regulation in 2009. Also, the contents of the various provisions of the regulation were revised. As a result, the completion instructions became shorter, more transparent and easier to manage.

### 5.2 Proposed changes in supervisory reporting requirements - 2009

The Hungarian Financial Supervisory Authority (HFSA) in September requested banks to provide an opinion on proposed changes in the supervisory reporting requirements for 2009. The HFSA also requested banks' comments as to the practicability of the proposed changes and on the date banks would be able to meet the new requirements. Banks found most of the proposed changes practicable (including the new information requirements for SME lending and changes related to profit and loss reporting).

At the same time, there were lengthy consultations on the HFSA's executive circular providing for the introduction of an incident reporting obligation from October 1, 2008. The circular failed to take account of existing legal impediments to the proposed obligation and the responsibility of other bodies (for example, the MNB, in respect of currency counterfeiting and bank card frauds). We communicated our concerns both orally and in writing. As a result, the incident reporting obligation was not introduced.

### 5.3 Further development of the BankAdat interbank data system

The BankAdat information system contains the most important quarterly financial figures of Hungarian credit institutions. The system was created by the Association seven years ago and has operated as a closed system used by the Hungarian banking community. The International Training Centre for Bankers manages the system. Members of the system undertake to publish an agreed set of key financial data on a quarterly basis. The system is based on voluntariness and mutuality: a member institution can only access such data of other member institutions, which it, too, provides, and such individual or aggregate figures, which have been jointly specified and agreed by members. Individual data are not public and can only be accessed with a security code. Contents of the database have been continuously expanded in recent years as a result of competition and changing market conditions.

In 2008, members initiated further expansion of the data contents of the system. The Association initiated discussions with the Hungarian Financial Supervisory Authority and the MNB to provide banks' analysts with access to the reports submitted and for banks to be provided with aggregate data generated from the individual report. Specification of the data requirement and the preparation of the system for meeting the new requirements commenced. Some selected reports were handed over by the HFSA and the MNB at the beginning of 2009.

### 5.4 HUNOR Operational Risk Database

The **Hungarian Operational Risk Database** (HUNOR) was launched in May 2007. The 12 participant banks duly met their reporting obligations as stipulated in the agreement. More than 3,000 operational risk loss events to a total amount of HUF 9 billion were registered in the database until the end of 2008. Participant banks are now looking into the possibilities of extended cooperation beyond the current HUNOR database, inter alia; by developing common Hungary-specific risk maps and Hungarian banking sector-specific scenarios and setting up a common Key Risk Indicator (KRI) database.

## 6. Payments

### 6.1 Hungarian SEPA Association

After extensive preparations, the Hungarian SEPA Association (HSA), the organisation responsible for SEPA implementation in Hungary, was formed in April 2008. As is the case with the European Payments Council (EPC), the HSA will develop rules for payments, primarily through self-regulation, in close cooperation with the regulatory authorities and consumer organisations.

The Association and the National Bank of Hungary played a key role in setting up the HSA, with active contribution by 11 banks, also participating in the HSA as founders (banks transacting the largest volumes of payments in Hungary). Results of the first month showed successful implementation. The Hungarian NASO[1], set up to assist Hungarian banks in the adherence process has resumed operations as a Committee of the HSA. This five-member body is charged with assisting Hungarian banks in completing the adherence documents, checking the presence of prerequisites of the adherence package and forwarding the application to EPC secretariat, and liaising with the Central NASO of the EPC. 12 Hungarian banks are now able to manage SEPA Credit Transfers.

### 6.2 PSD implementation

The Ministry of Finance sent for review the concept for the transposition into Hungarian legislation of the EU Payments Services Directive (Directive 2007/46). We welcomed the fact that payments will now be regulated at the level of an Act. At the same time, we pointed out that sufficient attention should be given to amending the related laws and implementation decrees. In this regard, we found the deadline set by the Ministry of Finance for adoption of new legislation (November 2008) extremely short. We also highlighted the need to revise the provisions on distraint on bank accounts, given that the current practice, detrimental to banks, is unprecedented in European legislation.

### 6.3 Payment System Forum coordination

The Payment System Forum's Direct Debit Working Group updated the operational rules for direct debits and drafted a proposal for updating the MNB's Decree on Payments. Based on the Payment System Forum's decision, the operational rules were being published on the homepages of the MNB, the Association and GIRO Ltd. The Hungarian Standards Institution, on behalf of the MNB, took action for publishing the operational rules as pre-standards.

[1] NASO (National Adherence Support Organization)

# III. ASSOCIATION WORKING GROUPS, ASSOCIATION RELATIONS, EVENTS

## 1. Association Working Committees and Working Groups

The Association currently has 22 Working Committees, Working Groups and Ad-hoc Working Groups (see Annex 2).

The number of professional consultations and briefings increased significantly in 2008. The Association's associates also attended several external consultations with other organisations (Ministry of Finance, Ministry of Justice). Around 170 Working Group meetings and technical consultations were held at the Association in 2008, including the following:

### 1.1 Physical Security Working Group

The Physical Security Working Group addressed issues related to the fire protection requirements for bank branches located in shared buildings and a facility for the storage of keys to make the fire protection of branches easier. The Working Group supported the requests from the Police that the Association provide support for setting up the National Police Headquarters' Crime Prevention Centre and for developing the principles for a comprehensive criminology strategy.

### 1.2 IT Security Working Group

The Bank Security Working Committee's **IT Security working group** approved the report on the network incident management drill to be organised jointly with the CERT-Hungary Incident Management Working Group (COMEX 2008). The detailed plan of the drill was also reviewed.

### 1.3 Communications Working Group

The Association was involved in the drafting of the agreement between 11 banks and the Ministry of Finance, aimed at helping households with foreign currency loans. After signing the agreement, a press conference was held jointly with the Ministry of Finance. In addition to communications tasks related to the agreement, the Working Group reviewed communications tasks related to the international financial crisis.

Members of the Communications Committee met on several occasions with business journalists to exchange views on current economic and financial issues.

### 1.4 New Taxation Working Group

Given the importance and complexity and frequent changes in the tax laws, taxation specialists in the banking sector have been regularly liaising with each other on tax issues. It was raised during the summer that a taxation-working group should be set up to regularly and proactively address specific tax issues related to the banking sector. Administrative and coordination support for the working group's operation is be provided by the Association's working organisation. Each ember institution may appoint one specialist to participate in the working group. At the start, 12 banks appointed delegates to the Working Group.

### 1.5 New Human Resources Working Group

The Association's Board reviewed the impacts of the financial crisis on the banking industry. The Board concluded that cost saving will be inevitable in the banking sector, as well. One of the potential areas of cost saving is human resources. The Board considered that in the current situation it would expedient if banks could agree on a common approach or at least common policy elements to be followed.

## 2. Foreign Bankers' Club

The Association organised a meeting for CEOs of foreign banks. At the meeting, changes in the international and Hungarian financial markets and the ensuing tasks were reviewed. Participants were also updated on the status of ongoing negotiations on current professional issues.

## 3. Financial Literacy Foundation

At the initiative of the MNB, a foundation to promote financial literacy was established. The founders: the MNB, the Student Loan Company and the Association set up the Foundation for Financial Awareness with an initial capital of HUF 1.5 million. The Registry Court registered the Foundation and the Trustee Board adopted the Foundation's Work Programme for 2008. As a first step, the 2008 Work Programme is focused on education.

## 4. Participation in the Technical Sub-Committees of the National Euro Coordination Committee

### 4.1 Payment Services Sub-Committee

A Government Committee was set up to prepare euro transition. Sub-committees were formed to ensure efficient organisation of the related tasks. The Association was requested to participate in the Payment Services Sub-Committee, led by the MNB. The Payment Services Sub-Committee identified tasks to be carried out by the various government bodies and market players in the preparatory and implementation phases of euro transition, from insurance through to stock exchange operations. In relation to banks, tasks related to the areas of cash management and account keeping was outlined in detail. Results of the work of the various Sub-Committees will be summarised in a report to be approved by the government and reviewed on an annual basis.

### 4.2 Legal Sub-Committee

The Legal Sub-Committee was formed and held its first meeting in February 2008. The Association is also represented in the Committee. The Sub-Committee prepared a proposal for the legal framework for joining the Euro-zone, including the overall legal implementation strategy and the national legislative framework. The Association provided proposals for the regulatory tasks, incorporating proposals made by delegates from member banks. The Legal Sub-Committee proposes drafting framework legislation for euro transition, to be incorporated in the National Euro Transition Plan. The main pieces of legislation that will need amendment were identified.

## 5. Conferences, round-tables

### 5.1. MiFID[2] round-table

The Association organised a MiFID-roundtable in February to review experiences of the implementation of the new legislation on investment services.

### 5.2. Conference on 2009 tax law changes affecting banks

The Association organised a one-day conference (Tax Forum) for banks' tax specialists in December. At the conference, participants were briefed on 2009 changes in Hungarian tax laws and developments and expected changes at the EU level. Banks said the conference was useful and provided a good opportunity for meeting and consulting with competent officers of the Ministry and independent consultants with wide international experience in taxation issues.

### 5.3. Bailiff conference

The Hungarian Chamber of Bailiffs and the Association on November 27, 2008 organised a joint conference on 2009 changes in judicial distraint proceedings and on electronic procedures in judicial distraint proceedings.

The conference were attended by banks' legal counsels, claim workout specialists, specialists from other business areas, specialists from financial enterprises and leasing and factoring companies.

The Acting Vice-President of the Chamber of Bailiffs gave a presentation on the simplified foreclosure sale of pledges, the rules for electronic auctions, the online auction system and the IT development project for electronic bailiff requests. The electronic auctions system will be available for users from the beginning of 2009. The Chamber expects that the introduction of the electronic auction systems will contribute to the transparency and efficiency of auctions and to higher purchase prices.

Banks raised current issues related to information requests from bailiffs and the regulations on prompt collections and foreclosures.

## 6. Relations with civil society

### 6.1 Cooperation with the Association of Bank Loan Victims

An important step in developing our civil society relations was the meetings held with the Association of Bank Loan Victims. Although the objectives and aspects of that Association are fundamentally different from ours, agreements on certain professional issues can be reached.

### 6.2. Meeting and consultations with the Hungarian Trade Licensing Office

At the request of banks and the Public Warehousing Authority, the Association organised a meeting with leaders of the Public Warehousing Authority. Business line managers and legal counsels from banks involved in agricultural lending attended the meeting. The Deputy

[2] MiFID: Markets in Financial Instruments Directive

Director General of the Hungarian Trade Licensing Office briefed participants on proposed amendments to the Act on Public Warehousing and on the role and operations of the Public Warehousing Authority within the Hungarian Trade Licensing Office. Banks raised issues related to loans granted against Warehouse Receipt, including title, protection of possession and warehouse liability. They proposed that the security requirements for public warehouses should be tightened.

## IV. INTERNATIONAL ISSUES, INTERNATIONAL COOPERATION

### 1. Banking supervision – Regulation

### 1.1. Financial crisis

Tackling and mitigating the impacts of a financial turmoil that has turned into a global financial crisis was the key issue for Europe and the world in 2008. From realising the spread of the U.S. subprime crisis through to the bankruptcy of Lehman Brothers, the various political and professional fora were mostly trying to evaluate the situation and outline the measures to be taken. Analyses of the underlying causes of the financial crisis cited largely the same factors: lax supervision and monetary policy, the property price bubble, ample liquidity, weaknesses of the originate-to-distribute model, excessive maturity transformations, high leverage ratios and the unwarranted positive ratings of securitised products.

In looking for ways out of the financial crisis, the **Financial Stability Forum**[3] in April formulated **recommendations** for enhancing market and institutional resilience. These included strengthened prudential oversight of capital, liquidity and risk management, enhancing transparency and valuation, changes in the role and uses of credit ratings and strengthening the authorities' responsiveness to risks and robust arrangements for dealing with stress in the financial system.

In response to the crisis, the **Basel Committee** in April announced a series of steps addressing all three pillars of Basel II to help make the banking system more resilient to financial shocks. The proposed steps envisaged establishing higher regulatory capital requirements.

As also reflected in the Commission's communication issued at the beginning of 2008, initially there was wide agreement that cooperation at the European and global levels was the right response to the financial turmoil: global turmoil needs global solutions. The bankruptcy of Lehman Brothers overrode these principles. Although, as the various summits showed, the EU continued to try to coordinate crisis management (the EU finance ministers committed to protecting financial institutions with systemic risks), in October **bailout packages in the range of 100 millions of Euros** were adopted by the various member states in the form of capital increases and government guarantees, to be provided, as a general rule, until the end of 2009. (Germany: EUR 500 billion, Ireland: EUR 485 billion, France: 360 billion, Netherlands and Sweden: EUR 200 billion each, Austria and Spain: EUR 100 billion each, U.K.: GBP 300 billion). Also, the United States provided USD 700 billion under a Troubled Asset Relief Program to stabilise the U.S. banking system.

[3] The G7 finance ministers and central bank governors established the Financial Stability Forum in 1999, to promote international financial stability.

Trying to keep pace with the events, the **European Commission** on December 8 **issued a Communication on the recapitalisation of financial institutions in the wake of the financial crisis**. The Communication provides that state support should be limited to the minimum necessary and should contain safeguards against undue distortions of competition. The objective of state recapitalisation is not primarily to rescue banks but rather to ensure lending to the real economy and to deal with the systemic risk of possible insolvency. The Communication laid down the principles to be followed during recapitalisation and set out that pricing should be governed by the recommendations of the ECB's Governing Council.

Realising the adverse effects of unilateral steps by member states, the EU in October took rapid and concerted **action to increase the minimum deposit guarantee limit**: the minimum level of coverage was increased from the EUR 20,000 to 50,000 and the co-insurance requirement abolished. Under a **revision of the Deposit Guarantee Directive in December**, the payout delay was reduced and a provision was made for the further increase of the guarantee limit subject to the results of an impact study**.** Also, the European Commission should, by December 31, 2009, submit a report on the further harmonisation of deposit guarantee schemes.

The financial crisis and the issues of cooperation in crisis management put once again the **structure of banking supervision in Europe** into the spotlight. Within the framework of the follow-up of the Lámfalussy process, **the rapporteurs** submitted to the **European Parliament** their report on the future of banking supervision in Europe. The report proposed regulatory measures to improve the capital adequacy framework increase transparency and improve institutions' governance. It also addressed issues related to increasing financial stability, measures needed to mitigate systemic risks, the functioning of supervisory colleges for large cross-border financial groups and the mandate and responsibilities of the 3L3 Committees. The European Commission in November requested the **Expert Group on Financial Supervision in Europe, headed by Jacques de Larosiére**, to make a proposal for the future structure of financial supervision in Europe and for strengthening European and global cooperation on financial oversight. In its report, published in February 2009, the group made a proposal for setting up two new EU-level supervisory bodies: a European Systemic Risk Council (ESRC) to be set up under the auspices of the ECB and headed by the ECB Chair. The Council would be composed of the members of the ECB/ESCB General Council plus the Chairs of CEBS, CESR and CEIOPS[4] and one representative of European Commission. The ESRC's task would be to form judgements and make recommendations on macroprudential policy, issue risk warnings, and where risks of serious nature are identified, cooperate with EU and international bodies in managing those risks. The other new organisation would be the European System of Financial Supervision (ESFS), to be set up through the transformation of the Level 3 Committees into European Authorities, with significantly broader powers. According to the Expert Group's proposal, the Financial Stability Forum would be charged with coordinating the work of the various international standard setters in achieving international regulatory consistency:

**Credit rating agencies** (CRAs) have perhaps been the most criticised institutions in the wake of the financial crisis: for the most part justly, in view of the fact that their ratings proved unfounded and too positive, with mass re-ratings of instruments in the wake of the subprime crisis. Conflicts of interest in the rating process (the CRA making proposals regarding the design of structured finance products that it rates, the CRA being paid by the issuer), the improper monitoring of ratings, insufficient information of the CRAs procedures and methodologies were cited as the most frequent criticisms. Initially, the strengthening of self-

[4] CEBS, CESR, CEIOPS (the three Level 3 Committees of the European banking, securities and insurance and occupational pension supervisors)

regulation and amendment of the **IOSCO[5] Code of Conduct** were considered as the most appropriate response to address the issues around credit rating agencies. Following the relevant consultation, the IOSCO Code of Conduct Fundamentals for Credit rating Agencies was amended in May 2008. The amendments were aimed at improving the quality and integrity of the rating process, CRAs independence and avoidance of conflicts of interest, CRAs greater responsibilities to the public investors and issuers and better communication with market participants. Following the amendment of the Code of Conduct, IOSCO announced its steps with regard to the monitoring of compliance with the Code of Conduct. By then, however, the regulators had concluded that self-regulation was not enough and decided to look beyond the solution of a Code of Conduct, with a global approach. First, the U.S. capital markets regulator, the **SEC[6]** issued a proposal for amendments to the **regulation on Nationally Recognized Statistical Rating Organizations.** Although in its reports prepared at the European Commission's request the CESR considered that the requirement of compliance was appropriate and only made proposals for the monitoring of compliance, the European Commission took position in favour of introducing a strengthened regulatory framework. Accordingly, the European Commission published two consultation documents, one on the **regulation of CRAs** and another addressing the problems of excessive reliance on credit ratings. Following a consultation process, only the regulation of CRAs, remained on the agenda. The proposed regulation, inter alia, bans CRAs from consultancy or advisory services and sets requirements for the rating analysts and for the quality and audit trails of ratings. The intention is to have the regulation adopted under the co-decision process before the new European Parliamentary elections.

Self-regulation in respect of **disclosure requirements for structured products** seems however successful. In line with the ECOFIN 2007 Roadmap, the European Commission requested industry associations to submit proposals for disclosure requirements for structured finance products. Following the consultation period, the four competent European professional associations in December published **Industry Good Practice Guidelines** to ensure consistent interpretation of the CRD[7]'s provisions **on disclosure requirements for securitisation**. In developing the Guidelines, in addition to comments received during the consultation period the professional associations took into account the relevant proposals of the Financial Stability Forum and the CEBS, results of the survey completed on liquidity providers and results of a comparative survey on CRD implementation. The Guidelines will be reviewed based on implementation experience in the second quarter of 2009.

**Accounting standards** were also affected by the deepening financial crisis. In response to the suspension of trading in certain financial instruments and in meeting the tasks set by the Financial Stability Forum, the IASB in October 2008 issued amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures. The amendments were promptly adopted by the EU: the EU Accounting Rules Committee decided to adopt the amendment to IAS 39 that allows the reclassification of certain financial instruments, a measure also related to managing the financial crisis. Effective from July 1, 2008, the new rules allow for the reclassification of certain financial instruments out of the fair value category in rare circumstances. Pursuant to the relevant agreement, EU credit institutions could apply the new rules in their 3rd quarter financial reports.

[5] International Organization of Securities Commissions
[6] Securities and Exchange Commission
[7] Capital Requirements Directive

Although not directly related to the recent market turmoil, the **CEBS's and the Basel Committee's consultation documents on liquidity risk management**, published in June were given special attention, in view of the market situation. The two consultation papers are separate documents, but the two organisations worked closely together in preparing them. The consultation papers provide the definitions for liquidity and liquidity risk, present changes in the liquidity environment that have occurred since mid-2007 and provide recommendations for institutions and supervisors. Responses to the consultation papers highlighted the importance of convergence in the approaches used in the supervision of liquidity risk management within Europe, the need for group-level supervision of risk management and the importance of allowing the use of internal methodologies for regulatory purposes.

### 1.2. EU developments

The most important regulatory issue in banking in 2008 was the preparation of the **review of the Capital Requirements Directive.** An **impact study** on the proposed amendments was published in September. In addition to the originally targeted issues (large exposures, hybrid capital instruments, supervisory arrangements and division of responsibilities between home and host supervisors, derogations for cooperative bank networks), in the context of the financial turmoil the amendments also address the issues of the treatment of and capital requirements for securitisation exposures and supervisory cooperation in crisis management. In relation to **large exposures**, a number of national discretions will be abolished, the 800% limit deleted and the 20% limit for intra-group exposures replaced with qualitative requirements. At the same time, 25% limit for single name exposures will be retained, including those inter-bank exposures of a maturity of up to one year. Only certain clearing and settlement transactions will be exempted from the large exposures limit. Proposed changes regarding **hybrid capital instruments** - based on the Sydney Press Release - are related to the eligibility criteria, the quantitative limits for acceptance as firms' own funds, grandfathering and disclosure requirements. In relation to **supervisory arrangements**, the consultation papers introduce the need to establish colleges of supervisors for all cross-border banks and requires supervisors participating in these colleges to discuss and agree on specific issues (such as additional capital requirements [add-ons], reporting requirements) through a non-binding mediation mechanism via the CEBS without changing the allocation of responsibilities between home and host supervisors. Pursuant to the compromise reached during the consultation process, in case of a disagreement, the consolidating supervisor will have the ultimate decision at the consolidated level and the host supervisor at the solo level, mindful of each other's reservations. The CEBS's **reporting requirements with standardised formats, frequencies and dates** will be introduced from January 1, 2013. A new rule for **securitised positions** is that banks as investors may only invest in securitised products if at least the originator retains five per cent of the resulting instrument. The amendments also address the treatment of UCITS under the IRB approach and the eligibility of life insurance policies. The text includes a provision that the European Commission should report on the creation of a EU **central clearing counterparty[8] for credit derivatives.** The European Parliament is expected to vote on the CRD amendment in April. The amended CRD will be first applied from 2011.

In addition to the CRD review, the review of the Financial Conglomerates Directive was also on the agenda. The European Commission issued two calls for advice from the Interim Working Committee on Financial Conglomerates (IWCFC). The first call for advice was

[8] The use of EU-based central counterparty clearing for Credit Default Swaps (CDSs) was proposed by the Internal Market Commissioner in October. Major market players have committed to the setup and use of CCPs.

related to addressing the consequences of the differences in sectoral rules on the calculation of own funds of financial conglomerates. The second call for advice was aimed at assessing member state's supervisory practices and if necessary, the need for further harmonisation.

### 1.3. Level 3 (3L3) Committees

The European Commission in May launched a **consultation on review of the Decision establishing the three Level 3 Committees of Supervisors**. The overall objective was to align, clarify and strengthen the responsibilities of the Committees of Supervisors and to ensure their contribution to supervisory cooperation and convergence at EU level and to the safeguarding of financial stability. The consultation addressed issues related to the mediation mechanism, the potential consultative role of the Committees, information exchange, the delegation of tasks and responsibilities, the streamlining of reporting requirements, the operation of supervisory colleges, the development of a common supervisory culture, qualified majority voting and the annual work-programmes of the 3L3 Committees. Responses to the consultation were published in December. Most respondents supported the objectives set by the European Commission. The majority of respondents agreed with the proposal for the introduction of a mediation mechanism and a qualified majority voting. Based on the answers received, the Commission amended the Decision on establishing the 3L3 Committees of Supervisors at the beginning of 2009.

In response to the conclusions of the EU Council's December 2007 meeting reviewing the Lamfalussy process, the **3L3 Committees** communicated the main points of their joint medium-term programme and the medium-term programmes of each committee in a **joint letter** to the competent EU bodies and MEPs involved. Developing and following up appropriate measures in response to the financial turmoil and promoting effective supervision of the EU market were among the key priorities of all three committees. Furthermore, the CEBS focused on the CRD review, the CESR on cooperation with U.S. authorities (in particular, the SEC) and the CEIOPS on Solvency II and on the review of solvency requirements for pension funds.

In December, the 3L3 Committees issued **joint guidelines for the supervisory treatment of mergers and acquisition**. The guidelines contain a detailed and harmonised list of information to be submitted by applicants to the competent supervisor. The guidelines follow the principle of proportionality in terms of required information as well as in terms of approval process.

### 1.4 CEBS

In anticipation of the proposed amendments to the European Commission's Decision establishing the 3L3 Committees, the **CEBS amended its Charter** on July 10, 2008. Most of the changes are related to the decision-making mechanism, with a switch to a qualified majority voting, in accordance with the Nice Treaty. The qualified majority voting is complemented with a comply-or-explain mechanism. Pursuant to the amendment, members may not apply a measure in the case of legal impediments, vital political or technical impediments, or if the objectives of the measure are met through other means, or if the measures would be disproportionate in the context of the local market. The Committee may invite a member that does not apply the measure to endeavour to adapt accordingly its legal or regulatory framework.

A key task for the CEBS in 2008 was the provision of **technical advice to the European Commission**. The CEBS worked together with industry experts on a **proposal to reduce the number of options and national discretions in the CRD.** The relevant consultation paper (CP18) was published in May. The consultation paper, inter alia, gave a summary of the results of an **impact study** conducted on the issue. The final document, published in October, was not much different from the previous version of the consultation paper. The CEBS proposes to keep as an option or national discretion 28% of the 152 provisions identified. However, approximately one third of these national discretions (8% of the total) will expire within a relatively short period, thus the number of national discretions will be reduced to one fifth of the current national discretions in the CRD.

In the context of the CRD revision of 2009, the CEBS provided technical advice on the **large exposures regime** and on a common EU definition of **Tier 1 hybrids**. Not all elements of the CEBS's proposals were incorporated in the relevant legislation.

The CEBS and CESR provided joint technical advice concerning the regulatory treatment of firms that provide investment services in relation to **commodity and exotic derivatives**. Results of the analysis were published in October. The CESR and CEBS propose that an additional provision be included in MiFID to clarify that firms covered by the exemptions relating to commodity derivatives shall not be prevented from being authorised as investment firms. Also, they would only provide a very narrow scope for exemption under MiFID. Regarding the prudential treatment of specialist commodity derivatives firms in the CRD, the CESR and CEBS offer two options. One option would be to require specialist commodity derivatives firms to meet a high-level requirement to have adequate financial resources and qualitative risk management requirements. The second option proposes the full application of the CRD to specialist commodity derivatives firms.

The CEBS issued consultation papers on **Technical Aspects of Diversification under Pillar 2 (CP20)** and on a Compendium of **Supplementary Guidelines on Implementation Issues of Operational Risk (CP21).**

The CEBS's initiative on the standardisation of reporting dates, a key issue for banks, was disappointing for the reporting institutions. According to the regulation, effective from 2012, the frequency of reporting is to be quarterly as a maximum, with certain exceptions for allowing monthly reporting. Consolidated and solo reports must be delivered within 40 and 20 business days respectively. Taking into account the practical process of generating the reports, the separation of the reporting dates for consolidated and solo reports is unacceptable for banks, therefore they propose that the issue of remittance dates should be rediscussed.

The ECOFIN requested the CEBS to make a proposal as to how a **harmonised reporting framework with consistent data, format and remittance dates** could be achieved in the EU. Harmonisation primarily affects **COREP and FINREP**. The CEBS aims to achieve meaningful convergence in data definition by streamlining national reporting frameworks, in other words, by reducing the number of tables and fields to be completed. The CEBS conducted a study on the possible implementation of a **single-window reporting system** (through consolidating supervisors). Based on the study, the CEBS concluded that given the current fragmented reporting frameworks, a single-window system would not mean any substantial savings for internationally active banks. The competent authorities (CEBS, ECB) and specialist groups are also looking in the possibilities of **harmonising supervisory and statistical reporting requirements.**

At its Consultative Panel's initiative, the CEBS decided to launch informal dialogue with industry experts on certain technical issues to seek input from the industry. **Industry expert groups** were set up in the following areas: liquidity risk, national discretions, reporting, valuation and recognition of illiquid assets, and Pillar 3. Principles for the dialogue were set out in separate documents.

The mandate of the **Operational Networking Project** was extended and the number of participating banks increased from 10 to 17 in May. The scope of the project was extended to issues outside the scope of the CRD. As the first result of the project, the CEBS at the beginning of 2008 published a report on **experiences of the operation of supervisory colleges** and a template for **a multilateral cooperation and coordination agreement between supervisors**. (A key task for the Operational Networking Project during the year was to test and finalise this sample agreement between supervisors). The bank groups involved in the Operational Networking Project also assessed the functioning of supervisory colleges. The bank groups highlighted areas where the operations of supervisory colleges could be improved.

### 1.5 European Banking Federation (EBF) - Banking Supervision Committee

The European Banking Federation, particularly through its Banking Supervision Committee and Capital Adequacy Working Group was actively involved in the European and, through the IBFed[9], in the global consultation processes.

The EBF's Task Force addressed the issues of the **future of EU banking supervision**, including key **short-term priorities**.  In the EBF's opinion, the current structure of supervision is not suitable for the effective supervision of rapidly changing markets. The system should be changed to ensure that it can adapt to international risk assumption and, where possible, eliminate the duplication of tasks, minimise costs and ensure a level playing field. The EBF's priorities regarding supervisory cooperation and convergence include the elimination of national options and discretions, incorporation of supervisory colleges in the CRD, strengthening and incorporation of the role of the CEBS in the CRD, developing a consistent operational procedure for supervisory colleges and development of a truly common reporting framework (COREP).

In line with the short-term priorities set, the EBF played an active role in efforts aimed at reducing the number of **national options and discretions**. In the EBF's opinion the removal of options and national discretions is important for ensuring a level playing field and also because they prevent the adopting of a single genuinely harmonised reporting framework (COREP) and the consistent application of Pillar 2 and Pillar 3. The EBF expressed its opinion that the approach taken by the CEBS was useful, but could not be considered as a general, efficient and final solution.

Another key focus of the EBF was the **consultation on the CRD review**. In relation to **large exposures** the EBF made extraordinary efforts to achieve the exemption of short-term interbank exposures from the 25% limit, but the rulemakers remained insistent on this issue. The EBF emphasised the importance of a consistent and harmonised treatment of **hybrid capital instruments** at the European level. In relation to **supervisory colleges**, the EBF urged

[9] International Banking Federation: Members of the IBFed include the EBF and the banking associations of the USA, Japan, Australia and Canada

that the eventual decision on certain Pillar 2 and Pillar 3 requirements be entrusted to the consolidating supervisor (additional capital requirements, reporting requirements). This proposal, however, was politically unworkable. A compromise was reached on the issue.

In relation to **credit rating agencies**, the EBF was in favour of global solutions and even better alignment of the proposed EU regulation with the IOSCO Code of Conduct. The EBF agreed that the EU authorities should be required to cooperate. It disagreed with the speed of legislation, as it would entail unintended consequences. In the EBF's opinion, the scope of the regulation should only extend to regulatory ratings. It considered the provisions on the withdrawal of existing ratings questionable and did not support them. Instead, it proposed that in cases where doubt arises in respect of the reliability of the data used, the relevant information should be disclosed.

In relation to the **regulation, treatment and supervision of liquidity risk**, the EBF supports convergence in the approaches used in the supervision of liquidity risk management within Europe. It welcomes the reference in the proposal to the principles of proportionality and materiality and the fact that the proposal allows for the use of internal methodologies. It also proposes that banks should also be allowed to transmit to supervisors the quantitative data obtained from the bank’s internal reporting system.

The EBF also provided comments on the CEBS's consultation paper on technical aspects of diversification under Pillar 2 (CP20), the Basel Committee's consultation document on the treatment of Incremental Default Risk (IDR), the medium-term programme of the 3L3 Committees and the ECOFIN Roadmap on the review of the Lamfalussy process.

The EBF made several proposals regarding the standardisation of COREP reporting dates and frequencies and for a meaningful harmonisation of the contents of COREP reports. It also conducted a survey among its members on the implementation dates for Pillar III disclosures under the CRD.

With a view to improving transparency, the EBF compiled a report on driving alignment of Pillar 3 disclosure and was actively involved in the drafting of industry good practice guidelines on Pillar 3 disclosure requirements for securitisation.

At the end of 2008, the EBF reviewed its **Report on the Integration of EU Financial Services Markets** and in the light of the impact of the financial crisis on the integration process, re-considered the priorities in the key areas.

### 1.6 Introduction of the Basel II Standardised Approach in the U.S.

The U.S. regulatory agencies in July published a joint consultation paper on the implementation of the Basel II Standardised Approach. Banks not subject to the advanced measurement approaches may opt in to use the Standardised Approach or may remain subject to the currently existing capital framework (Basel I). The proposed regulation basically adopts the requirements of the international accord, increasing the number of risk-weight categories from 5 to 16. Residential mortgages will be risk-weighted by using loan-to-value ratios. The treatment of off-balance sheet items and OTC derivatives under the Standardised Approach would be similar to Basel I, but securitisation exposures will be assigned higher risk-weights. The capital requirement for operational risk will be 15 per cent of the bank's positive annual gross income over the three previous years. The Standardized Approach would require banks to disclose publicly certain financial information. The new regulation is expected to go into effect in 2010.

### 1.7 Basel Committee

Operations of the Basel Committee in 2008 were focused on developing responses to the financial crisis and, in this context, improving the Basel II Framework. In addition to its consultation documents on the management and supervision of liquidity risk, the Committee in 2008 conducted consultations and published guidelines on the following issues:

- Credit risk transfer (a Joint Forum[10] document)
- Revisions to the Basel II market risk framework
- Cross-sectoral review of group-wide identification and management of risk concentrations
- Guidelines for computing capital for incremental risk in the trading book
- Range of practices and issues in economic capital modelling
- Supervisory guidance for assessing banks' financial instrument fair value practices
- External audit quality and banking supervision

At the beginning of 2009, the Basel Committee announced that the Accord Implementation Group (AIG) will be renamed the Standards Implementation Group (SIG) and the group's mandate will be broadened. The SIG will work to promote implementation of all Basel Committee standards in an internationally coordinated and consistent manner.

## 2. Other EBF Committees

The Association was actively involved in operations of the various committees of the European Banking Federation. The following issues were addressed in the various committees:

### 2.1 Consumer Affairs Committee

The Consumer Affairs Committee reviewed EU legislation and related interest-representation issues and defined the relevant actions needed and tasks ensuing from the implementation of the Consumer Credit Directive. It became clear that banks' should reconsider their approach to retail financial services. It should be realised that this issue points far beyond the question of **mandatory account opening**. In relation to non-resident bank accounts (especially non-EU migrant employees), the banking industry is strongly opposed to mandatory account opening. However, the industry considers it important to ensure that in countries where several banks provide such services, foreigners' rights are not prejudiced.

Progress is needed on certain issues related to mortgage lending, such as prepayments and information exchange between national credit information systems. The Committee was of the view that major progress is needed in **self-regulation in the area of changing banks**, all the more so since the competent EU Directorates General have expressed their dissatisfaction over the industry's efforts regarding self-regulation. The EU authorities are also urging for self-regulation in collective complaint handling. The Committee acknowledged that the current EU

[10] Members of the Joint Forum include the Basel Committee on Banking Supervision (BCBS), the International Organization of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS).

and national voluntary institutions responsible for complaint handling are only suitable for handling individual complaints.

## 2.2 Fiscal Committee

The Fiscal Committee reviewed, inter alia, the state of play of the proposed EU VAT legislation reform. In relation to the first pillar of the reform, the definitions of financial and insurance services have been broadly agreed on. The cost sharing method under the second pillar is in the preparatory stage, a plan documentation has been compiled. Progress in the third pillar (option to tax) is slow, too. The EBF considers the VAT reform as a priority and works closely with other European professional associations to develop a common position on the issue.

In the context of the VAT reform, regulatory changes are underway to improve information exchange on sale transactions within the EU, aimed at **combating VAT frauds**. Accordingly, effective from January 1, 2010, recapitulative statements on product sales within the EU shall include information related to the sale of services. It is also planned that the frequency of reporting will be increased from quarterly to monthly reporting.

The EBF proposes that an accounting rule close to the IFRS be incorporated in the proposed legislation on **Common Consolidated Corporate Tax Base**.

In relation to **Savings Tax** it was mentioned that the European Commission might consider the scope for developing of an online system enabling paying agents to verify TINs.

The Chair informed members of the Committee on the OECD proposals for upgrading the OECD Model Tax Convention, serving as a basis for **agreements on avoidance of double taxation,** and on the related position of the Business and Industry Advisory Committee to the OECD (BIAC). The Committee also reviewed the European Commission's proposal for the definition of criteria for Tier 1 hybrid instruments in the context of the CRD.

## 2.3 Accounts Committee

At its June meeting, the EBF Accounts Committee addressed the issue of how **hedge carve-out** provided by IAS 39 could be removed. The EBF has been engaged in a dialogue with the IASB for 5 years for a better Interest Margin Hedge (IMH) methodology, but there are still some technical issues that hinder a resolution to the issue.

Members of the Committee were briefed that a number of international and EU organisations are now engaged in analysing the impacts of the current financial crisis on accounting practices. The analyses are focused on three main issues**: measurement, the disclosure of market risks and financial reports** and the **consolidation of Special Purpose Vehicles** (SPVs), created by parent companies to finance off-balance sheet items.

## 2.4 Payment Systems Committee

Central banks will set up within the ECB a working group on **Balance of Payment Reporting**.

In relation to the **e-Money Directive** it was mentioned that the second review of the Directive was underway. In relation to **bank accounts** and **account transferability**, some participants proposed that these issues should be regulated by the European Commission and therefore, removed from the scope of self-regulation.

The Committee reviewed the **IASB discussion paper** "**Reducing Complexity in Reporting Financial Instruments**" and the key points of the EBF's response. The Committee also addressed current issues related to the harmonisation of IFRS with US-GAAP.

### 2.5 Legal Committee

The Legal Committee reviewed the European Commission Competition DG White Paper on damages actions for **breach of the EC antitrust rules**. Certain issues, such as the binding effect of decisions by national competition authorities (NACs) and interaction between **leniency programmes** and actions for damages are still under debate. Members of the Committee pointed out the importance of leniency programmes. The Committee was supportive of the Commission's proposal on the immunity of companies involved in the leniency programme for disclosure of confidential information.

The Legal Committee approached member associations with a questionnaire **regarding integrity regulations related to persons in senior management and control positions**. Comparison with other member states shows that regulations in certain member states - in contrast to Hungarian regulations - provide for more detailed procedural rules in some respects, for example, suspension from job.

The EBF circulated and requested comments on the **Report on Financial Coalition against Child Pornography**, commissioned by the European Commission. The report gives a fair picture of the legal, regulatory and data protection situation in Hungary. The relevant EU legislation has been transposed into Hungarian legislation.

### 2.6 Physical Security Working Group

The Physical Security Working Group analysed **bank robbery statistics** based on member associations' 2007 reports. The positive trend continued, with the number of bank robberies and the ensuing damages continuing to decrease in 2007. Attacks on cash transporters decreased as well (largely due to expensive security measures). In contrast, as a negative trend, the number of attacks on ATMs increased significantly in 2007. The Working Group welcomed the results showing that, contrary to the forecasts, the number of tiger kidnapping incidents decreased.

### 2.7 Anti-Fraud and Anti-Money Laundering Committee

At the EBF's Anti-Fraud and Anti-Money Laundering Committee's meeting it was revealed that the 3$^{rd}$ Anti-Money Laundering Directive has not been implemented yet in most member states.

### 2.8 Social Affairs Committee

The joint **Enlargement Project** of the EBF Social Affair Committee and UNI Finance was concluded. Employer and employee organisations from the countries involved, the Czech Republic, Hungary and Slovakia, assessed experiences of the project. Participants emphasised that the project was a useful experience exchange between old a new member states on issues related to interest reconciliation, corporate social responsibility and social affairs.

UNI Finance provided the Committee with a list of issues it considers important to discuss in relation to the financial crisis. The Committee agreed that although the issues presented were important, they were outside the immediate scope of the Committee.

**2.9 Communications Committee**

The Hungarian Chair of the EBF Communications Committee, János Müller organised a telephone conference with major EBF members to assess measures taken in relation to the financial crisis, expected developments and how these measures and developments are being communicated in the various member states. The EBF Executive Committee reviewed the Minutes of the telephone conference as an extraordinary agenda item.

At the extraordinary meeting of the EBF Communications Committee, the proposal titled "EBF for a competitive, efficient and strong European banking system" was finalised.

# ANNEXES

**Annex 1.**

## BOARD MEETINGS

**January 21, 2008**.

Agenda:

1. Implementation of the CFP certification in Hungary (a PowerPoint presentation)
   Presenter: Erika Marsi – International Training Centre for Bankers
2. Proposal for tasks related to the Competition Office's operations affecting banks
3. Proposal for the setting up of the Financial Literacy Foundation
4. Proposal for self-regulation on APR for combined credit products
5. Report on the 2008 finances of the Association
6. Miscellaneous

**February 4, 2008**

Agenda:

1. Preparations for a meeting between the Association's extended Board and leaders of the Competition Office on February 12, 2008
2. Summary report on legislation on bank advertisements (document for the February 12 meeting with the Competition Office)
3. Update on open issues related to the withdrawal from circulation of 1 and 2-forint coins
4. Briefing on key elements of the EU Consumer Credit Directive
5. Inquiry from the Hungarian Leasing Association on possible membership in the Hungarian Banking Association
6. Action to avert plans to impose statutory government tasks on banks
7. Miscellaneous

**March 10, 2008**

Agenda:

1. Report on 2007 Activities of the Hungarian Banking Association
2. Main tasks for the Hungarian Banking Association in 2008
3. Report on the financial management of the Hungarian Banking Association in 2007
4. Proposal for the 2008 Budget of the Hungarian Banking Association
5. Proposal for amendments to the Association's Membership Fee Rules
6. New Code of Ethics
7. The Hungarian Banking Association's Guide for Loan Trade-Offs
8. Briefing on comments received on the proposed inter-bank agreement on lending in JPY
9. Appointing a Nominating Committee for the election of President of the Hungarian Banking Association
10. Miscellaneous

**April 7, 2008**

Agenda:

1. Report on consultations on Competition Office issues
2. Main accomplishments of the Association in 2007 and main task for the Association in 2008 (document for the General Meeting)
3. Proposal for the 2008 Budget of the Hungarian Banking Association
4. Proposal for increasing membership fees (document for the General Meeting)
5. Proposal for the re-election of arbitrators of the Permanent Court of Arbitration of Financial and Capital Markets
6. Proposal for an inter-bank agreement on lending in JPY
7. Proposal for self-regulation for the application of the Guide on Changing Banks
8. Proposal for the remuneration of specialists delegated by member banks to the Association's technical committees
9. Miscellaneous

**Board Meeting**
**April 25, 2008**

Agenda:

1/a. Report on 2007 activities of the Hungarian Banking Association (Hungarian and English)
1/b. Main accomplishments of the Association in 2007 and main tasks for the Association in 2008 (Hungarian & English)
2/a. Report on the financial management of the Hungarian Banking Association in 2007 (Hungarian and English)
2/b. Proposal for the 2008 budget of the Hungarian Banking Association (Hungarian and English)
2/c. Proposal for amendment to the Association's membership fee rules (Hungarian and English)
3. New Code of Ethics (Hungarian and English)
4/a. Election of the Association's Board
4/b. Proposal for the re-election of arbitrators of the Permanent Court of Arbitration of Financial and Capital Markets

**May 13, 2008**

Agenda:

1. Report on the status of negotiations regarding interbank interchange fees
2. Major economic and financial developments (document for the press meeting planned for the end of May)
3. Proposal for setting up a comprehensive retail credit information system based on voluntary contribution of data
4. Report on the Association's financial management in Q1 2008
5. Proposal for the Association's 2008 Asset Management Rules
6. Miscellaneous

**June 2, 2008**

Agenda:

1. Latest developments of the Competition Office investigation
2. Updating of the Association's medium-term strategy (fundamentals for the autumn General Meeting)
3. Drafting a self-regulation Code on banks' general terms and conditions, with special regard to unilateral contract amendments
4. Amendments to the Consumer Protection Act
5. Proposal related to the new Civil Code
6. Work programme for the second half of 2008
7. Miscellaneous

**September 1, 2008**

Agenda:

1. Report on the drafting of the Code on unilateral contract amendments
2. Proposal for issues to be raised at the meeting with the Ministry of Justice
3. Proposal for amendment to the Code on Loan Trade-offs
4. New fundraising opportunities for commercial banks
5. Proposal for financial contribution to the new crime prevention centre of the National Police Headquarters
6. Proposal for amending the Association's membership fee rules
7. Report on the financial management of the Hungarian Banking Association in the 1st Half of 2008
8. Proposal for continuation of the Starting Block Project
9. Miscellaneous

**October 6, 2008**

Agenda:

1. Medium-term strategy of the Hungarian Banking Association
2. Report on discussions and proposed steps related to Competition Office issues
3. Proposal for meeting the government's expectations presented at the September 18 meeting with the Minister of Finance
4. Briefing on the status of the proposed comprehensive credit information system
5. Proposal regarding the incident reporting requirement planned to be introduced by the Hungarian Financial Supervisory Authority
6. Recommendation for minimum requirements related to the implementation of the Anti-Money Laundering Act
7. Report on the meeting with the State Secretary of the Ministry of Agriculture
8. Report on 2nd quarter activities of the Hungarian Banking Association
9. Miscellaneous

**November 3, 2008**

Agenda**:**

1. Medium-term strategy of the Hungarian Banking Association
2. Submission on a potential increase in the fee of the Hungarian Investor Protection Fund
3. Briefing on consultations regarding attacks on ATM
4. Proposal for amendment of the Civil Code regarding usury
5. Draft law on central credit information system
6. Proposal for the regulation of credit brokers
7. Miscellaneous

**December 1, 2008**

Agenda:

1. Proposal for a Basic Account facility developed by the Basic Accounts Working Group, proposed to be introduced within the framework of self-regulation from January 2009
2. Assigning a legal consultant regarding the interchange fee investigation launched by the Competition Office
3. Report on the newly set up Taxation Working Group
4. Briefing on the extension to leasing companies of asset impairment rules applicable to banks
5. Competition Office investigation on experiences of changing banks (mobility) for certain retail banking products
6. Miscellaneous

**Annex 2.**

## Committees and Working Groups of the Hungarian Banking Association

### Working Groups

Taxation Working Group
Agricultural Working Group
Basic Accounts Working Group
Loan Trade-Offs Working Group
BankAdat Working Group
Basel II Working Group (Capital Requirements Directive)
Competition Office Interchange Fee Investigation Working Group
Human Resources Working Group
Legal Working Group
SME Working Group
Communications Working Group
Home Loans Working Group
Macroeconomics Working Group
Work-Out Working Group

### Working Committees

Bank Security Committee
- Compliance Working Group
- Physical Security Working Group
- Anti-Fraud Working Group

Ethics Committee
Accounts Committee
JEREMI Committee

HUNOR Operational Risk Database Decision-Making Body
E-Bailiffs

**Under creation**:

Specialist Group on Bank Reporting
Civil Code Working Group