

**THE
PAYMENT CARD BUSINESS IN HUNGARY
2001**

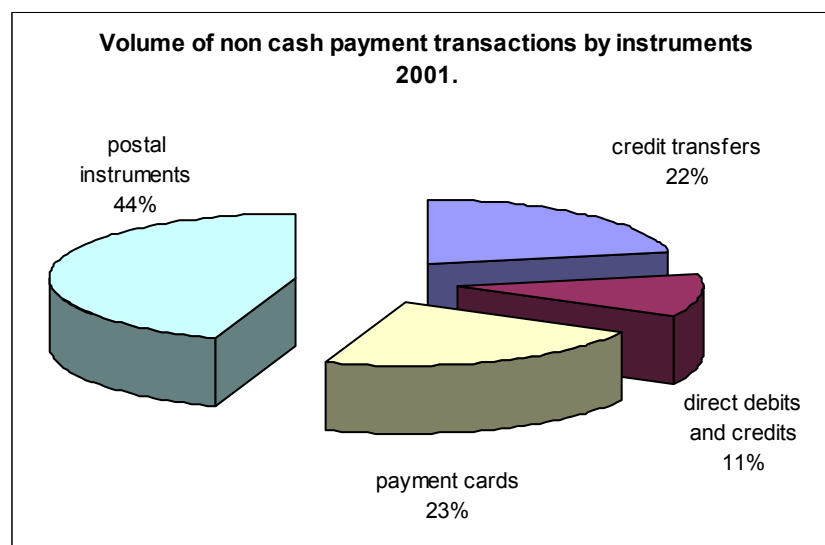
March 2002

I The role of bank issued payment cards in cashless payment transactions

Although cash continues to play an important role in Hungarian payment transactions, cashless payment methods, such as credit transfers, direct debits and credits as well as postal instruments are gaining increasing ground. Simultaneously with this, the use of payment cards is growing year by year.

The number of transactions without the involvement of cash was around 530¹ million in 2001. This number includes all those transactions which did not involve cash movement on either side of the payment transaction. Accordingly, from among the payment methods noted above postal instruments include cash transfer orders, cash delivery orders and domestic postal orders. Payments with cards comprise cash withdrawal and payment transactions as well. Credit transfers include debits to foreign currency and forint accounts, while direct debits and credits include transactions resulting in debits to forint accounts.

The chart below plots the total volume of non cash payments in 2001, in a breakdown by payment instruments.



Source: NBH statistics.

The chart is a good illustration of the fact that the number of payment transactions with cards accounted for nearly one-fourth of total turnover in 2001. This was 3% more than in the previous year (three-quarters of this ratio was accounted for by cash withdrawal using payment cards, so in most cases cards served the purpose of accessing money on accounts, with actual payment involving cash).

¹ This number relies partly on estimates.

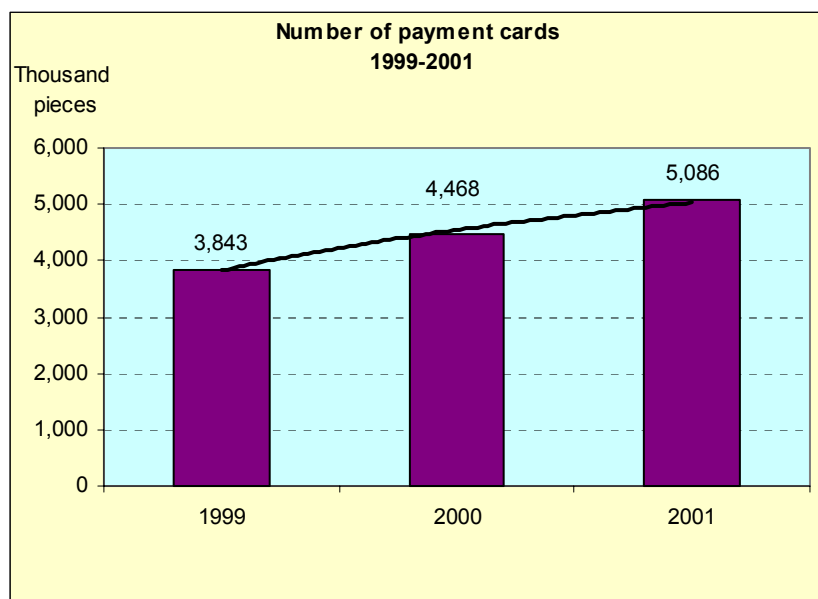
As is the case with direct debits and credits as well as postal instruments, customers use cards to settle small-amount, bulk payments. However, if larger amounts are involved, credit transfer remains the ultimate method of payment.

II Overview of the bank issued payment card market

1 Trends in the number of cards

Although at a slowing pace, the number of payment cards in use continued to rise in 2001, exceeding 5 million. This meant a 14% increase relative to 2000. The market shares accounted for by participants changed little in 2001 from the previous year. One characteristic feature of the domestic plastic card market is that, although a total 23 financial institutions are competing for customers, the market remains highly concentrated. Four banks issue 83% of cards and execute 87% of card turnover. On the acceptance side, the branch networks of 3 banks account for 89% of turnover.

The vast dominance of cards issued with the Europay and Visa logos in the past several years is a good reflection of the fact that these two international brands are fundamental for mutual card acceptance in Hungary. A few thousand Amex and Diners cards are also in use in the market, in addition to proprietary cards, which can be used exclusively in the issuing banks' ATM and POS networks. The number and proportion of proprietary cards continued to rise in 2001, though only slightly. The chart below plots the development in the number of cards on issue during the past three years. It shows clear evidence that, although the increase in the number of cards issued remains unbroken, its rate has been moderating as the market is becoming increasingly mature.



Most bank issued payment cards currently in use are debit cards. However, the number of credit and charge cards rose spectacularly in 2000–2001, their proportion reaching 9% of the total. Cards linked to credit accounts can be divided into two distinctive groups – standard credit cards and those with no interest-free period. Slightly more than a half of cards are linked with credit accounts, but without interest-free period, and so these are not credit cards in the classic sense. Although charge cards bearing Europay or Visa brands appeared in the market towards end-2001, in addition to the Diners and Amex charge cards already in use, their number remained virtually static, not reaching 1%.

Remaining unchanged as a proportion from 2000, around 97% of cards issued by Hungarian banks can be used for both cash withdrawals and retail payments. The proportion of point-of-sale cards issued by banks and retailers jointly (co-branded cards) is 1.5%. ATM cards also account for around 1.5% of the total.

Nearly 81% of bank cards can be used exclusively in electronic environment, i.e. with ATMs and POS terminals, while 19% can be used to pay in shops equipped with imprinter.

The percentage share of bank issued payment cards which can be used both in Hungary and abroad remained unchanged at 93% of the total.

There were important changes in the use of co-branded cards, i.e. those issued by banks and retailers jointly – their number experienced a sixfold increase in one year, reaching 5% of the whole market. This spectacular rise was due in part to two banks specialising exclusively in the issue of these cards and in part to mobile phone companies (Westel) and youth as well as sport associations appearing as issuers, in addition to the large retail chains (e.g. Metro, Cora, Brico, Fotex etc.).

2 Cash withdrawal facilities and merchant acceptance points

2.1 Cash withdrawal facilities

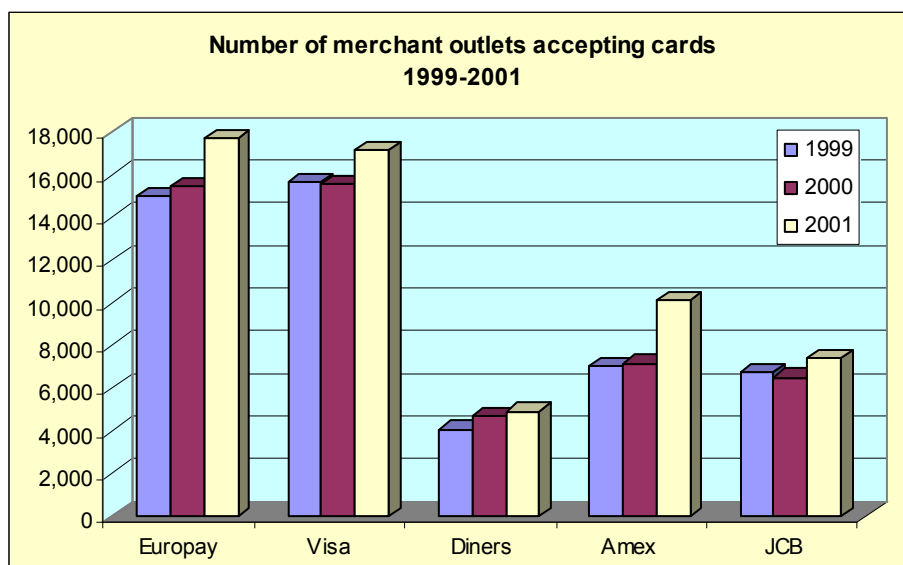
Although at a slowing rate, the existing opportunities for cardholders to withdraw cash are growing year by year. This statement is valid both for ATMs, which totalled 2,544 at year-end, and POS terminals installed in bank branches and post offices across the country. These latter are also designed to assist users in withdrawing cash electronically. Their number was 8,068 at end-2001. POS devices are in use at locations where installation of a much more expensive automatic teller machine would be unjustified due to cost saving reasons.

The average utilisation rates of the individual categories of device rose slightly last year. The number of transactions on ATMs was 2,811 on average per month, increasing by 311 from the previous year. Cardholders engaged in 68 transactions on average with POS devices.

2.2 Merchant acceptance points

Six banks have contracted with retailers for the acceptance of plastic cards bearing the Europay or Visa brands. Nevertheless, the market is shared by only three banks. From among the two T&E cards, Citibank owns the exclusive right to accept Diners cards. Last year, Commercial and Credit Bank owned the right to contract with retailers to accept Amex cards, in addition to American Express Hungary Ltd. JCB is an internationally accepted card which has not been issued in Hungary, although foreigners may use it in the domestic retail outlets. Commercial and Credit Bank has the right to contract with Hungarian retailers to accept this brand.

The following chart plots the development in the past three years in the number of merchant outlets accepting different types of cards.



The chart clearly illustrates that the number of retail outlets where shoppers may pay using cards is nearly equally divided between the brands Europay and Visa, providing the basis for mutual acceptance. The opportunities for use of the three other brands are much more limited.

In addition to the above, there are two other banks operating in the acquiring business that issue co-branded cards jointly with shopping chains. The use of these is limited to the retailers involved in the construction.

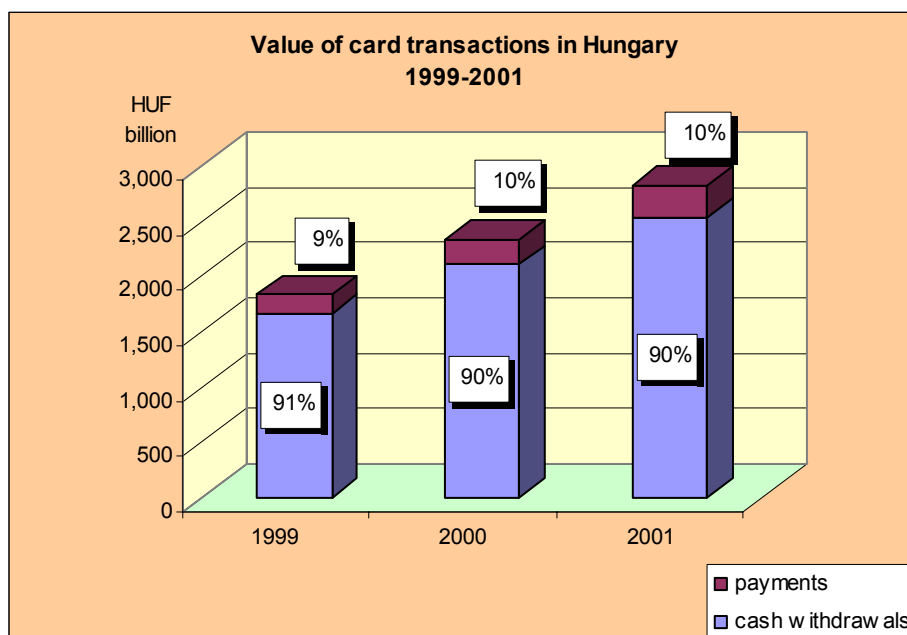
The number of POS terminals installed in shops requires some adjustment, due to the elimination of the earlier parallel reporting. (As currently a central registry does not exist for retailers contracted for accepting bank cards, data provided by the individual banks are overlapping.) At end-2001, 18,734 POS ensured the opportunity for customers to pay electronically. There were 11,538 imprinters in use for safety purposes, to ensure trouble-free business. However, these latter only substitute POS terminals in shops where turnover volumes do not justify to install more expensive electronic terminals.

3 Payment turnover

3.1 Domestic payment turnover

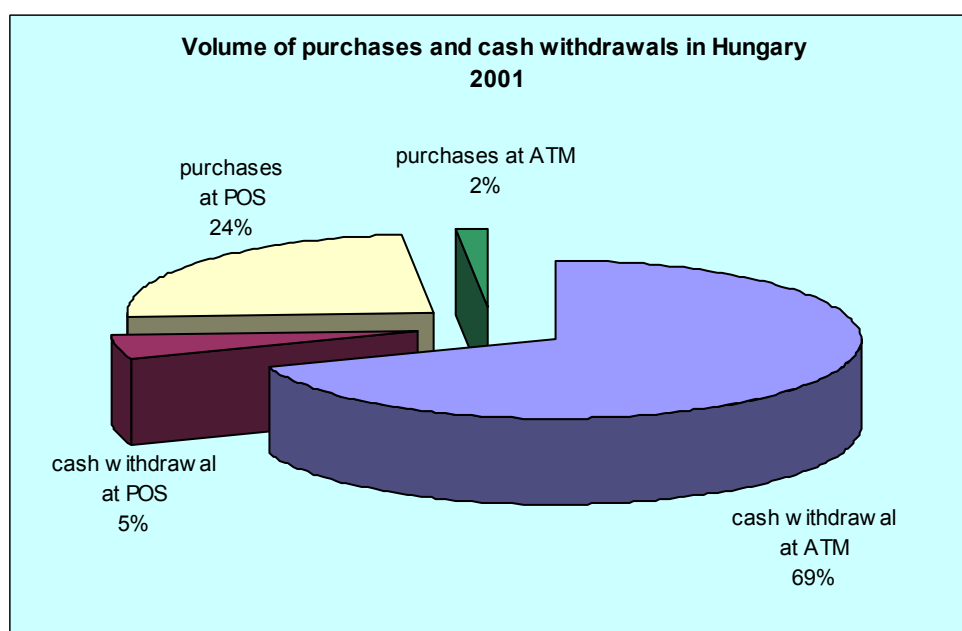
Total value of transactions conducted with domestically and foreign issued bank cards amounted to Ft 2,822 billion in 2001, showing an increase of 21% relative to the previous year.

The following chart plots the value of domestic cash withdrawals and purchases in the past three years.



Looking at the volume of transactions, cardholders withdrew cash or paid on 124 million occasions with their cards in 2001, 16% more than in the previous year. Although cards were used mainly to withdraw cash, there was some improvement in this area as well. The number of cash withdrawals fell from 79 out of every 100 in 2000 to 74 in 2001, and while the number of cash withdrawals rose by 12% in one year, that of purchases surged by 45%.

As the following chart shows, virtually the total of domestic transactions with cards was accounted for by electronic devices (the proportion of non-electronic transactions was a mere 0.24%).



Cash withdrawal transactions, accounting for some three-quarters of total volume of transactions in Hungary, were executed electronically. Apparently,

customers preferred using ATMs. They used POS terminals installed in bank branches and post offices mainly to withdraw larger amounts of cash. The average value of one transaction was HUF 20,532 on ATMs and HUF 113,745 on POS terminals. The 11,500 non-electronic cash withdrawals at bank branches, in the higher average value of HUF 401,220, can't be seen on the chart, as their proportion of the total was insignificant.

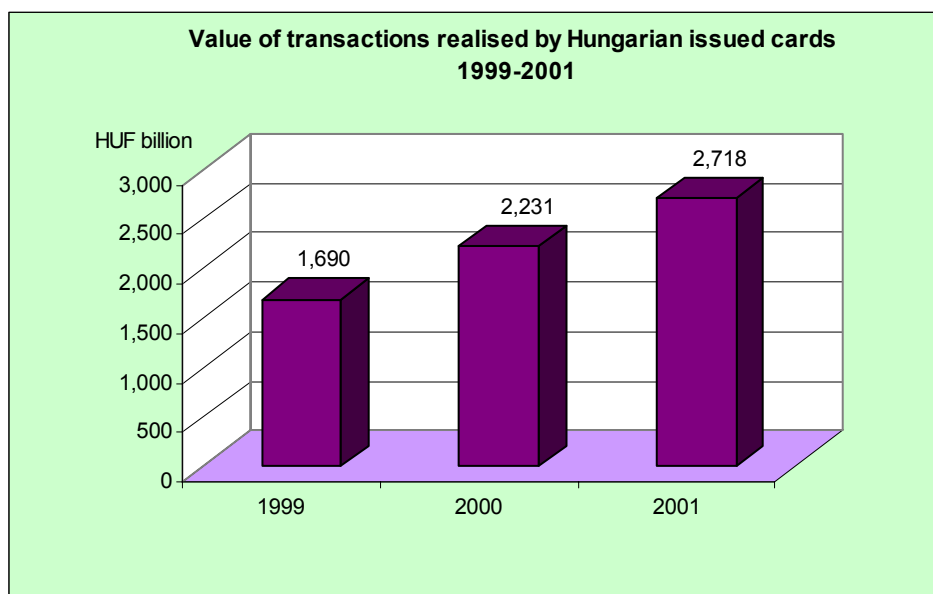
Virtually all purchases were confined to electronic card use, the average amount of a transaction on POS terminals being HUF 9,793. The average value of the total 284,000 transactions involving imprinters was HUF 8,949. Purchases using ATMs have been measures for the first time last year. These were accounted for by recharges of the Domino and Praktikum mobile phone cards. The average value of transactions was HUF 1,315

As seen in the previous year, 94% of all domestic card payments were made by domestically issued cards in 2001.

In 2001, foreign visitors in Hungary spent HUF 172 billion. This was 18% more than in 2000. As regards the number of transactions, there were 46 cash withdrawals out of every 100, ATMs being preferred to POS terminals installed in bank branches and post offices, which were used only on 2 occasions out of every 100. This latter is 7 out of every 100 in the case of domestically issued cards. One reason for the difference may be that the regions frequently visited by foreigners are better equipped with ATMs, as their functioning costs are reasonable due to the higher turnover. The other reason may be that foreigners have accustomed to the fact that services used at bank branch desks are much more expensive than the services offered by ATMs, and therefore they prefer using the latter.

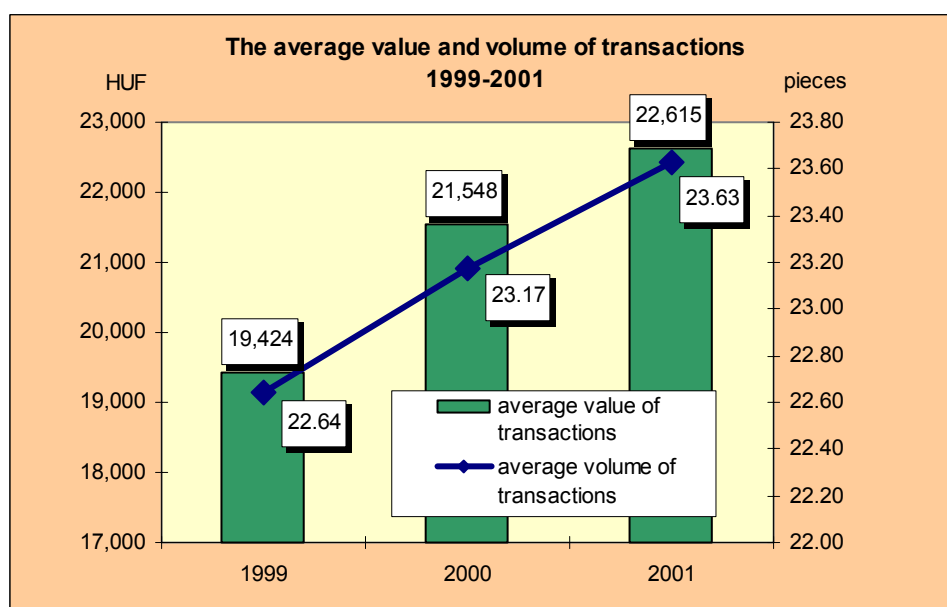
3.2 Payments with cards issued in Hungary

The total value of transactions using cards issued by Hungarian banks was HUF 2,718 billion (an increase of 22%) in 2001. Some 97% of this amount was transacted in Hungary. The rise in the number of transactions, at 16%, was more modest, totalling 120.2 million. The next chart plots changes over the past three years in the total value of transactions realised by domestically issued cards.



The frequency of card use remained virtually unchanged, at 23–24 transactions per year (two per month) on average. The average value per one transaction was HUF 22,615, representing an increase of 5% relative to 2000. Thus, the rate of the increase did not even reach the rate of CPI inflation.

The chart below shows changes in the annual frequency of card use and the average value of individual transactions over the past three years.



It is clear from the chart that the frequency of card use has increased very slowly, it is two transactions a month on average for the past several years. This implies that a fairly large proportion of customers still use the card to withdraw cash from their wage accounts.

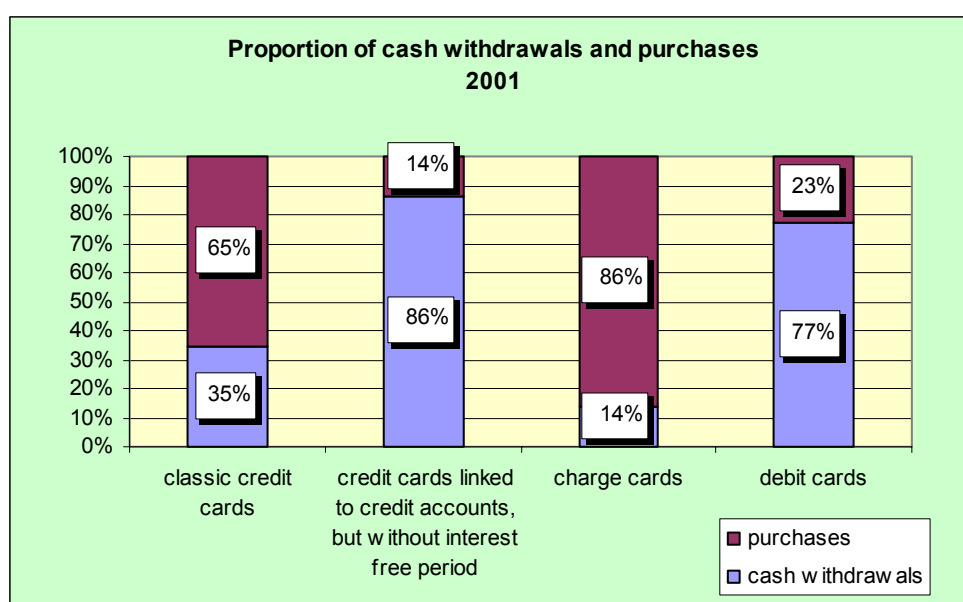
Rise in average per-transaction value was gradual as shown in the following table compared with the annual average Consumer Price Index (CPI):

	1999	2000	2001
CPI	10%	9.80%	9.20%
Increase in average value	25%	11%	5%

Clearly, value per transaction rose faster than inflation during the first two years of the period under review, while last year saw a reversal, with inflation rising at nearly double the rate of transaction value. A separate look at the average transaction value of cash withdrawals and purchases in 2001 reveals that value per transaction amounted to HUF 26,919 on average in respect of cash withdrawal (up by 9% on a year earlier) and to HUF 8,822 in respect of purchases (down by 4%). The latter change implies that cardholders are becoming more willing to use their cards to make smaller payments, which is a positive trend, reflecting the increasing popularity of paying by card.

There was also improvement in respect of user habits. While in 2000 80% of transactions were made to withdraw cash, in 2001 24 out of a hundred transactions were purchases by cards.

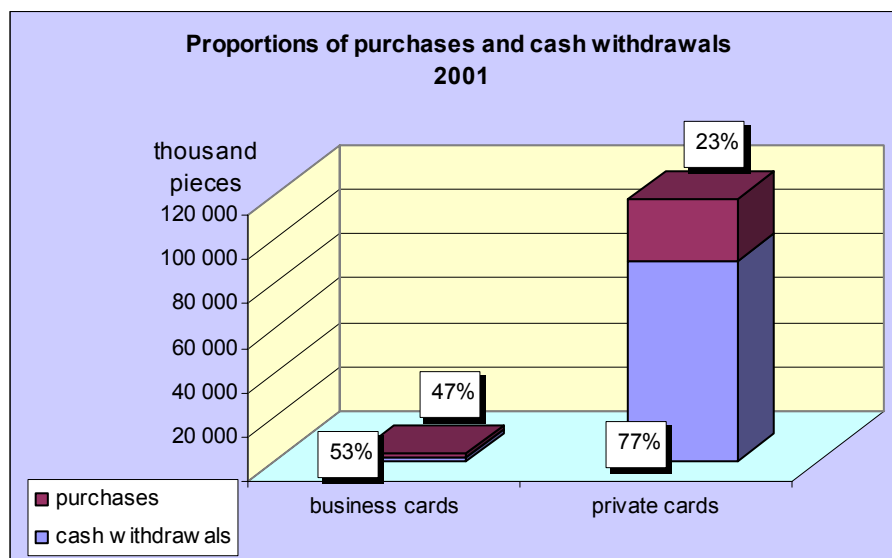
The same ratios in respect of classic credit cards, credit cards with no interest free periods (they are linked to credit accounts), as well as charge and debit cards look as follows:



The chart clearly shows that classic credit and charge cards are primarily used for purchases, as customers wish to take advantage of the interest free credit provided for a certain period. Credit cards with no interest free periods, which only provide access to credit, show a similar ratio to debit cards.

Although the proportion of the 106,308 business cards was still merely two per cent of total card number, the value of transactions using such cards amounted to 9%. Untypically for this type of card, it functions as a debit card

for 98% of all business cards, and as a charge and credit card for the rest. The next chart shows the ratio of purchases and cash withdrawals in respect of private and business cards.



In view of the fact that business cards are primarily used to cover expenses incurred in the course of business, such as cost of accommodation, restaurant meals or travel, the proportion of cash withdrawals appears to be somewhat high. Average value per transaction amounted to HUF 144,762 in respect of cash withdrawals, which implies that a high number of business-related purchases are paid for in cash.

III Cards issued by non-banking institutions

1 American Express cards

At end-2001, there were 4,000 foreign currency based American Express cards in use in Hungary. Cardholders obtained these cards, issued in London, with the mediation of Hungarian commercial banks. The total value of transactions for the purposes of both cash withdrawal and purchase settlement amounted to HUF 2.5 billion. The number of Amex cards fell by a thousand and the number of transactions halved relative to the previous year.

Cards issued abroad were used in Hungary to withdraw cash on 5,621 occasions at a value of HUF 286 million. The number and value of purchases amounted to 65,000 and FHUF4.4 billion respectively.

2 Fuel cards

By end-2001 there was an upsurge in the number of fuel cards issued, up from 282,000 in 2000 to 393,000. This was not only because fuel companies managed to win new customers with a large number of cars, but also because cards issued to firms but not yet used for fuel purchases also became incorporated in the records, whereas previously figures only included active cards (in actual use).

The number of companies issuing fuel cards remained unchanged. Cards accepted at fuel stations carry the brand names of Agip, Aral, Esso, Mol, OMV, Shell and Total. These seven companies operate altogether 1,198 stations, where payment is facilitated by 1,512 POS terminals. In the event of technical failure, there are 703 imprinters to facilitate payment by card.

Aral and Total offer fuel cards to private customers as well, while the rest of the companies issue exclusively to firms. Aral and Total also offer integrated circuit cards in addition to cards with magnetic strips. Business purchases are usually settled at a later date by means of invoicing. Only the two above-noted companies issue prepaid chip cards, but these are only offered to private customers.

In 2001, fuel cards were used on roughly 11 million occasions in Hungary to purchase motor fuel, at a total value of HUF 136 billion. Three companies (Esso, OMV and Shell) also offer fuel cards that are accepted abroad. These were used on 637,000 occasions at a value of HUF 11 billion.

Foreign holders can also use Esso, OMV and Shell cards in Hungary. With 192,000 transactions, holders spent HUF 2 billion in 2001.

IV Summary

All in all, the number of cards on issue continued to increase in 2001, consistent with the trend seen in the past few years, exceeding five million at end-2001. However, the rate of growth appeared to lose some momentum, as three-quarters of the active age group already own a card (6,945 people between the ages of 15 and 64 according to a February 2001 survey of the Central Statistical Office). This implies that in the following period the number of cards can be raised primarily not so much by winning new customers, but by offering more than one card to holders. However, issuers can only achieve this by introducing novel and attractive products to customers.

This process is already underway. The first credit cards and charge cards, launched a few years ago, differ from debit cards in that they offer interest free credit to customers for purchases during a certain period. Besides

benefiting the customer, who can buy goods on credit without having to pay interest for a specified period of time, this feature also influences card use habits by encouraging holders to use their cards for as a means of payment and not for cash withdrawal. The results already show at the level of the card business as a whole. Compared with five years ago when out of a hundred transactions ninety involved cash withdrawal, only seventy-four did so last year. The change was even more spectacular in respect of credit and charge cards, which were used to settle purchases of goods and services in over three-quarters of all transactions.

In 2001, the ratio of bank cards linked to credit accounts rose from six to nine per cent. The increase was significant even taking account of the fact that half of the credit cards were not classic cards in the sense that they did not offer an interest free period. Although the number of charge cards remained unchanged, two new kinds were launched by Europay and Visa, in addition to the existing Amex and Diners charge cards.

The number of co-branded cards, issued in cooperation with retailers, rose six-fold during last year. These cards were popular with customers thanks to various discount sales associated with them.

The value of transactions made using domestically issued cards amounted to HUF 2,718 billion in 2001, up by 22% on a year earlier.

The frequency of card use has not changed for several years, standing at two transactions per month.

The ATM and POS terminals available in Hungary recorded a total value of HUF 2,822 billion in transactions involving cards issued in Hungary and abroad, a rise of 21% in the course of one year.

Number of Bank Issued Payment Cards
 december 31, 2001

EUROPAY	EC/MC	Standard	593 011
	EC/MC	Gold	13 204
	EC/MC	Silver	30 468
	Cirrus/Maestro		2 243 397
	Cirrus		30 638
	Maestro		193 912
	ec edc		1
EUROPAY total			3 104 631
VISA	Classic		215 808
	Business		12 002
	Electron		1 547 218
	Gold		11 710
VISA total			1 786 738
DINERS			3 510
DINERS total			3 510
AMEX			2 600
AMEX total (bank issued only)			2 600
Private label cards	cash only cards		44 379
	cash and purchase cards		29 120
	business cards		37 814
	purchase only cards		72 985
	co-branded cards		4 011
Total of private label cards			188 309
Grand total			5 085 788

Note: Citicards are included among cards bearing the Cirrus logo.

Geographical Distribution of ATM Machines and Card-accepting Bank Branches in Hungary

december 31, 2001

County/County Seat	County		of which County Seats	
	No. of ATMs	No. of Bank Branches	No. of ATMs	No. of Bank Branches
Budapest			787	270
Baranya County, Pécs	112	108	66	21
Bács-Kiskun County, Kecskemét	104	165	46	24
Békés County, Békéscsaba	78	108	26	15
Borsod-Abaúj-Zemplén County, Miskolc	111	158	53	28
Csongrád County, Szeged	100	108	60	32
Fejér County, Székesfehérvár	95	110	51	18
Gyor-Moson-Sopron County, Győr	126	142	54	29
Hajdú-Bihar County, Debrecen	108	106	68	25
Heves County, Eger	69	143	28	15
Jász-Nagykun-Szolnok County, Szolnok	74	107	28	14
Komárom County, Tatabánya	70	87	23	13
Nógrád County, Salgótarján	42	70	23	10
Pest County	956	440		
Somogy County, Kaposvár	100	121	35	16
Szabolcs-Szatmár-Bereg County, Nyíregyháza	90	175	45	18
Tolna County, Szekszárd	51	88	19	15
Vas County, Szombathely	86	68	44	18
Veszprém County, Veszprém	87	108	33	20
Zala County, Zalaegerszeg	85	102	28	14
Total	2 544	2 514	1 517	615

Merchant Acceptance Points and their Distribution by Card Type
 december 31, 2001

	Number of merchant locations	No. of Imprinters	No. of POS Units	No. POS with PIN verification
Number of merchant acceptance points at the end of the reporting period	25 998	11 538	18 734	12 643
Number of points accepting Europay cards	17 186	8 693	18 224	12 272
Number of points accepting Visa cards	17 123	8 693	18 147	12 250
Number of points accepting Diners Club cards	4 930	2 845	7 512	
Number of points accepting Amex cards	10 143	7 150	5 702	2 790
Number of points accepting JCB cards	7 391	7 391	6 327	

Volume and Value of Bank Issued Card Transactions in Hungary

Year 2001

Card Type	Cash Withdrawal		Purchase		Total	
	Volume	Value	Volume	Value	Volume	Value
	pcs	HUF Million	pcs	HUF Million	pcs	HUF Million
Payment cards issued in Hungary						
EUROPAY	58 183 961	1 558 592	15 873 214	125 729	74 057 175	1 684 321
VISA	30 732 093	716 203	11 175 786	88 235	41 907 879	804 438
DINERS	7 567	545	27 147	588	34 714	1 133
AMEX *	4 517	96	21 058	459	25 575	555
Private label card	2 098 742	153 962	210 453	4 968	2 309 195	158 930
Total	91 026 880	2 429 398	27 307 658	219 979	118 334 538	2 649 377
Payment cards issued outside Hungary						
EUROPAY	1 814 270	69 017	1 184 898	26 761	2 999 168	95 778
VISA	777 545	29 279	1 685 144	40 770	2 462 689	70 049
DINERS	2 929	366	51 020	2 137	53 949	2 503
AMEX *	8 766	501	112 374	3 469	121 140	3 970
JCB			4 652	156	4 652	156
CITI					0	0
Total	2 603 510	99 163	3 038 088	73 293	5 641 598	172 456
Grand Total	93 630 390	2 528 561	30 345 746	293 272	123 976 136	2 821 833

*Figure includes bank franchise business but excludes the turnover realised by the Amex as non-bank issuer

Volume and Value of Transactions Outside Hungary by Cards Issued in Hungary
Year 2001

Card Type	Cash Withdrawal		Purchase		Total	
	Volume pcs	Value HUF Million	Volume pcs	Value HUF Million	Volume pcs	Value HUF Million
EUROPAY	276 142	24 551	521 629	12 891	797 771	37 442
VISA	288 526	11 662	720 404	18 045	1 008 930	29 707
DINERS	288	17	12 240	531	12 528	548
AMEX *	375	5	20 224	716	20 599	721
Total	565 331	36 235	1 274 497	32 183	1 839 828	68 418

* Figure includes bank franchise business but excludes the turnover realised by the Amex as non-bank issuer

Volume and Value of Transactions by Credit, Debit and Charge Cards

Year 2001

Card Type		Number of Cards Issued pcs	Cash Withdrawal		Purchase		Total	
			Volume pcs	Value HUF Million	Volume pcs	Value HUF Million	Volume pcs	Value HUF Million
EUROPAY	credit	286 020	1 584 336	30 649	554 099	5 062	2 138 435	35 711
	debit	2 818 517	56 875 602	1 552 489	15 839 074	133 516	72 714 676	1 686 005
	charge	94	165	5	1 670	42	1 835	47
EUROPAY total		3 104 631	58 460 103	1 583 143	16 394 843	138 620	74 854 946	1 721 763
VISA	credit	84 365	223 535	3 971	1 455 351	15 518	1 678 886	19 489
	debit	1 702 355	30 797 082	723 894	10 440 784	90 760	41 237 866	814 654
	charge	18	2		55	2	57	2
VISA total		1 786 738	31 020 619	727 865	11 896 190	106 280	42 916 809	834 145
DINERS	charge	3 510	7 855	562	39 387	1 119	47 242	1 681
DINERS total		3 510	7 855	562	39 387	1 119	47 242	1 681
AMEX	charge	2 600	4 892	101	41 282	1 175	46 174	1 276
AMEX total		2 600	4 892	101	41 282	1 175	46 174	1 276
Private label cards	credit	76 996	30 925	626	26 859	1 132	57 784	1 758
	debit	111 313	2 067 817	153 336	183 594	3 836	2 251 411	157 172
Total of private label cards		188 309	2 098 742	153 962	210 453	4 968	2 309 195	158 930
Grand total		5 085 788	91 592 211	2 465 633	28 582 155	252 162	120 174 366	2 717 795