THE WAR ON BANKS IN HUNGARY, 2010-2015

by Inteliace Research
August 2015

Version: c1

HARSH TAXES HAVE BEEN IMPOSED ON BANKS IN HUNGARY SINCE 2010

Goal: Raising tax revenues and reducing foreign ownership in the banking sector in Hungary

- Heavy taxation imposed on credit institutions.

- Most banks go into the red and need extra capital.

- Foreign owners consider market exit.

- Government steps-in and buys stakes in troubled banks.

- Foreign investors withdraw.

- Taxes are slowly phased-out once ownership structure changes.

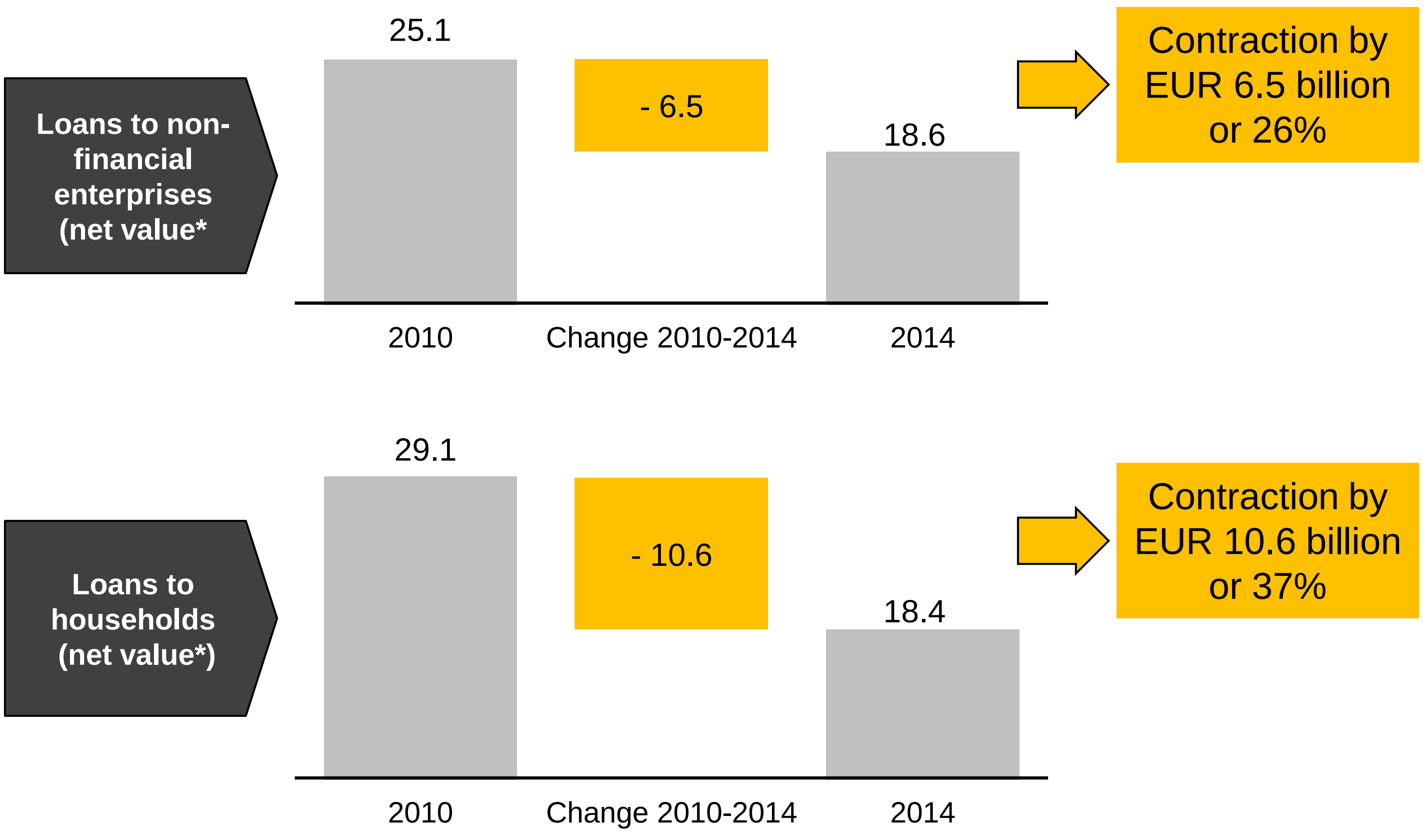
Key taxes and regulatory actions affecting banks in Hungary

- **Tax on assets.** Tax introduced in 2010. Major banks forced to pay a record 0.53% rate annually on their 2009 assets. Tax rate to be reduced to 0.31% in 2016 and possibly lowered again in 2017-2019. So far, nearly € 3 billion has been raised with the tax.
- **Financial transactions tax**. Financial transactions are charged with a 0.3% levy as a general rule. Modifications exist in relation to cash transactions and credit cards.
- **Forced bailout of FX mortgage holders**. Debtors were allowed to repay mortgage loans at a preferential rate of CHFHUF of 180, which resulted in a loss for banks in excess of EUR 1 billion.
- **Settlement Act.** Banks have been forced to retroactively compensate for excessive fees, interest and spreads charged in the past that have been assessed as unlawful.
- **Charge on municipal debt** held by banks. Banks needed to pay a 7 percent charge on troubled municipal debt that the government took over in 2013.

* Lending portfolio less impairment
Source: MNB, press, Inteliace Research

THE „WAR ON BANKS" LEAD TO AN UNPRECEDENTED DECREASE IN TOTAL LENDING

Outstanding lending to enterprises and households by credit institutions, 2010-2014,
in EUR billion



The recent „war on banks" in Hungary has contributed to a reduction in total lending to households and to the corporate sector by a combined EUR 17+ billion.

* Lending portfolio less impairment
Source: MNB - PSZAF, Inteliace Research

EXCESSIVE TAXES AND CHARGES PUSHED EIGHT OUT OF TOP TEN BANKS IN HUNGARY INTO RED IN 2014

Top 10 banks in Hungary by total assets, 2014

Rank	Bank	Total assets, EUR billion	Profit after tax, EUR million
1	OTP Bank	23.9	-236
2	Kereskedelmi és Hitelbank	7.9	-47
3	UniCredit Bank Hungary	7.1	51
4	Raiffeisen Bank Zrt.	6.6	-373
5	ERSTE Bank Hungary	6.1	-293
6	MKB Bank	6.1	-137
7	CIB Bank	5.5	-329
8	OTP Jelzálogbank	4.1	-247
9	MFB Magyar Fejlesztési Bank	3.4	3
10	Budapest Hitel- és Fejlesztési Bank	2.8	-65
	Total TOP 10	73.6	-1673

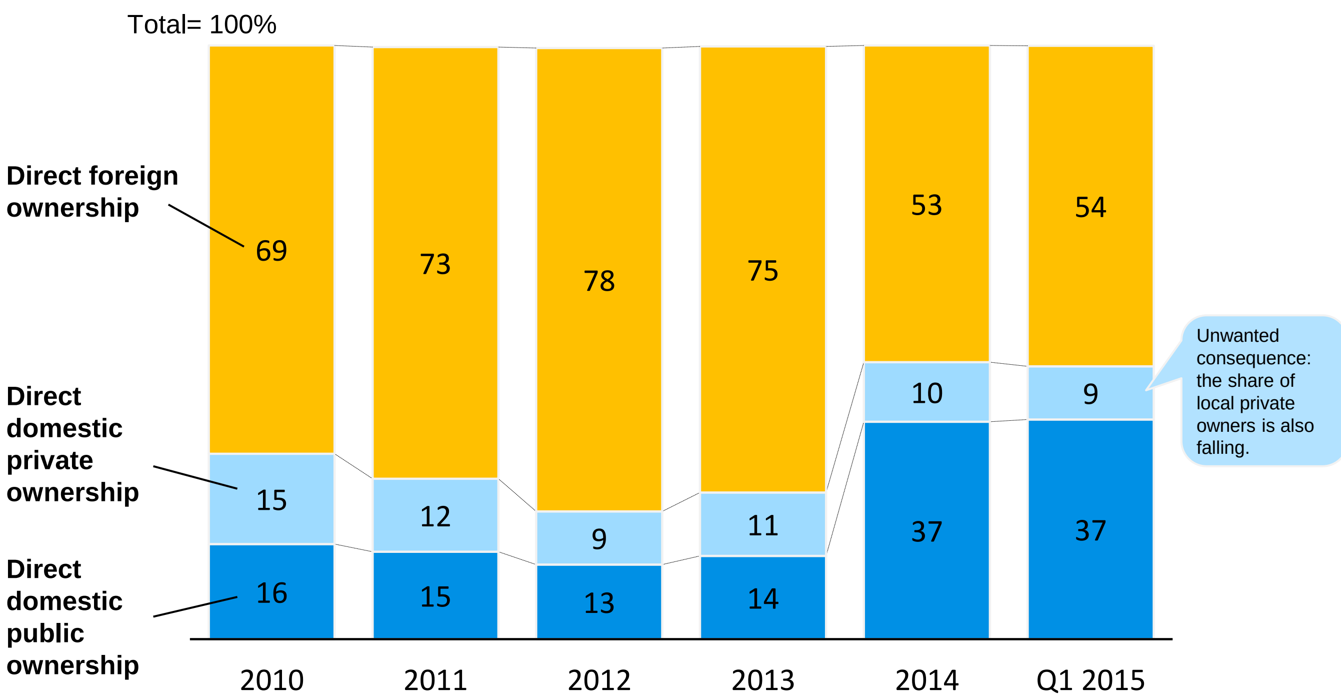
The combined loss of top 10 banks in Hungary in 2014 exceeded € 1.6 billion

- As a consequence of multiple charges and taxes banks have been forced to take massive write-offs.
- In 2014, eight out of top ten banks went into red.
- In case of two banks, loss after tax exceeded the average annual equity, which means a full shareholder wipe-out.
- Troubled banks are in a focus of the government, which is eager to take-over significant stakes in banks at the fraction of their initial value.

Source: Banks, MNB, Inteliace Research

AS EXPECTED, THE SHARE OF FOREIGN CAPITAL HAS FALLEN. HOWEVER, ALSO THE LOCAL PRIVATE CAPITAL HAS SUFFERED

Ownership structure of credit institutions – share in capital, 2010-2015 Q1, in percent



Although, foreign ownership has fallen significantly recently, also the share of local private owners has been reduced.

Examples of foreign investors exiting banking sector in Hungary

- 2014: Bayerische Landesbank decided to sell its MKB Bank (7% market share by assets as of 2013) to the Hungarian Government. BayernLB received only EUR 55 million, while its total investments in the troubled MKB have totalled EUR 2 billion since 1994.
- 2014: GE Capital agreed to sell its subsidiary Budapest Bank (3.2% market share by assets as of 2013) to Hungarian Treasury for up to $700 million.
- 2014: Citibank has announced quitting retail operations in Hungary.
- 2015: Erste Bank (8.4% market share by assets as of 2013) agreed to dispose up to 30 per cent stake in the bank, via capital increase to the Hungarian government and the EBRD.

Source: MNB, Inteliace Research

WHILE THE BENEFITS OF „WAR ON BANKS” ARE MOSTLY OF A POLITICAL NATURE, COSTS WIL BE REAL

Cost and benefits of current „war on banks” in Hungary

BENEFITS	COSTS
• Political goal of Viktor Orbán government achieved – Majority of banks in local hands before 2016. • Dependency of banks in Hungary on policy changes of foreign banks resulting from situation in the global markets will be reduced. • Future dividend streams to foreign bank owners will be reduced – provided there will be enough profits to distribute.	• Lending volumes to the Hungarian economy and households have dropped by over 30% during 2010-2014 and the recovery might be long. The access to external funding is likely to be reduced. Consequently, the lower availability of credit to the Hungarian economy will reduce its growth and/or force enterprises to use alternative financing or banks from abroad. • The share of banks in hands of Hungarian government will increase substantially with all the consequences known from other markets : lower innovation, risk of corruption, using banks for political purposes, weak management etc. Poorly managed banks are likely to need state bailouts in the future. • Lower competition and increased taxation will inevitably result in effectively higher cost of banking services (even if hidden) to Hungarian consumers and enterprises.

Source: Inteliace Research

About this report

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Through our customized research services we help our clients to better understand their customers, competitors and overall market dynamics.

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