

THE PAYMENT CARD BUSINESS IN HUNGARY

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Introduction

Changes in the number of bankcards in circulation

- Over the past five years, the number of bankcards in circulation continued to rise, albeit the growth rate continued to decline from year to year. At the end of 2004, there were over seven million payment cards (bankcards and fuel cards) in circulation.
- 21 credit institutions and one financial corporation issues payment cards.
- In compliance with the definitions of the European Central Bank, in 2004, cards linked to a credit account but functioning without an interest-free period are listed for the first time among debit cards; as a result, their ratio among total cards has increased from 85% in the previous year to 92% (6,030,000 cards). The remaining 8% (524,000) are credit and charge cards.
- Chip migration, promoted by international card companies, has commenced in Hungary; by the end of the year, 5% of cards were issued with EMV chips.

ATM and EFTPOS networks

- The number of ATMs increased at a steady rate in the past five years; there were 3,296 terminals at the end of 2004. The 10,227 POS devices installed in bank branches and post offices facilitate the electronic withdrawal of cash; 2% of these are able to read EMV chips.
- The number of merchant outlets accepting Visa and MasterCard cards has grown by 5% in the past year; the same figure related to Diners and JCB cards increased at a more moderate rate. A prominent 23% growth is witnessed in the number of shops accepting Amex cards. Acceptance points operate 28,501 POS devices. Practically all transactions are bound to authorization which contributes to the higher safety of card use. Eighteen percent (18%) of the devices are able to read EMV chips.

Turnover realized with bank issued payment cards

Acquiring turnover

- In the past year, 193 million transactions were conducted with domestically and foreign issued cards, in the value of HUF 4,753 billion. The transaction number rose by 11%, the value increased by 9%, in comparison to the previous year.
- The number of cash withdrawal transactions continued to fall; of every one hundred transactions 58 transactions were cash withdrawals (the number was 64 in the previous year), with 54 ATM and 4 POS transactions. In respect of purchase transactions, of every one hundred transactions, there were 39

instances of payment through POS terminals at retail outlets, with 3 mobile phone recharges at ATMs.

Issuing turnover

- In the past year, Hungarian card holders used their cards at home and abroad on 182 million occasions, in the value of HUF 4,769 billion. The number rose by 11%, the value grew by 13%.

Cards issued by non-banks

- Due to changes in ownership, the number of fuel companies issuing fuel cards fell: OMV purchased Aral and Shell took over Total. The number of cards increased by 27% by the end of 2004, amounting to 477 thousand cards; turnover conducted with these reached the value of HUF 192 billion in the past year.
- Foreigners paid with fuel cards on 185 thousand occasions in Hungary, in the value of HUF 3 billion.

I. Overall analysis of the bank issued payment card business

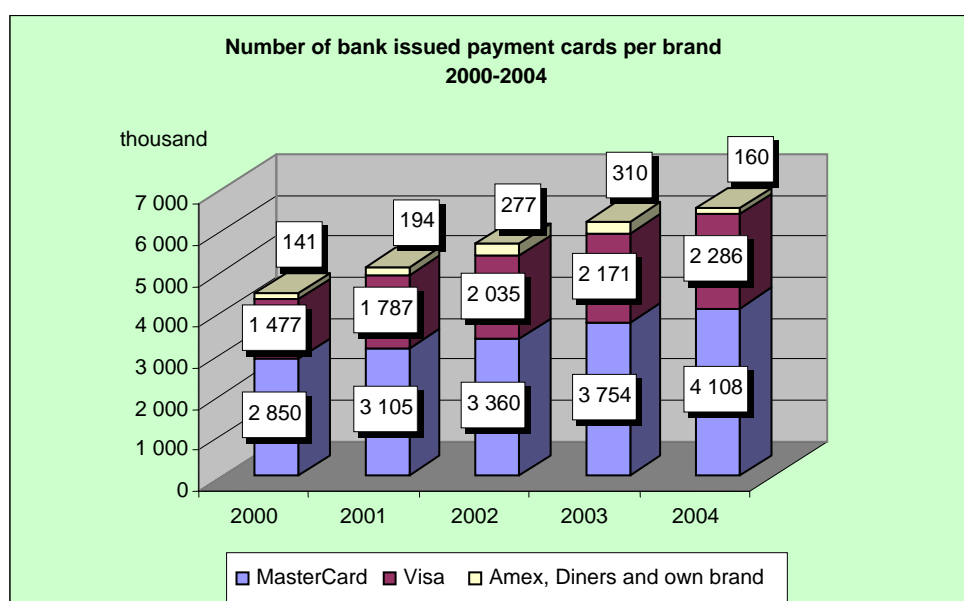
1. Characteristics of bank issued payment cards and changes in their number

The number of payment cards issued by banks is on a continuous rise in Hungary, although the pace is slowing down each year; at the end of the year 2004, their number reached 6.6 million. The table below indicates the card number and the rate of growth in the past five years:

Year	2000	2001	2002	2003	2004
Number of cards/thousand	4,468	5,086	5,672	6,235	6,553
Rate of growth	16%	14%	12%	10%	4%

Table 1: Change in the number of cards issued

Brand composition remained unchanged. Mutual card acceptance is based on the brands of two international card companies – MasterCard and Visa.



Contrary to the practice of previous years, as of this year, cards linked to a credit account but function as debit cards – no interest-free period – are listed among debit¹ cards. As a result, the proportion of debit cards has increased from 85% to 92% (6,030 thousand cards). Of the twenty-one credit institutions in the card issuing business, all issue such cards with the exception of two. Twelve banks issue credit² cards. The

¹ debit card: payment card linked to a bank account, suitable for both cash withdrawals and purchases. The holder of the card may only withdraw cash or spend money for up to the amount of his bank balance, and the bank account is automatically debited with the amount of each transaction.

² credit card = card linked to a credit line fixed earlier in a contract between the cardholder and the bank, which allows the holder to withdraw cash or make purchases up to the amount of the credit line. The credit granted can be settled in full by the end of a specified period or can be settled in part, with

proportion of the product to the total number of cards is 8% (507,000 cards). Charge³ cards are issued by four credit institutions and one financial corporation, but their rate does not even reach one percent (17,000).

The number of co-branded cards issued in cooperation with retailers has increased by 27% in one year; their proportion has reached 12% (760,000) by the end of the previous year. Nine banks offer such cards.

The number of business cards used to cover business related expenses has grown by 17% in one year (242,000), but their proportion only amounts to 3.7%. The number of issuers is relatively high: eighteen credit institutions and one financial corporation.

The virtual card, introduced specifically for e-purchases, enhances the safety of such transactions. The number of these cards rose by 41% in one year, equaling 46,000 by the end of 2004.

In reaction to the incentives of international card companies, domestic credit institutions have also commenced chip migration allowing the safer use of cards. At the end of the past year, 5% of cards were equipped with EMV chips.

2. Cash withdrawal facilities and merchant acceptance points

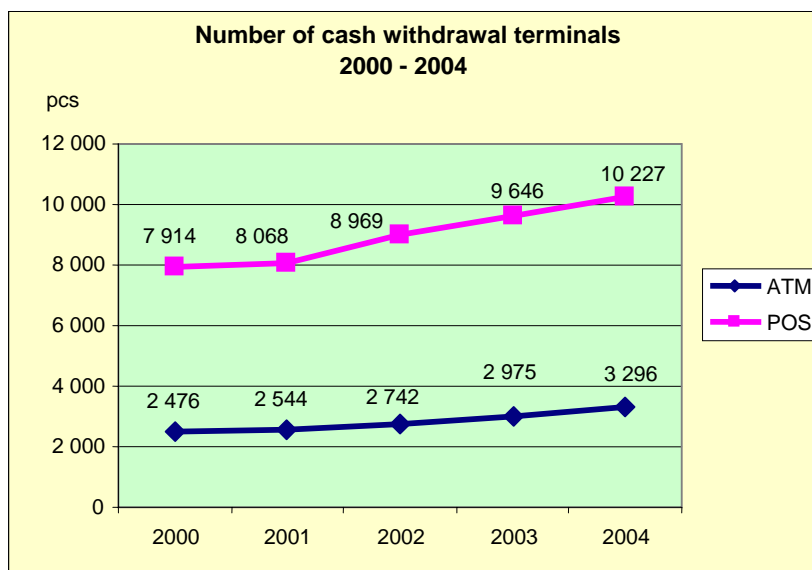
2.1. Cash withdrawal facilities with bank issued cards

POS terminals installed in post offices and in branches of the acquiring banks as well as ATMs offer the possibility to withdraw cash electronically. Of the 3,296 ATMs, 28% of the machines are located in Budapest, 25% in county seats and the rest are operated in other cities around the country. In consideration of the above distribution of ATMs, the role of the 10,227 POS terminals installed in post offices and bank branches are important because they allow the electronic withdrawal of cash at locations where the operation of ATMs is unprofitable.

The chart below illustrates the change in the number of cash withdrawal terminals in the past five years:

the balance taken as extended credit. The debt is interest free until the specified date, for the remaining amount, however, the cardholder has to pay interest. Cash withdrawal transactions, however, are not interest free, these are interest bearing just from the date of the transaction.

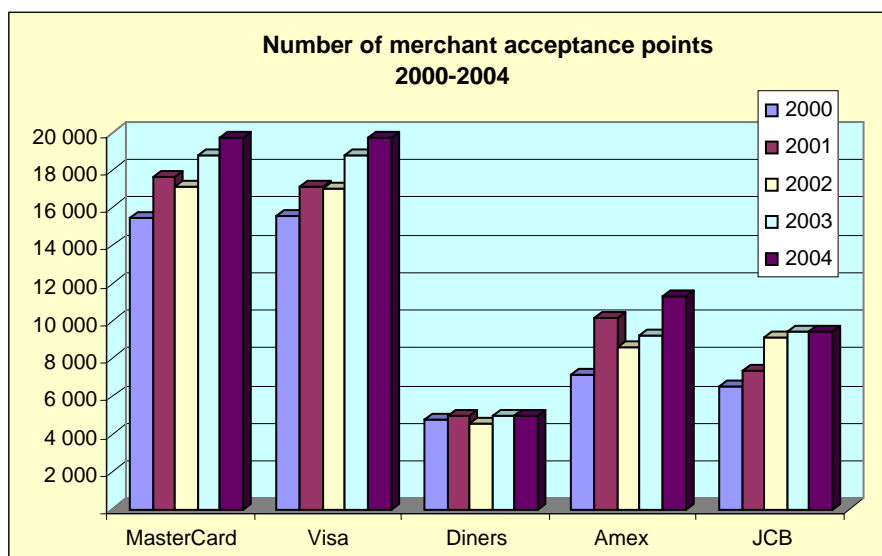
³ charge card: it is distinguished from a credit card in that there is no credit line fixed necessarily (but may be) and the total debt should be settled by the end of a specified period.



In the framework of chip migration noted under Clause 1, by the end of the past year, 2% of POS terminals in banks were made suitable to read chips. The appropriate transformation of ATMs is yet to commence.

2.2. Payment facilities with bank issued cards

Seven credit institutions and one financial corporation conclude contracts with domestic merchants in the acquiring business. The chart below indicates the number of commercial units (outlets) where the settlement of the equivalent of goods and services with a card has been possible in the past five years:



The number of retail outlets accepting Visa and MasterCard cards has increased by 5% in the past year; the network of Diners and JCB card acceptance points has expanded at a more moderate rate. The 23% rate of growth witnessed in relation to Amex acceptance points is associated with the intensive merchant acquiring activity of the financial corporation.

In addition to physical acceptance points there are roughly four hundred virtual points. Approximately five hundred merchants accept orders through mail or the telephone, allowing card payment.

There are 28,501 POS terminals operating in shops (17% more than in the previous year). With the exception of 33 devices, these operate with a zero floor limit; transactions are bound to authorization irrespective of a limit, greatly contributing to the safe use of cards. In the event of technical difficulties, 4,147 imprinters are installed in addition to the POS devices (15% fall); all of these operate with a zero floor limit. In the framework of chip migration, 18% of POS terminals operating in the merchant outlets have enabled the reading of EMV chip cards at the end of the past year.

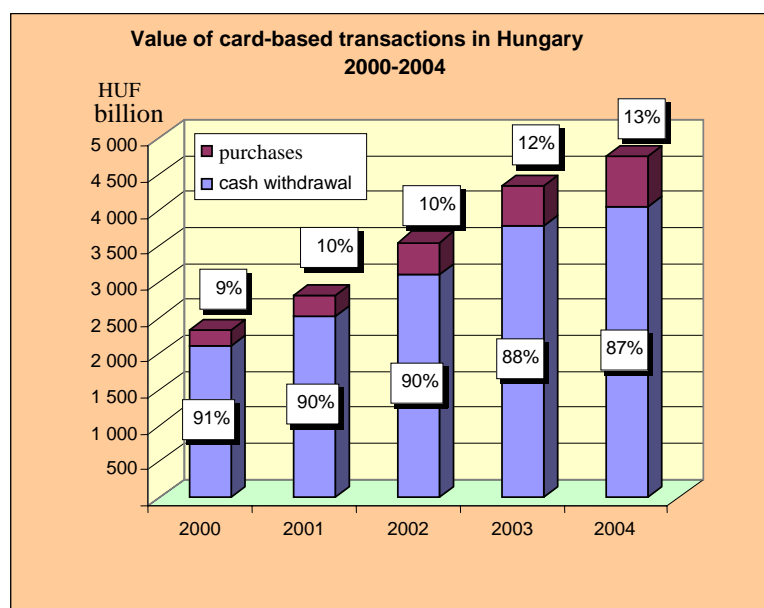
In a few smaller retail outlets, where the number of bank card payments is relatively low, cards are only accepted with imprinters for economic reasons. There are 838 such devices in the counters; most of these (66%) operate with a zero floor limit.

3. Transactions conducted with bank issued payment cards

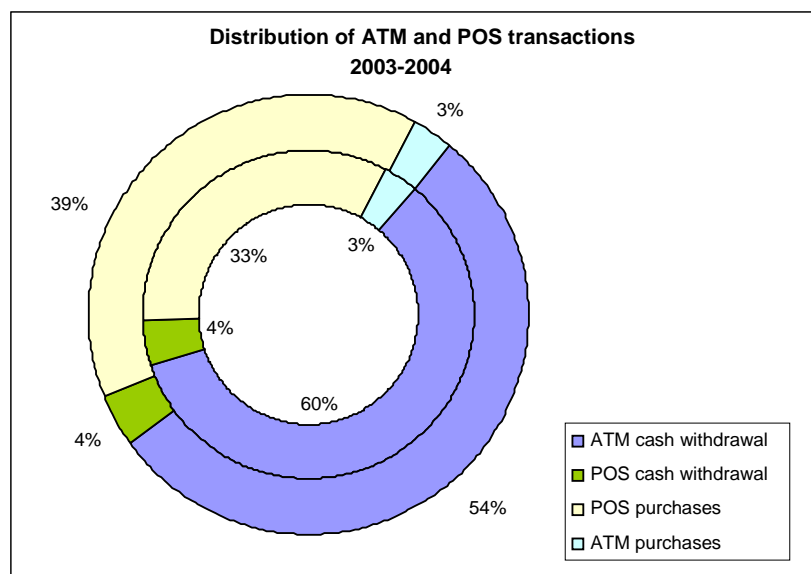
3.1. Domestic card business (acquiring turnover)

The number of domestic transactions conducted with cards is derived by aggregating of purchases made at merchants in a contractual relationship with Hungarian credit institutions and financial corporations, plus cash withdrawal transactions conducted through domestic ATMs and POS terminals. Domestic and foreign issued cards were used for 193 million transactions in 2004, in the value of HUF 4,753 billion. The rate of growth reached 11% in comparison to the previous year, and the value increased by 9%.

The table below shows the developments in the value of card-based transactions in Hungary, in the past five years:



It is clearly indicated that the proportion of purchases is on a steady rise, albeit at a moderate pace. Growth is more marked in respect of the amount; last year card holders made purchases in a 25% higher value than in the previous year. This favorable trend is even more prominent when expressed with the number of transactions. Basically all of the acquiring turnover was conducted through electronic devices (only 0.07% of the number of transactions were conducted through imprinters, not indicated in the chart). Distribution within the above figure is indicated by the chart below on the basis of two years⁴:



Cash withdrawal transactions continue to be higher in number but their rate is on a steady decrease; while in 2003, of every one hundred transactions 64 were cash withdrawals, the same figure was only 58 in the year of 2004. If the analysis is narrowed down to transactions conducted with foreign issued cards - in the same card acceptance network -, the rate is 38 cash withdrawals out of every one hundred transactions. The difference is pronounced even in consideration of not everyday consumer demands related to traveling. A further improvement in the figure may result partly from the expansion of the merchant acceptance points and partly the strengthened confidence of Hungarian card holders in the payment instrument, causing a related change in payment customs.

The chart clearly indicates that most of cash withdrawals were conducted through 3,296 ATMs (104 million transactions); a fraction of cash withdrawals (8 million) were conducted through 10,227 POS terminals installed at post offices and bank branches. The number of non-electronic cash withdrawals is limited (3 thousand) – it is not indicated by the chart. The average utilization rate of an ATM is 31,536 transactions/year (average of 88 transactions a day); the same figure equals 737 transactions/year in relation to POS terminals (average of 2 transactions a day).

⁴ The inner circle indicates figures for the year 2003, the outer circle for the year 2004

Most of the purchase transactions comprised payments conducted through POS devices installed in shop counters. The rate of mobile phone recharges conducted through ATMs did not change in the course of one year.

3.2. Domestic and foreign transactions conducted with domestically issued cards (Issuing turnover)

In the past year, Hungarian card holders used their cards on 182 million occasions in Hungary and abroad, in the value of HUF 4,769 billion.

The table below indicates the rise in turnover (the basis of comparison is in all cases the preceding year) and the frequency of card use in the issuing business in the past five years:

Year	2000	2001	2002	2003	2004
Value of transactions (HUF billions)	2,231	2,718	3,395	4,220	4,769
Growth rate	32%	22%	25%	24%	13%
Number of transactions (thousands)	103,552	120,174	141,998	163,571	182,214
Growth rate	19%	16%	18%	15%	11%
Frequency of card use (months)	1.85	1.97	2.09	2.19	2.32

Table 2: Card turnover and frequency of card use 2000 - 2004

The data visibly indicates that both the number of transactions and their value rises each year, albeit at a slowing pace. The monthly frequency of card use is gradually increasing at a very slow rate.

When examining only cashless payments within total domestic issuing turnover, i.e. trends in domestic retail purchases, the table below reveals the following picture:

Year	2000	2001	2002	2003	2004
Value of purchases (HUF million)	158,425	219,979	316,388	428,192	539,439
Growth rate	64%	39%	44%	35%	25%
Number of transactions (thousand)	19,439	27,308	39,357	53,202	66,760
Growth rate	55%	40%	44%	35%	26%
Average transaction value	8,150	8,055	8,039	8,048	8,080
Growth rate	6%	-1%	0%	0%	0%
Frequency of card use/year	4.16	5.37	6.94	8.53	10.19

Table 3: Card purchase turnover and frequency of card use

The number of purchases is rising at a faster rate than the rate of growth related to the sector (see preceding table). However, the number of cash withdrawal transactions continues to exceed the rate of purchases (see circle diagram under Clause 3.1).

Five years ago, a card was used on average on twenty-two occasions a year and only four transactions were related to purchases. In the past year, in contrast, a card was used on average on twenty-eight occasions, with ten purchase transactions. This also reflects the positive changes that have taken place in recent years.

In respect of the average transaction value, it may be established that the figure is roughly similar for the past three years. This leads us to conclude that an increasing number of purchases of small value are conducted with a cashless payment instrument.

II. Cards issued by non-bank institutions

Fuel cards

As a result of mergers, the number of fuel companies issuing cards suitable for fuel purchases fell to five by the end of the past year; OMV purchased Aral and Shell took over Total.

The number of cards rose by 27% in one year, corresponding to 476,836 cards; turnover transacted with these exceeded the value for the previous year by 25%. In relation to the nearly 14 million fuel purchases, HUF 192 billion was spent by car owners in the past year in Hungary and abroad.

Foreigners fueled up on 185,000 occasions in Hungary, in the total value of HUF 3 billion.

The electronic acceptance of cards at fuel stations is enabled by 1,242 POS terminals, with the use of an additional 456 imprinters.

Companies and institutions continue to be the major clients of fuel companies; only two companies issue cards to private individuals, as well. Individuals use prepaid solutions to purchase fuel, while companies generally settle the bill subsequently.