Kereskedelmi és Hitelbank Zrt.

Basel III. - Disclosure according to Pillar 3.

Risk Report

For the 2015 Financial Year

31.12. 2015

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Chapter I. - Background Information

Disclosure requirements at K&H (CRR Articles 431.-434.)

K&H committed itself to conform to the requirements of Pillar 3 defined in Chapter 8 of 575/2013/EU Regulation of the European Parliament and of the Council (CRR) and in Article 122 of the Hpt.[1]. K&H prepares this "*Risk Report*" for such purposes, containing the information required by law. In line with its general communications policy, K&H is trying to communicate its market risk exposures as openly as possible. Consequently, it discloses information on risk management taking place at K&H in a separate chapter of the "*Annual Report*" and also in more detail in this document in order to satisfy the requirements of the market as much as possible.

K&H publishes its "*Risk Report*" once a year, simultaneously with the disclosure of the "*Annual Report*" and makes it also accessible in Hungary (and in English) on the K&H corporate website (www.kh.hu). Similarly to the "*Annual Report*", the "*Risk Report*" is prepared for the last day of the financial year i.e., for the cut-off date. Simultaneously with the display of the report on the K&H corporate portal, the Bank also submits the "*Risk Report*" to the CBH which can also publish it in its own website. Pursuant to Article 431 of the CRR and Article 263 of the Hpt, the external auditor also checks the content and accuracy in value of the information and data required under the disclosure rules under Pillar 3.

This "*Risk Report*" was prepared for the cut-off date of 31 December 2015 and contains:

- Individual, financial and statutory reporting data of K&H Bank, audited according to HAS, and
- Consolidated, audited financial and preliminary statutory reporting data of the K&H Group, according to IFRS.

K&H published the Risk report together with the Financial report on 29th April, 2015. That report did not contain the following information:

- Reference to the home-host joint decision on the IRB Advance method (See Chapter III – The capital requirement of credit risk)
- The dates of the Remuneration Committee (See Chapter III – Risk governance)
- Details of the remuneration of persons in management position (See Chapter IV)

The information above are included in the re-published report.

K&H Group Structure (CRR Article 436.)

The K&H group may be divided into the following three main parts:

- Bank
- Leasing Group
- other subsidiaries

In total, the following companies were fully consolidated at the end of the year:

Company name	Company type	Consolidation method	Ownership ratio % (direct)	Company balance sheet Total (HUF million)	Company Equity (HUF million)	Post-tax Profit (HUF million)	Net Profit/Loss (HUF Million)
K&H Lízing Zrt. (voluntary dissolution)	Financial	full consolidation	100.00	132	124	0	0
K&H Ingatlanlízing Zrt.	Financial	full consolidation	100.00	24 548	237	56	56
K&H Autópark Kft.	Operational leasing	full consolidation	100.00	4 141	786	366	366
K&H Eszközlízing Kft.	Operational leasing	full consolidation	100.00	222	195	-13	-13
K&H Alkusz Kft.	Other	full consolidation	100.00	78	77	-1	-1
K&H Faktor Pénzügyi Szolgáltató Zrt.	Financial	full consolidation	100.00	11 970	508	110	129
K&H Csoport-szolgáltató Kft.	Auxiliary	full consolidation	100.00	4 579	561	42	42
K&H Befektetési Alapkezelő Zrt	Investment Fund managem	full consolidation	100.00	4 156	3 527	2 527	2 527
K&H Equities ZRt.	Other	full consolidation	100.00	5 039	4 870	2 758	2 758

[1] Act CCXXXVII of 2013 on "credit institutions and financial enterprises" (Hpt.)

Table 1: Companies fully consolidated in the K&H Group

Within the K&H Group there are no actual or predictable major practical or legal obstacles preventing any immediate transfer of own funds, or repayment of obligations between the parent company and subsidiaries.

Chapter II. – Capital Adequacy

Capital Policy

The capital strategy supplementing the risk policies of the KBC Group referred to above contains the following:

- Creation of durable values for the shareholders, which means the most efficient utilisation of the capital of the KBC Group with maximum return available under the assumed risks and without any excessive unused capital.
- Compliance with the restrictions on the capital funds of the KBC Group, defined by the regulatory authorities and rating agencies.
- Maintaining capital adequacy by also taking into account the business development outlook of the KBC Group beyond one year as an organic part of the strategic, business and capital planning process.
- Maintaining capitalisation at the KBC Group in order to cover all material risks up to a set high funding level.

Capital structure and capital adequacy (CRR Articles 437. and 451.)

The supervisory available own funds (also referred to as supervisory equity) consists of Tier 1 and Tier 2) capital. Tier 1 capital consists primarily of share capital and other capital market securities eligible according to the current legislation, less the required negative components. The Tier 2 capital consists primarily of hybrid and debt securities eligible under the current laws and regulations, less the required negative components. The total own funds equal the total of Tier 1 and Tier 2 capital less deductions.

Accounting category	equity	subordinated loan capital #1	subordinated loan capital #2
Applicable regulation	CRR Article 28.	CRR Article 62.	CRR Article 62.
Transition rules of the regulation on capital requirements (CRR)	core Tier 1 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument
Rules of the CRR after the transition period	core Tier 1 capital instrument	Tier 2 capital instrument	Tier 2 capital instrument
Eligible based on individual and/or sub-consolidated basis	Individual and (sub)consolidated	Individual and (sub)consolidated	Individual and (sub)consolidated
Nominal value of the instrument	HUF 140,978 million	EUR 60 million	EUR 30 million
Currency of issue	HUF	EUR	EUR
Issue price	-	100%	100%
Redemption price	-	100%	100%
Original date of issue	-	2006.06.30	2015.09.28
Maturity	until further notice	2026.06.30	2025.09.28
The (call) option of the issuer requires prior supervisory approval	-	No	No
Optional purchase date, pending purchase date and redemption amount	-	Pursuant to CRR Article 63	Pursuant to CRR Article 63
Interest payment date, conditions	N/A	EURIBOR+2.70%	EURIBOR+3.05%
fixed or variable dividend / interest coupon	-	variable	variable
Advancing or redemption incentive	-	No	No
Not accumulating, accumulating	-	Not accumulating	Not accumulating
Convertible, non-convertible	-	Nonconvertible	Nonconvertible
Description	-	No	No
Position in the liquidation hierarchy	in the case of insolvency or liquidation of the institution, the instruments are classified behind all other receivables	Pursuant to CRR Article 63	Pursuant to CRR Article 63

Table 2: Main components of the capital instruments (K&H Group)

According to the Hungarian laws and regulations the K&H Group must have minimum own funds that exceed 8% of the risk weighted assets but, during the SREP review, the Supervisory Authority may set an additional capital requirement on a pro rata basis according to the capital requirement under Pillar 1. The Bank also takes into account this requirement while planning and preparing its detailed budget and sets aside further reserves in order to have enough own funds in case the HUF weakens or other unexpected market events occur. The Bank reports its capital adequacy position to the Supervisory Authority monthly and also prepares monthly projections for the Bank's Capital and Risk Oversight Committee, CROC). When necessary, the Bank's Executive Committee EXCO) makes decisions on the required actions (e.g., capital increase, dividend payment, etc.).

The tables below provide an overview of the leverage ratio, capital adequacy of the Group and the Bank and the detailed composition of the Tier 1 and Tier 2 capital components.

Components of own funds (HUF million)	K&H Bank (HAS)	K&H Group (IFRS)
OWN FUNDS	**213 695**	**207 058**
_TIER 1 CAPITAL(TIER 1 OR T1 CAPITAL)	**186 157**	**179 827**
__COMMON EQUITY TIER 1 CAPITAL (CET 1 CAPITAL)	**186 157**	**179 827**
___ Capital instruments eligible as CET1 capital	189 753	155 371

___ Paid up capital instruments	140 978	140 978
____ Memorandum item: Capital instruments not eligible	-	-
____ Share premium	48 775	14 393
____ (-) Own CET1 instruments	-	-
_____ (-) Direct holdings of CET1 instruments	-	-
_____ (-) Indirect holdings of CET1 instruments	-	-
____ (-) Synthetic holdings of CET1 instruments	-	-
___ (-) Actual or contingent obligations to purchase own CET1 instruments	-	-
___Retained earnings	9 613	41 796
____Previous years retained earnings	- 28 250	9 715
____Profit or loss eligible	37 863	32 081
_____Profit/loss attributable to owners of the parent	37 863	32 081
____(-) Part of interim or year-end profit not eligible	-	-
___ Accumulated other comprehensive income	16 479	-
___Other reserves	-	8 786
___Funds for general banking risk	5 542	5 542
___Transitional adjustments due to grandfathered CET1 Capital instruments	-	-
___Minority interest given recognition in CET1 capital	-	-
___Transitional adjustments due to additional minority interests	-	-
___Adjustments to CET1 due to prudential filters	- 4 299	- 6
(-) Increases in equity resulting from securitised assets	-	-
___ Cash flow hedge reserve	- 4 268	-
____Cumulative gains and losses due to changes in own credit risk on fair valued liabilities	- 25	-
___ Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	- 6	- 6
____(-) Value adjustments due to the requirements for prudent valuation	-	-
___(-) Goodwill	-	-
____(-) Goodwill accounted for as intangible asset	-	-

____(-) Goodwill included in the valuation of significant investments	-	-
____Deferred tax liabilities associated to goodwill	-	-
___ (-) Other intangible assets	- 11 723	- 14 258
____(-) Other intangible assets gross amount	- 11 723	- 14 258
____Deferred tax liabilities associated to other intangible assets	-	-
___(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	- 32	-
___(-) IRB shortfall of credit risk adjustments to expected losses	- 2 143	- 3 165
___(-) Defined benefit pension fund assets	-	-
____(-) Defined benefit pension fund assets gross amount	-	-
____Deferred tax liabilities associated to defined benefit pension fund assets	-	-
____ Defined benefit pension fund assets which the institution has an unrestricted ability to use	-	-
___(-) Reciprocal cross holdings in CET1 Capital	-	-
___(-) Excess of deduction from AT1 items over AT1 Capital	- 7 676	- 9 504
___(-) Qualifying holdings outside the financial sector which can alternatively be subject to a 1,250 % risk weight	-	-
___(-) Securitisation positions which can alternatively be subject to a 1250 % risk weight	-	-
____(-) Free deliveries which can alternatively be subject to a 1,250 % risk weight	-	-
___(-) Positions in a basket for which an institution cannot determine the risk weight under the IRB approach, and can alternatively be subject to a 1,250 % risk weight	-	-
___(-) Equity exposures under an internal models approach which can alternatively be subject to a 1,250 % risk weight	-	-
___(-) CET1 instruments of financial sector entities where the institution does not have a significant investment	-	-
___(-) Deductible deferred tax assets that rely on future profitability and arise from temporary differences	-	-
___(-) CET1 instruments of financial sector entities where the institution has a significant investment	-	-
___(-) Amount exceeding the 17,65 % threshold	-	-
___Other transitional adjustments to CET1 Capital	- 9 357	- 4 736
___Additional deductions of CET1 Capital due to Article 3 CRR	-	-
___CET1 capital elements or deductions — other	**-**	**-**
ADDITIONAL TIER 1 CAPITAL (AT1 CAPITAL)	-	-
__Capital instruments eligible as AT1 Capital	-	-

___Paid up capital instruments	-	-
____ Memorandum item: Capital instruments not eligible	-	-
____ Share premium	-	-
___(-) Own AT1 instruments	-	-
_____ (-) Direct holdings of AT1 instruments	-	-
_____ (-) Indirect holdings of AT1 instruments	-	-
____ (-) Synthetic holdings of AT1 instruments	-	-
___ (-) Actual or contingent obligations to purchase own AT1 instruments	-	-
___Transitional adjustments due to grandfathered AT1 Capital instruments	-	-
___Instruments issued by subsidiaries that are given recognition in AT1 Capital	-	-
___Transitional adjustments due to additional recognition in AT1 Capital of instruments issued by subsidiaries	-	-
___(-) Reciprocal cross holdings in AT1 Capital	-	-
___(-) AT1 instruments of financial sector entities where the institution does not have a significant investment	-	-
___(-) AT1 instruments of financial sector entities where the institution has a significant investment	-	-
___(-) Excess of deduction from T2 items over T2 Capital	-	-
___Other transitional adjustments to AT1 Capital	- 7 676	- 9 504
__Excess of deduction from AT1 items over AT1 Capital (deducted in CET1)	7 676	9 504
__Additional deductions of AT1 Capital due to Article 3 CRR	-	-
__AT1 capital elements or deductions — other	**-**	**-**
_TIER 2 CAPITAL (T2 CAPITAL)	27 538	27 231
__ Capital instruments and subordinated loans eligible as T2 Capital	28 181	28 181
__Paid up capital instruments and subordinated loans	28 181	28 181
____ Memorandum item: Capital instruments and subordinated loans not eligible	- 40	-
____ Share premium	-	-
____ (-) Own T2 instruments	-	-
____(-) Direct holdings of T2 instruments	-	-
___(-) Indirect holdings of T2 instruments	-	-

____ (-) Synthetic holdings of T2 instruments	-	-
___(-) Actual or contingent obligations to purchase own T2 instruments	-	-
__Transitional adjustments due to grandfathered T2 Capital instruments and subordinated loans	-	-
__Instruments issued by subsidiaries that are given recognition in T2 Capital	-	-
__Transitional adjustments due to additional recognition in T2 Capital of instruments issued by subsidiaries	-	-
___IRB Excess of provisions over expected losses eligible	-	-
__SA General credit risk adjustments	-	-
__(-) Reciprocal cross holdings in T2 Capital	-	-
___(-) T2 instruments of financial sector entities where the institution does not have a significant investment	-	-
___(-) T2 instruments of financial sector entities where the institution has a significant investment	-	-
___Other transitional adjustments to T2 Capital	- 643	- 949
__Excess of deduction from T2 items over T2 Capital (deducted in AT1)	-	-
__(-) Additional deductions of T2 Capital due to Article 3 CRR	-	-
__T2 capital elements or deductions — other	-	-

Table 3: Components of own funds under Pillar 1 (K&H Bank and K&H Group)

Leverage ratio	2015.10.31	2015.11.30	2015.12.31
SFT exposure according to CRR 222	21	1 233	455
Derivatives	76 421	76 421	76 421
Undrawn credit facilities, which may be cancelled unconditionally at any time without notice	77 074	75 196	69 664
Medium/ low risk trade related off-balance sheet items	0	0	0
Medium risk trade related off-balance sheet items and officially supported export finance related off-balance sheet items	0	0	0
Other off-balance sheet items	464 453	482 291	494 483
Other assets	2 541 610	2 604 761	2 685 190
Tier 1 capital	158 699	158 424	179 827
Regulatory adjustments excluding regulatory adjustments on our own credit risk	-13 742	-13 815	-14 258
Leverage ratio	**5,04%**	**4,91%**	**5,43%**
Leverage ratio calculated as a simple mathematical average			**5,13%**

Table 4: Leverage ratio (K&H Bank)

Leverage ratio	2015.10.31	2015.11.30	2015.12.31
SFT exposure according to CRR 222	21	1 233	455
Derivatives	76 421	76 421	76 421
Undrawn credit facilities, which may be cancelled unconditionally at any time without notice	77 074	75 196	69 664
Medium/ low risk trade related off-balance sheet items	0	0	0
Medium risk trade related off-balance sheet items and officially supported export finance related off-balance sheet items	0	0	0
Other off-balance sheet items	464 453	482 291	494 483
Other assets	2 541 610	2 604 761	2 685 190
Tier 1 capital	158 699	158 424	179 827
Regulatory adjustments excluding regulatory adjustments on our own credit risk	-13 742	-13 815	-14 258
Leverage ratio	**5,04%**	**4,91%**	**5,43%**
Leverage ratio calculated as a simple mathematical average			**5,13%**

Table 5: Leverage ratio (K&H Group)

ICAAP Strategy, Process (CRR Article 438 /a)

The KBC Group considers ICAAP an ideal step to gradually move the whole group towards high level and reliable risk management procedures, Consequently, KBC does not consider ICAAP a separate regulatory burden but a tool that may have a major role in achieving the above objective. This is why the KBC Group considers it important to have a well-founded ICAAP approach. Internal procedures and systems must be elaborated that ensure the availability of sufficient funding for a long term, paying sufficient attention to each important risk.

In 2007 KBC developed an ICAAP procedure for the whole group which was renewed in 2015. The procedure contains internal models for measuring capital requirements, more specifically economic capital[2]. This ensures the set funding ratio at KBC, which is associated with the predefined reliability level of default in economic sense.
Under Pillar 2, the KBC Group uses the ICM model to calculate the total economic capital requirement. The model has also been implemented in the K&H Group, K&H calculates economic capital for 4 risk types for the same time horizon and confidence level, they are the building blocks of ICM.

[2] The concept of economic capital is different from own funds as own funds refers to the minimum level of necessary and mandatory capital required by the regulators to be maintained by the institution; economic capital is the closest estimate of the required amount of capital that the financial institutions use internally to manage their own risks and distribute the costs of maintenance of own funds within the various units or between the members of the organisation.

Chapter III – Risk governance and risk management at K&H

(CRR Article 435)

Risk governance

The KBC Group's value and risk management governance model seeks to define the responsibilities and tasks of various bodies and persons within the organization with a view to ensuring the sound management of value creation and of the associated risks to which both the banking and insurance businesses are exposed. The effective risk management process ensures that all the material risks of the institution are addressed.

The K&H governance model defines the responsibilities and tasks required for the management of value creation and of all the associated risks. Similarly to the KBC Group's standards, the K&H Group's risk governance model is organized in three tiers:

Tier I: Overarching company and risk committees

Board of Directors (BoD)
The BoD is responsible for formulating the Bank's long-term strategy, and manages and monitors the Bank's operations.

Within the Board of Directors, two committees have been set up: the Audit, Risk and Compliance Committee, and the Remuneration Committee.

> The **Risk and Compliance Committee (RCC)** is a discussion forum for the Bank's management, members of the management delegated to the Board of Directors, as well as internal auditors of K&H and the shareholders.
> The Risk and Compliance Committee supervises, on behalf of the Board, the integrity, efficiency and effectiveness of the internal regulatory measures and the risk management in place, paying special attention to correct financial reporting, and overseeing the company's processes to comply with laws and regulations. The Committee meets 4 times a year.

The **Remuneration Committee (RC)** approves the Bank's remuneration policy as well as the salaries of the Bank's senior managers. (Fringe benefits salaries are regulated by the Bank's remuneration policy.) The Committee has 3 members and met 2 times in 2015. (March 12, 2015; June 16, 2015)

The management of K&H subsidiaries (Group members) is independent in legal terms. However, adherence to a common Group strategy is ensured by the presence of members of the K&H Board of Directors on the subsidiaries' Supervisory Boards.

The Board of Directors and the Risk and Compliance Committee have an important role to play in value creation and risk governance. Regular reporting to the Risk and Compliance Committee ensures that there is an ample flow of information to the relevant members of the Board over the course of the year.

The **Executive Committee (EXCO)** is the body in control of the operations of the Bank and a decision-making and consulting forum for the top management of the Bank. This is an executive body responsible for the implementation of Group strategy in all business segments.

The Executive Committee is responsible for the implementation of the value and risk management strategy, and outlines the structure to allow risk management tasks to be carried out and makes the necessary resources available. A Chief Risk Officer (CRO) has been appointed within the EXCO and entrusted with the specific task of supervising risk management and the internal control structure. The

Executive Committee is always informed about the topics raised on the below mentioned Risk Committee through the ratification of meeting minutes.

The **Capital and Risk Oversight Committee (CROC)** is to assist the Executive Committee of the K&H Bank Group with the operation, implementation and application of an overall risk management framework that meets the expectations of internal and external stakeholders and complies with applicable laws and regulations. The CROC is the single integrating committee on risk and capital matters that supports, and leverages the time of, the Executive Committee of the K&H Bank Group. The CROC can rely on support from one or more Risk Councils that act as advisory forums for specific risk areas. The committee is chaired by the Chief Risk Officer.

The **Crisis Preparation Committee (CrisPreCo)** is charged with managing the preparations for risk events (crises) that pose a significant threat to the Bank's operations, and monitor the status of the related tasks. The committee is chaired by the Chief Risk Officer.

The **Crisis Committee (CrisCo)** is a committee to take control whenever a crisis actually occurs, manage decision making as well as internal and external communication, give instructions and monitor the execution of the individual Business Continuity Processes (BCPs) to be followed in a given crisis event and, as the case may be, also of the Recovery Plan. The members of the Crisis Committee are the Executive Committee and the managers with the expertise in handling the given crisis event.

New and Active Products Process (NAPP). The purpose of the NAPP is to establish across K&H Group a smooth but robust and transparent process for approving new and regularly reviewing existing products whereby commercial aspects are balanced against risk and operational matters. All existing products on offer are reviewed at regular intervals to make sure that they are still appropriate from a commercial and risk management perspective in an ever changing world.

Tier II: Specialized risk councils

- **Credit risk council (CRCs).** The CRCs' role is to assist the ExCo and CROC of K&H Bank Group with the operation, implementation and application of a credit risk management framework that meets the expectations of internal and external stakeholders and complies with applicable laws and regulations. The CRCs are the preliminary discussion and advisory forum for all credit risk-related activities of the K&H Bank Group in close collaboration with line management, which is primarily responsible and accountable for credit risk management. The CRCs are chaired by the Bank's Chief Risk Officer.

- **Trading risk council (TRC).** The TRC's role is to assist the ExCo and CROC of K&H Bank Group with the operation, implementation and application of a trading risk management framework that meets the expectations of internal and external stakeholders and complies with applicable laws and regulations. The TRC is the preliminary discussion and advisory forum for all trading risk-related activities of the K&H Bank Group in close collaboration with line management, which is primarily responsible and accountable for trading risk management. The TRC is chaired by the Bank's Chief Risk Officer.

- **Operational Risk Councils (ORCs).** The ORCs' role is to assist the ExCo and CROC of K&H Bank Group with the operation, implementation and application of an operational risk management framework that meets the expectations of internal and external stakeholders and complies with applicable laws and regulations. The ORCs are the preliminary discussion and advisory forum for all operating risk-related activities of the K&H Bank Group in close collaboration with line management, which is primarily responsible and accountable for operational risk management. The councils are chaired by senior line managers.

In addition to the above-mentioned committees, the key governing bodies of K&H are:

- **Country Team Hungary (CT-H, since January 2007).** This is a group of the top managers of K&H Group and K&H Insurance who are in key managerial positions in Hungary (members of the Board of Directors or persons holding other important top managerial positions). The goal of the Country Team is to improve mutual communication among managers and coordinate the

KBC Group's principal activities in Hungary. The Country Team is headed by a Country Manager, who reports to the CEO of the Central Europe Business Unit.

- **Management Committee International Markets (MC IM, since January 2013).** The goal of the MC IM is to improve mutual communication among the Country Teams and coordinate the KBC Group's principal activities in Central and Eastern Europe and Ireland.

Risk management

Risk management makes it possible for senior management to effectively deal with uncertainty and with the related risks and opportunities, enhancing capacity to build value. Therefore, in both the KBC Group and the K&H Group, risk management is based on the following fundamental principles:

- Value, risk and capital management are closely linked to one another. KBC entities must have adequate capital to be able to deal with any unforeseen consequences of adverse market developments.

- Risk management should be approached from a comprehensive, company-wide angle, taking into account all the risks the company is exposed to and all the activities it engages in. Policies and methodologies must be coherent and consistent throughout the KBC Group.

- Every significant subsidiary is required to adhere to the same risk governance model as the parent company (KBC), which – in terms risk management – is based on the following underlying principles: primary responsibility for value and risk management lies with line management, while a separate organizational unit – operating independently of line management – performs an advisory, supporting and supervisory role.

Risk policy

The KBC Group has relied on its fundamental attitude to risk and risk management in approaching the key issues and defining general strategic conditions for the organization. Consequently, it has drawn up a group-wide strategy and policy with regard to risk and capital.

The following high-level policies form the basis for risk strategy in the KBC Group:

- Maintain an environment where all significant and material risks are identified, assessed, controlled, managed, reported and monitored.
- Have independent supervision in place to govern risk-taking activities, with clearly established responsibilities and accountability.
- Follow an open risk culture that is designed to effectively facilitate timely risk mitigation.
- Optimize risk-return in a controlled manner at high standards.

The foundations of risk management

In accordance with the policies above, the following basic principles form the foundations of risk management at the KBC Group:

- A single, consistent approach should be taken to value, risk and capital management within the group.
- A single, global risk governance model applies to all entities, in accordance with the proportionality principle.
- Value and risk management has advisory, supporting and monitoring tasks and operates independently of business lines.
- KBC Group implements new risk management techniques as soon as they are considered to be industry standards.

The role of “line management”

According to the risk governance model applied throughout the KBC Group, line management has primary responsibility for value and risk management, which includes the following tasks:

- being accountable for risk management and risks incurred within its area of responsibility to superiors in the management structure and to the senior management of the legal entity;
- ensuring that the risk management framework applicable to its business line is embedded in policies and procedures and communicated to the staff;
- taking measures to manage the risks that are not (yet) addressed in the risk management framework; additionally, reporting shortcomings in compliance with the bottom-up communication line applicable to its business;
- delivering risk data in the required format and by specified deadlines to the local Value and Risk Management unit and ensuring their integrity by performing the specified controls.

The role of “value and risk management”

Value and Risk Management (VRM) is part of the CRO Services Division, and is tasked with resolving value, risk and capital management issues independently of business lines. VRM has an advisory, supporting and supervisory role with respect to risk management according to the KBC Group standards.

Although efficient cooperation between line management and Value and Risk Management is indispensable, Value and Risk Management operates independently of business lines. The Risk Management departments assist business lines in taking calculated risks, thus assuming an advisory, supporting and monitoring role.

The departments report to the CRO and assist the CRO in performing his activities, namely value, risk and capital management. Therefore this organizational unit provides the *“risk control”* function at the different KBC Group entities.

By approving the 2014 “Internal Control Statement” the K&H governing body has confirmed that the risk management system in place is compliant in light of the profile and strategy of the institution. On 26 November 2014 the K&H governing body approved the “Risk Appetite” document, which briefly presents the general risk profile of the institution related to the business strategy it applies, and based on which the risk profile of the institution is in line with the risk appetite defined by the governing body.

Credit risk

Credit risk management refers to the structural and repetitive tasks performed with regard to the identification, measurement and reporting of credit risks. Credit risk is managed by means of rules and procedures approved by the Executive Committee that govern the acceptance process for new loan and limit applications, the process of monitoring and supervising credit risks, and portfolio management.

Framework for credit risk management and governance at KBC

Credit risk management decisions are taken by the Capital and Risk Oversight Committees organized at group level (Group CRC) and/or at local level (local CRC) (with approval from the group-level or local Executive Committee (ExCo)).

The ultimate responsibility of credit risk management lies with line management, which is assisted by several activity-specific committees. A separate credit risk unit is established may have an advisory, supporting and supervisory role with respect to credit risk management.

The significant entities in the KBC Group must implement a credit risk governance structure that includes a risk committee and a credit risk management unit that is independent of the business. K&H complies with these requirements.

Credit risk is managed at two levels: transaction and portfolio level. Managing credit risk at the transaction level means that there are sound procedures, processes and applications in place to assess and monitor risks before and after the given credit exposures are accepted. Managing the risk at the portfolio level entails risk assessment, monitoring and reporting on (parts of) the consolidated loan portfolio.

Rating systems (CRR Articles 442, 444 and 452)

A key element of measuring credit risk is having a credit rating system. K&H uses several credit risk models – developed in-house or by KBC – to determine the Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD) for different debtors or facilities.

Financial institutions are required to perform a rating exercise including the analysis of the client's financial position, creditworthiness, and future solvency, as well as the valuation of the collaterals pledged in order to measure credit risks associated with the business activity. Credit institutions justify their debtor and/or debt rating decisions based on several aspects. All client and facility ratings must be reviewed regularly, but at least once a year. During this review process it is possible to assess and identify the changes in the counterparty's creditworthiness, including any change in collateral characteristics.

Internal ratings are available for all counterparties in the K&H portfolio.

External ratings used under the standardized approach may be accepted from the following external credit rating agencies: Standard & Poor's, Fitch and Moody's. K&H does not use the external ratings of export credit agencies. The following ratings of the Hungarian State have been considered: Standard and Poor's: BB; Moody's: Ba1; Fitch: BB+ (credit rating: 4).

Debtor ratings are based on the obligor's probability of default (PD). The KBC Group has defined default as a situation where full repayment at maturity is (at least) uncertain. There are three categories of default, depending on the extent the obligor is performing its liabilities still outstanding and on the chances of recovering the loan.

The KBC Group applies a single group-wide PD rating scale to all counterparties. External ratings provided by rating agencies (Standard & Poor's, Fitch, Moody's) are also mapped to this master scale. There are nine PD rating categories for counterparties "not in default" (PD 1-9) and, as mentioned above, three PD rating categories for counterparties in default (PD10: possible loss - performing; PD11: possible loss – non-performing; PD12: irrecoverable).

The Bank has also developed loss given default and exposure at default calculation models for the corporate segment, which are also used in business processes.

The bank implemented the so called Forborne definition, which replaces the standing restructured definition. The main difference compared to the previous definition is the Forbearance affects distressed clients. This means that clients affected with forbearance can not be rated as performing, they have to at least be put into PD 10 category. The details of Forbearance can be found in EBA ITS Definition of Forbearance (EBA ITS 2013/03).

In the retail segment, ratings are assigned at pool level, that is, on the basis of grouping together exposures with similar characteristics. Debtor rating in the consumer segment is performed with the help of different scorecard models such as application scorecards and behavioral scorecards, which K&H uses as inputs for pool-level credit risk models. Separate models are used to estimate the other credit risk parameters (i.e. LGD and EAD) of retail exposures.

Loans past due comprise the assets that the client failed to settle at the due date (even if the delay is one day only).

When preparing its balance sheet, the Group always reviews whether it needs to recognize impairment on its financial assets. A financial asset or a group of financial assets can be considered impaired if – and only if – there are objective external factors that result from events occurring after the purchase of the asset, such events have an impact on the estimated future cash flow of the financial asset or group of financial assets, and such impact can be estimated reliably. The impairment recognized on financial assets must be used when the asset is derecognized because it is irrecoverable or its title is transferred. The objective external factors underlying impairment may be the following signals: the borrower or borrower group is facing significant financial difficulties, interest payments or principal repayments are made late or missed, bankruptcy or some other financial restructuring is likely, and where the available data show a tangible decrease in the estimated future cash flow, such as a failure to pay, or economic conditions that correlate with insolvency.

Credit risk limits

Maximum credit risk exposure and/or credit risk concentration is managed and monitored via limits, which define the maximum credit risk exposure allowed in terms of a specific measurement approach.
Transactions that carry a credit risk may only be entered into if authorized by a positive credit decision, which will stipulate, among others, the maximum acceptable credit risk exposure (limit), which may refer to:

- Case-by-case approval for a given transaction (a given counterparty);
- A pre-approved limit for all the transactions of a particular risk type.

Limits at individual counterparty level

In addition to the limit types above, an overall KBC Group limit (as decided by the KBC Group Executive Committee) also applies to corporate exposures in terms of Loss Given Default (LGD) and Expected Loss (EL). These are “hard limits”, which means that immediate action is required if such limit is or would be exceeded.

Apart from the limits defined internally at debtor/guarantor/counterparty and country level, large exposure limits are also monitored in compliance with applicable law.

Limits at group/sector/portfolio level

The limits assigned to client groups and sectors/portfolios are designed to define the maximum desirable exposure concentration for client groups, industry sectors, etc. These limits are not approved individually for each client but apply to all clients that fit the scope of the particular limit (e.g. a given industry sector).

The Credit Risk Department prepares a report for senior management on the total consolidated loan portfolio of K&H on quarterly basis; the report covers both the retail and non-retail (i.e., corporate 3 SME) segments. The so-called Quarterly Credit Risk portfolio report is intended for the Credit Risk Council and the Country Team.

The so-called Integrated Risk report, prepared for the Country Team on a monthly basis, is aimed at presented and monitoring credit risk, among others.

The credit management functions prepare monthly reports on the following segments:

- Retail
- SME
- Corporate

Exposure class (HUF million)		Exposure	Net exposure	RWA
IRB	Central governments and central banks	14 855	12 008	11 654
	Institutions	126 248	124 534	48 958
	Corporates	480 143	405 828	461 754
	Small and medium-sized enterprises	473 807	277 327	377 962
	Retail mortgages	501 865	230 654	133 461
	Retail other	52 863	52 863	34 801
TOTAL		**1 649 780**	**1 103 214**	**1 068 590**

Exposure class (HUF million)		Exposure	Net exposure	RWA
Standard	Central governments and central banks	1 198 780	1 198 780	-
	Corporates	712	712	573
	Retail	6 804	6 804	5 103
	Past due	597	597	606
	Other	161 425	161 425	65 345
TOTAL		**1 368 318**	**1 368 318**	**71 626**

Table 6: Loan portfolio by exposure class (K&H Bank) CRR Article 442/c

Exposure class (HUF million)		Exposure	Net exposure	RWA
IRB	Central governments and central banks	5 869	3 023	6 471
	Institutions	113 476	111 763	47 023
	Corporates	446 968	372 653	405 944
	Small and medium-sized enterprises	473 807	277 327	377 990
	Retail mortgages	502 567	231 356	133 391
	Retail other	52 863	52 863	34 801
TOTAL		**1 595 550**	**1 048 984**	**1 005 620**

Exposure class (HUF million)		Exposure	Net exposure	RWA
Standard	Central governments and central banks	1 229 501	1 229 501	-
	Institutions	3	3	1
	Corporates	12 625	12 625	12 248
	Retail	6 804	6 804	5 103
	Past due	597	597	606
	Other	167 363	167 363	80 189
TOTAL		**1 416 892**	**1 416 892**	**98 147**

Table 7: Loan portfolio by exposure class (K&H Group) CRR Article 442/c

A more detailed breakdown of the loan portfolio is provided in the appendix.

Once risks have been identified, measured, monitored and reported, it is the responsibility of both line management and committees to respond, i.e. to bring risks in line with the risk appetite.

Risk avoidance can be achieved by the introduction of credit policies (e.g. forbidding credit risk resulting from lending to specific borrowers), withdrawing or reducing limits (e.g. suspending country limits upon actions of monetary authorities) or deciding to stop certain activities (e.g. when risk and return are not in balance).

Main factors of 2015: corporate portfolio is stable, shows some signs of improvement. SME portfolio also showed signis of improvement, the main cause of which are FFG deals, which impacted the performing portfolio in a positive way. Quality of FFG portfolio remains stable. The deterioration of the retail portfolio stopped in 2015. This was due to two main factors. On one part the the high level of new disbursements, which increased the performing portfolio. Also write off and debt sales were especially effective during the year, which decreased the non performing portfolio. New disbursements were able to counterbalance the natural amortization, and debts sales, of the portfolio.

Credit risk adjustments (CRR Article 442)

Corporate segment

The Bank uses the *"normal rating procedure"* for all receivables related to corporate clients, that is, all the aspects specified in applicable law are taken into account during the rating process. K&H does not apply the *"group valuation procedure"* in the corporate segment, thus all items are rated manually, using the *"individual valuation procedure"* in all cases.

Valuation is performed on a quarterly basis unless the Bank obtains new, negative information concerning the client's financial position or the collaterals pledged, which triggers an extraordinary review of the rating categories of the client and all of its exposures. Impairment and provisions are calculated on the basis of *"gross risk"*.

SME segment

In the case of SME clients, the rating classification is based on the *"group valuation procedure"* by default, considering the relatively high number of exposures in this segment. As provided for by applicable law, K&H uses the *"simplified rating procedure"* for this purpose. Classifications are revised automatically on a monthly basis, and the results are reported to senior management.

The rating process also takes into consideration past due status and the collaterals. An indicator derived from the "*net risk*" serves as the final basis for classifying the exposures for SME clients and is also used to calculate the required level of impairment and provisions to be recognized on these exposures. As a consequence, impairment loss and provisions are determined on the basis of *"net risk"*.

In the case of exposures related to clients managed by the Special Credits Department, rating classification and the calculation of the required level of impairment loss provisions is based on the "*individual valuation procedure*" applied to corporate clients.

Retail segment

The Bank uses the *"simplified rating procedure"* for all its retail receivables. By default, the Bank assigns retail items into *"valuation groups"* in accordance with the rules of the *"group valuation procedure"* prescribed by Hungarian law. The Bank defines the *"valuation groups"* in such a way that transactions with similar characteristics are included in the same group.

In the case of the *"group valuation procedure"*, items are assigned to *"valuation groups"* automatically, and impairment and provisions are also calculated automatically during the preparation of the regular portfolio reports by the Consumer MIS and Modelling Unit, i.e., there is no need for a separate proposal or decision of a competent authority.
In addition to the default *"group valuation procedure"*, in certain special cases the Bank uses the *"simplified rating procedure"* as part of the *"individual valuation procedure"*, whereby the Bank decides the rating of each transaction individually, on a case-by-case basis, also determining the required level of impairment and provisions. The rating of receivables under the *"individual rating procedure"* is reviewed each quarter based on the previously determined *"asset rating categories"* and the required impairment and provisions.

HUF million	Opening 01.01.2015	Recognized	Released	Used	Discount effect	FX revaluation	Closing 31.12.2015.
Impairment	56 439	66 587	-76 099	-18 833		7 411	100 667
Provisions	0	2 561	-1 455			-28	6 438
Total	253 922	138 296	-155 108	-37 666	0	14 766	214 210

Table 8: *Changes in value adjustments and provisions during the year (K&H Bank)*

HUF million	Opening 01.01.2015	Recognized	Released	Used	Discount effect	FX revaluation	Closing 31.12.2015.
Impairment	120 629	45 420	-34 656	-18 874	-376	-61 916	50 227
Provisions	4 659	3 305	-1 782	0	7	23	6 212
Total	125 288	48 725	-36 438	-18 874	-369	-61 893	56 439

Table 9: *Changes in value adjustments and provisions during the year (K&H Group)*

Exposure class (HUF million)	Original exposure pre credit conversion factors	Value adjustment and provisions
Central governments and central banks	1 234 608	258
Corporates	620 356	10 563
Institutions	127 015	5 456
Retail mortgages	499 518	67 631
Retail other	63 304	9 947
Small and medium-sized enterprises	520 180	13 037
Other	-	-
TOTAL	**3 064 981**	**106 892**

Table 10: Loan portfolio affected by value adjustments and provisions, by exposure class (K&H Bank)

Exposure class (HUF million)	Original exposure pre credit conversion factors	Value adjustment and provisions
Central governments and central banks	6	5
Corporates	75,857	23,187
Institutions	0	0
Retail mortgages	548,175	73,199
Retail other	31,905	11,045
Small and medium-sized enterprises	25,28	17,182
Other	0	0
TOTAL	**681,223**	**124,619**

Table 11: Loan portfolio affected by value adjustments and provisions, by exposure class (K&H Group)

Continent (HUF million)	Original exposure pre credit conversion factors	Value adjustment and provisions
Central Eastern Europe	2 923 109	101 436
Asia	8 614	4 652
Africa	91	-
Middle East	439	-
North America	16 975	-
Australia and Oceania	41	-
Western Europe	115 483	804
Latin Amerika	229	-
TOTAL	**3 064 981**	**106 892**

Table 12: Loan portfolio affected by value adjustments and provisions, by continent (K&H Bank)

Continent (HUF million)	Original exposure pre credit conversion factors	Value adjustment and provisions
Central Eastern Europe	2 967 608	107 847
Asia	291	-
Africa	85	-
Middle East	439	-
North America	4 076	-
Australia and Oceania	41	-
Western Europe	52 574	-
Latin Amerika	115	-
TOTAL	**681**	**106 892**

Table 13: Loan portfolio affected by value adjustments and provisions, by continent (K&H Group)

Country (HUF million)	Original exposure pre credit conversion factors	Value adjustment and provisions
Hungary	2 905 565	101 436
Belgium	61 614	804
Austria	22 054	-
United States	16 912	-
Other	58 835	4 652
TOTAL	**3 064 981**	**106 892**

Table 14: Loan portfolio affected by value adjustments and provisions, by country (K&H Bank)

Country (HUF million)	Original exposure pre credit conversion factors	Value adjustment and provisions
Hungary	2 957 008	107 847
Belgium	22 054	-
Austria	13 583	-
United States	7 416	-
Other	25 167	-
TOTAL	**3 025 228**	**107 847**

Table 15: Loan portfolio affected by value adjustments and provisions, by country (K&H Group)

Sector (HUF million)	Original exposure pre credit conversion factors	Value adjustment and provisions
Authorities	1 171 783	258
Distribution & Traders	275 264	8 102
Agriculture Farming Fishing & Food	194 258	3 136
Finance & Insurance	190 021	1 114
Building & Construction	92 379	452
Automotive	84 659	432
Services	82 916	1 246
Energy Electricity & Water	76 080	4 749
Chemicals	61 412	393
Commertial Real estate	50 589	2 661
Textile Timber & Paper	45 544	125
Metals Machinery & Heavy Equipment	44 977	2 329
Shipping & Aviation	32 815	536
HORECA	29 648	1 323
IT & Electronics	28 360	1 494
Media & Telecom	6 046	160
Private Persons	178	-
Other	598 053	78 383
Grand Total	**3 064 981**	**106 892**

Table 16: Loan portfolio affected by value adjustments and provisions, by sector (K&H Bank)

Sector (HUF million)	Original exposure pre credit conversion factors	Value adjustment and provisions
Authorities	1 195 533	5
Distribution & Traders	191 805	3 136
Agriculture Farming Fishing & Food	189 365	1 114
Finance & Insurance	123 193	2 647
Building & Construction	92 678	477
Automotive	84 712	432
Services	76 211	1 373
Energy Electricity & Water	76 082	4 749
Chemicals	57 752	393
Commertial Real estate	50 589	2 661
Textile Timber & Paper	45 597	125
Metals Machinery & Heavy Equipment	45 194	2 329
Shipping & Aviation	42 314	536
HORECA	29 648	1 323
IT & Electronics	28 376	1 494
Media & Telecom	6 029	160
Private Persons	178	-
Other	689 972	84 894
Grand Total	**3 025 228**	**107 847**

Table 17: Loan portfolio affected by value adjustments and provisions, by sector (K&H Group)

A more detailed breakdown of these figures by exposure class is presented in the appendix.

(HUF million)	2014			2015		
	Expected loss	Impairment and provisions	Credit risk adjustments in the period	Expected loss	Impairment and provisions	Credit risk adjustments in the period
Retail mortgages	75 729	74 505	- 7 922	68 959	67 593	- 10 977
Retail other	7 098	12 444	- 2 318	2 281	10 018	545
Businesses	28 919	3 834	- 4 886	27 859	30 976	- 1 856
Total	111 746	125 288	- 15 127	99 100	108 587	- 12 288

Table 18: Estimated and actual losses (K&H Group)

The capital requirement of credit risk

Until 2010 the K&H Group had used the *"standardized approach"* to calculate the capital requirement of credit risk. Since 1 January 2011 the Bank has been using the *"internal ratings based (IRB) approach"* to determine its capital requirement (except for sovereign and leasing exposures and other items). Both in the retail and non retail segments the capital requirement is based on in-house estimates of PD, LGD and CCF risk parameters (Advanced IRB approach). Home-host joint decision of the National Bank of Belgium and Hungarian National Bank licensed K&H Banking Group the use of IRB Advanced method for non-retail segment as of the third quarter of 2015. (TF/2015/25/KND)

(HUF million)	Original exposure pre credit conversion factors	Risk-weighted exposure	Capital requirement
Balance sheet items (1)	2 671 779	906 697	72 536
Off-balance sheet items (2)	346 319	233 519	18 682
Lending (1+2)	**3 018 097**	**1 140 216**	**91 217**
Repos	76 421	32 714	2 617
Derivative transactions	13 411	2 751	220
TOTAL	**3 017 929**	**1 175 681**	**94 054**

Table 19: Capital requirement of credit risks (K&H Bank)

(HUF million)	Original exposure pre credit conversion factors	Risk-weighted exposure	Capital requirement
Balance sheet items (1)	2 645 236	879 093	70 327
Off-balance sheet items (2)	367 206	224 672	17 974
Lending (1+2)	**3 012 442**	**1 103 765**	**88 301**
Repos	76 408	32 752	2 620
Derivative transactions	13 411	3 680	309
TOTAL	**3 102 261**	**1 140 378**	**91 230**

Table 20: Capital requirement of credit risks (K&H Group)

Exposure class (HUF million)		Original exposure pre credit conversion factors	Risk-weighted exposure	Capital requirement
IRB	Central governments and central banks	35822	11654	932
	Institutions	127015	48958	3917
	Corporates	618983	461754	36940
	Small and medium-sized enterprises	520180	377962	30237
	Retail mortgages	499518	133461	10677
	Retail other	47974	34801	2784
Standard	Central governments and central banks	1198785	0	0
	Corporates	1372	687	55
	Retail other	15 330	5594	448
	Other	161684	65345	5228

Table 21: Capital requirement of the loan portfolio by exposure class (K&H Bank) CRR Article 438

Exposure class (HUF million)		Original exposure pre credit conversion	Risk-weighted exposure	Capital requirement
IRB	Central governments and central banks	22859	6471	518
	Institutions	113752	47023	3762
	Corporates	565499	405944	32475
	Small and medium-sized enterprises	516647	377990	30239
	Retail mortgages	500221	133391	10671
	Retail other	47974	34801	2784
Standard	Central governments and central banks	1229506	0	0
	Institutions	3	1	0
	Corporates	13438	12362	989
	Retail Other	15330	5594	448
	Other	167622	80189	6415

Table 22: Capital requirement of the loan portfolio by exposure class (K&H Group) CRR Article 438

Counterparty credit risk (CRR Article 439)

K&H defines counterparty credit risk as the credit risk resulting from over-the-counter (i.e., off-exchange) transactions such as foreign exchange or interest rate swaps, Credit Default Swaps (CDS), and caps/floors.

The pre-settlement counterparty credit risk is the sum of the (positive) current replacement value (marked-to-market) of a transaction and the applicable add-on (= current exposure method).

Counterparty limits are set for each individual counterparty taking into account the general rules and procedures set out in the K&H Group's applicable documents. The Bank keeps track of risks through a daily monitoring report, which is available to all Bank employees on the Bank's intranet. Dealers are obliged to carry out a pre-transaction check before entering into any transaction using "heavy" add-ons, which are higher than the regulatory add-ons.

The clients of K&H enter into derivative transactions for hedging purposes, so the impact of adverse risks is negligible, as any deterioration in clients' positions is offset by the improvement in their export-import balance.

Close-out netting and collateral techniques are used in the internal limit utilization monitoring process to manage counterparty risk. When derivative transactions are secured by a cash deposit, the Bank manages the collateral on a bilateral basis, which is not affected by any downgrade. Netting benefits are used in the capital calculation procedure for OTC derivatives but the but mitigation through collateral is not yet used due to system constraints, so they are not included in the table below.

Transaction type	Mark-to-market	Add-on	Counterparty exposure	Notional value of contracts	Capital requirement
Credit derivatives	**-**	**-**	**-**	**-**	**-**
CDS bought – trading portfolio	-	-	-	-	-
CDS sold – trading portfolio	-	-	-	-	-
Other	-	-	-	-	-
Interest rate-related transactions	**33 044**	**7 989**	**55 155**	**910 816**	**1 934**
Interest rate swaps	29 539	5 328	48 989	702 559	1 786
Caps/floors	3 505	2 661	6 166	208 257	148
Other	0	0	0	0	0
FX-related transactions	**4 860**	**15 192**	**21 266**	**402 966**	**683**
FX forwards	195	1 413	1 728	47 593	78
FX swaps	1 076	4 651	6 201	223 562	97
CIRS	2 756	8 365	11 741	127 944	393
Other	833	762	1 595	3 867	116
Equity-related transactions	**-**	**-**	**-**	**-**	**-**
Equity swaps	-	-	-	-	-
Equity options	-	-	-	-	-
Commodity transactions	**-**	**-**	**-**	**-**	**-**
TOTAL gross counterparty risk	**37 904**	**23 180**	**76 421**	**1 313 782**	**2 617**
- Netting benefit	-	-	-	-	-
- Collateral benefit	-	-	-	-	-
TOTAL net counterparty risk	**37 904**	**23 180**	**76 421**	**1 313 782**	**2 617**

Table 23: Capital requirement of counterparty credit risk (K&H Bank)

Transaction type	Mark-to-market	Add-on	Counterparty exposure	Notional value of contracts	Capital requirement
Credit derivatives	**-**	**-**	**-**	**-**	**-**
CDS bought – trading portfolio	-	-	-	-	-
CDS sold – trading portfolio	-	-	-	-	-
Other	-	-	-	-	-
Interest rate-related transactions	**12 745**	**2 617**	**63 086**	**265 261**	**1 840**
Interest rate swaps	10 325	1 234	59 283	145 538	1 694
Caps/floors	2 420	1 384	3 804	119 722	146
Other	0	0	0	0	0
FX-related transactions	**4 758**	**8 213**	**13 322**	**261 601**	**780**
FX forwards	188	1 161	1 452	25 471	71
FX swaps	981	3 457	4 685	104 331	150
CIRS	2 756	3 199	5 955	127 932	448
Other	833	396	1 229	3 867	111
Equity-related transactions	**-**	**-**	**-**	**-**	**-**
Equity swaps	-	-	-	-	-
Equity options	-	-	-	-	-
Commodity transactions	**-**	**-**	**-**	**-**	**-**
TOTAL gross counterparty risk	**17 503**	**10 830**	**76 408**	**526 861**	**2 620**
- Netting benefit	-	-	-	-	-
- Collateral benefit	-	-	-	-	-
TOTAL net counterparty risk	**17 503**	**10 830**	**76 408**	**526 861**	**2 620**

Table 24: Capital requirement of counterparty credit risk (K&H Group)

A breakdown of net counterparty risk is provided below by residual maturity, geographic region (i.e. where the counterparty is located), and industry sector.

Net derivative exposure (HUF million)	Original exposure pre credit conversion factors
<1 year	35 513
1 <= <5 years	33 092
5 <= <10 years	21 226
10 <= years	-
TOTAL	**89 832**

Table 25: Counterparty credit risk by maturity (K&H Bank)

Net derivative exposure (HUF million)	Original exposure pre credit conversion factors
<1 year	25 537
1 <= <5 years	54 197
5 <= <10 years	10 086
10 <= years	-
TOTAL	**89 819**

Table 26: Counterparty credit risk by maturity (K&H Group)

Net derivative exposure (HUF million)	Original exposure pre credit conversion factors
Central and Eastern Europe	40 936
Western Europe	48 895
Asia	0
North America	0
Latin Amerika	0
Middle East	0
Australia and Oceania	0
Africa	0
TOTAL	**89 832**

Table 27: Counterparty credit risk by continent (K&H Bank)

Net derivative exposure (HUF million)	Original exposure pre credit conversion factors
Central and Eastern Europe	84 538
Western Europe	5 281
Asia	0
North America	0
Latin Amerika	0
Middle East	0
Australia and Oceania	0
Africa	0
TOTAL	**89 819**

Table 28: Counterparty credit risk by continent (K&H Group)

Net derivative exposure	Original exposure pre credit conversion factors
(HUF million)	
Authorities	17 441
Unidentified	721
Finance & Insurance	52 423
Fuvarozás és Forgalmazás	939
Agriculture, Farming & Fishing	2 474
Building & Construction	1 171
Automotive	2 512
Services	367
Electricity and Water	72
Chemicals	157
Commercial Real Estate	1 108
Textile & Apparel	383
Machinery & Heavy Equipment	764
Shipping	8 356
Catering Industry	0
IT & Electronics	928
Media & Telecom	16
Private Persons	0
Total	**89 832**

Table 29: Counterparty credit risk by sector (K&H Bank)

Net derivative exposure (HUF million)	Original exposure pre credit conversion factors
Authorities	17 441
Unidentified	44 724
Finance & Insurance	939
Fuvarozás és Forgalmazás	2 474
Agriculture, Farming & Fishing	8 418
Building & Construction	1 171
Automotive	2 512
Services	355
Electricity and Water	72
Chemicals	157
Commercial Real Estate	1 108
Textile & Apparel	383
Machinery & Heavy Equipment	764
Shipping	8 356
Catering Industry	0
IT & Electronics	928
Media & Telecom	16
Private Persons	0
Total	**89 819**

Table 30: Counterparty credit risk by sector (K&H Group)

Application of credit risk mitigation techniques (CRR Article 453)

The acceptance and valuation of collaterals the Bank receives from its clients and the calculation of collateral value must be governed by the principle of conservatism. Before any risk-taking decision the representatives of the business line must verify the existence, fair value and enforceability of the required credit protection and collaterals. In the acceptance and valuation of collaterals must the following prerequisites and factors must be considered:

- The (legal) status of the collateral must be clear and unambiguous in every case.
- When a collateral deposit is accepted, it must be held with a member company of the Bank Group.
- Securities may only be accepted as collateral if they are unconditionally negotiable, can be endorsed and have been deposited with K&H Bank or a member of a K&H Group or the KBC Group.
- In the case of guarantees given by banks and companies and debt securities issued by banks, a country and bank or company limit applicable to the issuer of the guarantee/securities is a prerequisite for acceptance.

In the mitigation of credit risk the Bank may take into account the following types of credit protection, which meet the minimum requirements of eligibility.

Types of funded credit protection that may be taken into account by the Bank:

- financial collateral (collateral deposits in particular)
- physical collateral on real property (mortgages in particular), pledge, lien or purchase option on movable property (e.g. vehicles)

Types of unfunded credit protection that may be taken into account by the Bank (solely pursuant to an individual decision and a specific legal opinion):

- guarantee
- unconditional (first-loss) surety guarantee

The collateral value of a real property that may be taken into account is based on its market value or credit protection value, also considering the regular reviews prescribed by applicable law and any encumbrance arising from any right related to the property that may reduce the value of the property. Therefore, the collateral value of the property cannot exceed its market value. As under applicable law when the internal rating based approach is used, the property must be valued by an independent appraiser – excluding regular, statistics-based property value reviews – only properties whose value has been determined this way are eligible for collateral purposes.

With respect to capital requirement, credit risk mitigation entails the use of methods that may reduce the calculated minimum capital requirement of credit risk. Credit risk may be reduced by a number of risk-mitigating factors, the most important of which are:

- netting and delivery versus payment (DVP) mechanisms
- surety guarantees / collateral received
- credit derivatives (bought credit protection)

K&H does not engage in on-balance sheet netting (i.e., the offsetting of balance sheet items such as loans and deposits), and has not applied close-out netting in capital requirement calculation in relation to counterparty credit risk, either.

With regard to collateral for counterparty risk arising from derivative transactions, collateral is not taken into account in capital requirement calculation due to current K&H system constraints; however, the Bank has a clear internal policy for monitoring and managing collaterals provided to secure derivative transactions. K&H Bank has no credit derivatives.

When making estimates for loss given default, K&H Bank takes into consideration the risk-mitigating effects of certain types of collaterals. Eligible collaterals are governed by an internal regulation and procedures, in compliance with applicable law.

In the retail segment, a Bank's internal model-based LGD parameter estimate depends on the coverage ratio of mortgage-backed exposures. In the non-retail segment, the only types of funded credit protection taken into account in the calculation of the regulatory LGD are the financial collaterals and mortgages that meet the eligibility and minimum requirements set out in applicable law. The risk-mitigating effect of unfunded credit protection (e.g. surety guarantees) are taken into consideration in the PD estimates used in capital requirement calculation. The discount rates of the corporate LGD model apply to the following non-retail segments: corporates, SMEs, municipalities, financial institutions, independent commercial real estate projects. The discount rate-based LGD models are applied as part of the use test preceding the planned implementation of the Advanced IRB approach. The Bank uses a discount rate to determine collateral value; the rate is calculated on the basis of the LGD model developed according to KBC-approved methods, and is updated regularly. The Bank uses these discount rates for collateral valuation with Advanced IRB approach. The eligible value of credit protection, i.e., the collateral value ($C_{adjusted}$) is calculated using the initial value ($C_{initial}$) and the discount rate (d). By default, the initial value may be the market, liquidation or book value – pursuant to the relevant decision.

The collateral value of credit protection: $C_{adjusted} = C_{initial} * d$, except for the special case if the contractual amount is smaller, as in this case the contractual value serves as the upper limit.
The discount rate may be reduced by the relationship manager of the credit sponsor when the credit application is written, or by the credit advisor or the competent decision-makers during the pre-decision or decision phase.

Exposure class (HUF million)	Guarantees	Real estate collateral	Cash collateral	Other
Central governments and central banks	2 238	1 190 645	860	902
Corporates	-	13 752	7	
SME	3 853	20 241	62 536	27 604
Retail mortgage	17 826	48 589	116 527	52 849
Institutions	-	1 157	-	269 755
Retail Other		15 530		
TOTAL	**23 916**	**1 289 714**	**179 930**	**351 110**

Table 31: Credit risk mitigation by exposure class (K&H Bank)

Exposure class (HUF million)	Guarantees	Real estate collateral	Cash collateral	Other
Central governments and central banks	82 596	1 156	2 260	1 209
Corporates	97 621	67 353	4 102	27 623
SME	49 087	126 159	18 691	52 911
Retail mortgage	1 859	0	0	269 755
Institutions	91 705	25	0	0
Retail Other	15 330	0	0	0
TOTAL	**338 197**	**194 693**	**25 052**	**351 498**

Table 32: Credit risk mitigation by exposure class (K&H Group)

Guarantor	Rating
Central government	
Magyar Export-Import Bank Zrt.	BB+
Hungarian State	BB+
Regional governments and local municipalities	
Cece Village Municipality	BB+
Jánoshalma Town Municipality	BB+
Szeged Municipality	BB+
Pécs City Municipality	BB+
Gádoros Village Municipality	BB+
Lakitelek Village Municipality	BB+
Nagyatád Municipality	BB+
Institutions	
ABN AMRO Bank	A+
Agrár-Vállalkozási Hitelgarancia Alapítvány	BB+
Bank of Valletta	BBB+
Garantiqa Hitelgarancia Zrt.	BB+
OTP Bank	BB
Royal Bank of Scotland	BBB+
UniCredit Bank Hungary Zrt.	BB+

Table 33: Name and rating of guarantors by exposure class

Information on concentrations arising in the course of credit risk mitigation

In this chapter the concentration of credit protection is presented in respect of the types of collateral most often accepted by the Bank for the mitigation of credit risk. As the collaterals pledged to the leasing group represent an insignificant part of the total collateral portfolio, in this document we only disclose the information on the concentration of collaterals accepted to secure loan transactions.

Type of collateral	Total book value (HUF million)
State guarantees	36 559
Bank guarantees	29 498
Unconditional surety guarantees from the central budget	70 180
Other unconditional surety guarantees	288 606
Collateral deposits	50 747
Real estate	2 335 677
Movable properties	40 205
Other liens	405
Other	18 754

Table 34: Total book value of collaterals by type (K&H Bank)

Guarantees, unconditional surety guarantees

Guarantees and unconditional (first-loss) surety guarantees make up 12,5% of the total collateral portfolio. Within this category, other unconditional surety guarantees are the most dominant (10%), unconditional surety guarantees from the central budget represent 2,5%, while state and bank guarantees account for 1% each. KBC guarantees make up three-fourths of the bank guarantee portfolio.

Mortgages

Mortgages on real estate show significant concentration in both the retail and non-retail portfolios. They account for 82% of the total collateral portfolio at book value. Within mortgages, residential properties make up 47%, commercial properties represent 52%, and other properties account for 1%. Most residential properties pledged as collateral are related to retail mortgage-backed transactions (97%), and only the remaining 3% are linked to non-retail transactions.

Collateral deposits

Collateral deposits make up 2% of the total collateral portfolio. Within that, forint (HUF) deposits represent 86% and other currencies account for 14%.

Internal Rating Based (IRB) models (CRR Article 452)

The Bank back-tests and reviews its internal rating systems on an annual basis. The processes of developing, testing and authorising new models are governed by KBC group-level guidelines and methodologies. A substantial part of the models was designed by statistical modelling, using the internal data of the Bank, while in the case of segments where fewer observations were available (for example: Country risk PD model, Project Financing PD model) KBC Group level models were introduced.

The Bank determines the default probability of the exposures on product level in the retail segment and on client level in the rest of the segments. The table below presents the IRB systems, broken down by exposure class, applied by the Bank:

Exposure class	Rating model
Central governments and central banks	Country risk model
Credit institutions, investment undertakings	Bank PD model
Corporates	Corporate PD model
	Large SME PD model
	Small SME PD model
	SME behaviour model
	Municipalities PD model
	Commercial Real Estate Project PD model
	Project Financing PD model
	MBO/LBO PD model
	Others
Retail	Behavioural PD model and PD pooling model

Table 35: Rating models

The Bank performs the rating of its retail transactions using behavioural scorecards. The behaviour points belonging to the specific transactions are computed automatically in the data warehouse of the Bank, and serve as a basis for the allocation of the exposure to the appropriate risk pools. In the non-retail segments the client rating is established in the course of the credit approval process and the annual reviews. The Bank has a sophisticated automated process in place to identify transactions in default, which ensures that these exposures are assigned to the appropriate risk category. In the case of non-retail exposures the Bank measures the expected default probability on a standardised rating scale.

PD rating	Default probability 1-year time span
1	0.00% - 0.10%
2	0.11% - 0.20%
3	0.21% - 0.40%
4	0.41% - 0.80%
5	0.81% - 1.60%
6	1.61% - 3.20%
7	3.21% - 6.40%
8	6.41% - 12.80%
9	12.81% - 100%
10	exposures in default
11	
12	

Table 36: KBC master scale for rating non-retail clients

In the retail segment the loss given default (LGD) rate was determined by product type and in proportion to the coverage rate. During the calculation of exposure at default, in addition to the application of an internal credit conversion factor (CCF) the Bank makes an additional adjustment to estimate the increase in the exposure of FX-based loans that might result from exchange rate changes.

PD master scale	gross Exposure [EAD] RWA Average in %	Sovereign	Institutions	Corporates	SME Corporat	Other Retail	Residential mortgages	Total
01 [0,00% - 0,10%*]	Sum of EAD	0	114 532	243	961	2 750	86 322	204 808
	Sum of RWA	0	35 156	61	195	332	2 468	38 213
	weighted average	0%	31%	25%	20%	12%	3%	19%
02 [0,10% - 0,20%*]	Sum of EAD	0	5 535	44 927	23 283	4 170	55 570	133 485
	Sum of RWA	0	2 784	21 456	7 302	744	3 145	35 431
	weighted average	0%	50%	48%	31%	18%	6%	27%
03 [0,20% - 0,40%*]	Sum of EAD	1	907	48 609	44 235	2 610	62 023	158 385
	Sum of RWA	1	1 036	30 006	19 637	882	7 776	59 338
	weighted average	58%	114%	62%	44%	34%	13%	37%
04 [0,40% - 0,80%*]	Sum of EAD	7 203	1 436	168 132	100 342	9 231	17 711	304 055
	Sum of RWA	5 216	1 980	159 666	62 640	4 280	4 264	238 046
	weighted average	72%	138%	95%	62%	46%	24%	78%
05 [0,80% - 1,60%*]	Sum of EAD	6 682	1 521	106 850	135 266	12 332	66 519	329 170
	Sum of RWA	5 886	2 337	107 776	109 479	8 611	23 528	257 617
	weighted average	88%	154%	101%	81%	70%	35%	78%
06 [1,60% - 3,20%*]	Sum of EAD	960	589	69 900	81 179	7 447	22 725	182 800
	Sum of RWA	539	1 393	68 966	69 447	6 188	13 347	159 879
	weighted average	56%	236%	99%	86%	83%	59%	87%
07 [3,20% - 6,40%*]	Sum of EAD	7	1 728	13 002	44 938	3 667	15 908	79 249
	Sum of RWA	12	4 272	19 945	46 988	3 035	13 400	87 652
	weighted average	161%	247%	153%	105%	83%	84%	111%
08 [6,40% - 12,80%*]	Sum of EAD	0	0	7 286	14 153	6 920	15 016	43 376
	Sum of RWA	0	0	12 756	16 404	6 924	17 760	53 843
	weighted average	0%	0%	175%	116%	100%	118%	124%
09 [12,80% - 100,00%*]	Sum of EAD	0	0	7 062	9 501	2 159	30 498	49 220
	Sum of RWA	0	0	20 241	15 532	3 779	47 774	87 325
	weighted average	0%	0%	287%	163%	175%	157%	177%
Total gross exposure [EAD]		14 855	126 248	466 011	453 859	51 286	372 291	1 484 549
Total risk-weighted assets		11 654	48 958	440 873	347 623	34 774	133 461	1 017 343
Total weighted average		78%	39%	95%	77%	68%	36%	69%

***Table 37**: Average weight of the IRB portfolio broken down by PD pool (K&H Bank)*

PD master scale	Kitettség HUFmln	Sovereign	Institutions	Corporates	SME Corporates	Other Retail	Residential mortgages	Total
01 [0,00% - 0,10%*]	Sum of EAD	0	62 424	243	961	2 750	86 322	152 700
	Sum of RWA	0	20 726	58	204	332	2 468	23 787
	weighted average	0%	33%	24%	21%	12%	3%	16%
02 [0,10% - 0,20%*]	Sum of EAD	0	44 873	44 870	23 283	4 170	55 570	172 766
	Sum of RWA	0	15 158	21 878	7 438	744	3 145	48 363
	weighted average	0%	34%	49%	32%	18%	6%	28%
03 [0,20% - 0,40%*]	Sum of EAD	0	907	48 609	44 235	2 610	62 023	158 383
	Sum of RWA	0	1 056	30 027	19 555	882	7 776	59 297
	weighted average	0%	117%	62%	44%	34%	13%	37%
04 [0,40% - 0,80%*]	Sum of EAD	0	1 435	120 785	100 342	9 231	17 711	249 504
	Sum of RWA	0	2 033	94 695	62 530	4 280	4 264	167 803
	weighted average	0%	142%	78%	62%	46%	24%	67%
05 [0,80% - 1,60%*]	Sum of EAD	4 901	1 521	101 513	135 266	12 332	66 519	322 052
	Sum of RWA	5 932	2 429	100 837	109 424	8 611	23 528	250 761
	weighted average	121%	160%	99%	81%	70%	35%	78%
06 [1,60% - 3,20%*]	Sum of EAD	960	589	89 793	81 179	7 447	22 725	202 693
	Sum of RWA	527	1 363	85 461	69 610	6 188	13 347	176 495
	weighted average	55%	231%	95%	86%	83%	59%	87%
07 [3,20% - 6,40%*]	Sum of EAD	8	1 728	12 675	44 938	3 667	16 610	79 626
	Sum of RWA	12	4 257	19 242	47 111	3 035	13 329	86 987
	weighted average	160%	246%	152%	105%	83%	80%	109%
08 [6,40% - 12,80%*]	Sum of EAD	0	0	7 286	14 153	6 920	15 016	43 376
	Sum of RWA	0	0	12 833	16 376	6 924	17 760	53 893
	weighted average	0%	0%	176%	116%	100%	118%	124%
09 [12,80% - 100,00%*]	Sum of EAD	0	0	7 062	9 501	2 159	30 498	49 220
	Sum of RWA	0	0	20 030	15 403	3 779	47 774	86 986
	weighted average	0%	0%	284%	162%	175%	157%	177%
Összesen EAD		5 869	113 476	432 836	453 859	51 286	372 993	1 430 319
Összesen RWA		6 471	47 023	385 062	347 651	34 774	133 391	954 371
Összesen súlyozott átlag		110%	41%	89%	77%	68%	36%	67%

Table 38: Average weight of the IRB portfolio broken down by PD pool (K&H Group)

Asset Class	PD rating	1	2	3	4	5	6	7	8	9	Total
	EAD	0	0	1	7 203	6 682	960	7	0	0	**14 854,5**
	Outstanding amount	0	0	1	6 169	6 542	929	3	0	0	**13 645**
Sovereign	Undrawn amount	0	0	0	1 034	140	31	5	0	0	**1 210**
	Average CCF - %	0,0%	0,0%	104,6%	27,8%	77,4%	73,5%	100,0%	0,0%	0,0%	**53,1%**
	Average LGD - %	0,0%	0,0%	57,2%	64,2%	39,2%	24,5%	52,5%	0,0%	0,0%	**50,4%**
	EAD	114 532	5 535	907	1 436	1 521	589	1 728	0	0	**126 247,8**
	Outstanding amount	71 966	2 917	262	512	1 192	72	1 334	0	0	**78 256**
Institutions	Undrawn amount	42 567	2 617	644	924	329	517	394	0	0	**47 992**
	Average CCF - %	100,0%	92,6%	100,0%	85,8%	100,0%	100,0%	95,3%	0,0%	0,0%	**99,4%**
	Average LGD - %	52,7%	62,9%	61,4%	63,0%	66,9%	62,6%	65,7%	0,0%	0,0%	**53,7%**
	EAD	243	44 927	48 609	168 132	106 850	69 900	13 002	7 286	7 062	**466 010,8**
	Outstanding amount	124	13 932	25 336	110 633	67 196	54 394	8 987	6 710	6 826	**294 138**
Corporates	Undrawn amount	118	30 995	23 273	57 499	39 654	15 506	4 014	577	236	**171 873**
	Average CCF - %	94,6%	55,6%	68,4%	71,4%	90,5%	97,6%	97,8%	98,9%	101,1%	**79,5%**
	Average LGD - %	57,2%	58,6%	48,9%	41,6%	48,8%	33,7%	48,5%	38,4%	63,1%	**44,9%**
	EAD	961	23 283	44 235	100 342	135 266	81 179	44 938	14 153	9 501	**453 859,2**
	Outstanding amount	499	12 616	29 198	74 367	108 109	66 376	38 768	12 317	8 606	**350 855**
SME Corporates	Undrawn amount	463	10 667	15 037	25 975	27 157	14 803	6 170	1 836	896	**103 005**
	Average CCF - %	89,6%	75,2%	85,8%	91,1%	93,7%	91,6%	92,9%	90,8%	99,3%	**91,0%**
	Average LGD - %	48,5%	48,5%	47,3%	45,7%	44,7%	41,8%	44,6%	41,2%	43,9%	**44,7%**
	EAD	2 750	4 170	2 610	9 231	12 332	7 447	3 667	6 920	2 159	**51 285,7**
	Outstanding amount	770	1 142	1 141	7 895	4 028	4 327	2 587	6 813	2 073	**30 775**
Other retail	Undrawn amount	1 980	3 028	1 469	1 336	8 304	3 120	1 080	108	86	**20 511**
	Average CCF - %	111,5%	111,3%	115,2%	108,8%	109,7%	111,1%	111,3%	107,2%	124,4%	**110,6%**
	Average LGD - %	54,3%	56,1%	55,8%	60,2%	60,3%	59,8%	53,4%	61,5%	65,2%	**59,2%**
	EAD	86 322	55 570	62 023	17 711	66 519	22 725	15 908	15 016	30 498	**372 290,7**
	Outstanding amount	86 322	55 570	62 023	17 711	66 519	22 725	15 908	15 016	30 498	**372 291**
Residential mortgages	Undrawn amount	0	0	0	0	0	0	0	0	0	**0**
	Average CCF - %	100,2%	100,0%	101,0%	100,0%	100,6%	101,5%	101,9%	101,2%	101,3%	**100,6%**
	Average LGD - %	22,3%	22,5%	24,5%	23,1%	24,7%	26,3%	28,8%	26,3%	26,8%	**24,2%**

Table 39: Average LGD and CCF of the IRB portfolio (K&H Bank) (CRR Article 452 (e))

Asset Class	PD Scale	1	2	3	4	5	6	7	8	9	Total
	EAD	0	0	0	0	4 901	960	8	0	0	**5 869,5**
	Outstanding Amoungt	0	0	0	0	3 727	929	3	0	0	**4 660**
Sovereign	Undrawn Amoungt	0	0	0	0	1 174	31	5	0	0	**1 210**
	Average CCF - %	0,0%	0,0%	65,4%	27,8%	72,8%	73,5%	100,0%	0,0%	0,0%	**73,0%**
	Average LGD - %	0,0%	0,0%	-56,5%	64,2%	37,6%	24,5%	52,2%	0,0%	0,0%	**35,5%**
	EAD	62 424	44 873	907	1 435	1 521	589	1 728	0	0	**113 476,3**
	Outstanding Amoungt	58 404	2 871	262	512	1 192	72	1 334	0	0	**64 646**
Institutions	Undrawn Amoungt	4 020	42 002	644	924	329	517	394	0	0	**48 830**
	Average CCF - %	100,0%	99,8%	100,0%	92,1%	100,0%	100,0%	95,6%	0,0%	0,0%	**99,8%**
	Average LGD - %	47,5%	47,1%	61,4%	63,0%	66,9%	62,6%	65,7%	0,0%	0,0%	**48,3%**
	EAD	243	44 870	48 609	120 785	101 513	89 793	12 675	7 286	7 062	**432 835,7**
	Outstanding Amoungt	124	13 932	25 336	68 673	64 028	74 287	8 661	6 710	6 826	**268 577**
Corporates	Undrawn Amoungt	118	30 938	23 273	52 112	37 485	15 506	4 014	577	236	**164 259**
	Average CCF - %	94,6%	57,9%	68,7%	70,0%	90,9%	98,1%	97,7%	98,9%	101,1%	**81,2%**
	Average LGD - %	57,2%	58,6%	48,9%	34,2%	47,8%	36,2%	48,2%	38,4%	63,1%	**43,0%**
	EAD	961	23 283	44 235	100 342	135 266	81 179	44 938	14 153	9 501	**453 859,2**
	Outstanding Amoungt	499	12 616	29 198	74 367	108 109	66 376	38 768	12 317	8 606	**350 855**
SME Corporates	Undrawn Amoungt	463	10 667	15 037	25 975	27 157	14 803	6 170	1 836	896	**103 005**
	Average CCF - %	89,6%	75,5%	87,9%	91,3%	93,9%	92,2%	93,8%	92,4%	99,3%	**91,6%**
	Average LGD - %	48,5%	48,5%	47,3%	45,7%	44,7%	41,8%	44,6%	41,2%	43,9%	**44,7%**
	EAD	2 750	4 170	2 610	9 231	12 332	7 447	3 667	6 920	2 159	**51 285,7**
	Outstanding Amoungt	770	1 142	1 141	7 895	4 028	4 327	2 587	6 813	2 073	**30 775**
Other retail	Undrawn Amoungt	1 980	3 028	1 469	1 336	8 304	3 120	1 080	108	86	**20 511**
	Average CCF - %	111,5%	111,3%	115,2%	108,8%	109,7%	111,1%	111,3%	107,2%	124,4%	**110,6%**
	Average LGD - %	54,3%	56,1%	55,8%	60,2%	60,3%	59,8%	53,4%	61,5%	65,2%	**59,2%**
	EAD	86 322	55 570	62 023	17 711	66 519	22 725	16 610	15 016	30 498	**372 992,8**
	Outstanding Amoungt	86 322	55 570	62 023	17 711	66 519	22 725	16 610	15 016	30 498	**372 993**
Residential mortgages	Undrawn Amoungt	0	0	0	0	0	0	0	0	0	**0**
	Average CCF - %	100,2%	100,0%	101,0%	100,0%	100,6%	101,5%	101,8%	101,2%	101,3%	**100,6%**
	Average LGD - %	22,3%	22,5%	24,5%	23,1%	24,7%	26,3%	29,5%	26,3%	26,8%	**24,2%**

Table 40: Average LGD and CCF of the IRB portfolio (K&H Group) (CRR Article 452 (e))

Use of the rating models in internal processes – use test (CRR Article 452 (b))

Beyond the calculation of the capital requirement of the Bank, IRB parameter estimates are integrated in the following processes and procedures:

- determination of the credit approval authority
- credit-related decision, capital allocation
- provisioning
- portfolio monitoring
- portfolio limits
- pricing
- credit risk stress test

Trading risk (CRR Article 445)

Trading risks are managed centrally in the KBC Group. The development of models, measurement of the risk position, monitoring and reporting are all performed centrally, thus eliminating the duplication of the tasks on local level.

The trading risk manager of K&H is responsible for the following:

- analysing limit overruns and stress tests
- conducting parameter reviews
- following up on counterparty limits and tasks related to operational risks
- supporting local internal and external data supply

The primary "formal" tool used for the identification and recognition of risks related to trading operations is the New and Active Product Procedure (NAPP). A business proposal is required to be submitted for each new product, which analyses the material risks and describes the method of their management. (= measuring, mitigating, monitoring and reporting).

Several units of measurement are applied for capturing the market risk arising from trading operations, for example:

- Value at risk (VaR)
- Economic capital
- Basis point value(BPV)
- Concentrations
- Nominal position limits

For the purpose of managing and monitoring the market risk attached to the trading portfolio, the Bank applies the VaR methodology. The KBC Group selected the historical VaR (hVaR) method for measuring, managing and monitoring the market risk arising from the trading book. The hVaR method currently applied by KBC includes the following factors: 10-day position holding period and a 99% unilateral confidence level, calculated for a 500-day unweighted observation period.

In addition to the above, the Bank conducts several stress tests for the evaluation of the potential impact of a specific stress event and/or a “volatile” movement in the set of financial variables on its positions. Although K&H applies the KBC Group level scenarios to analyse the stress tests, it also developed local scenarios which provide a better view of the past and presumed Hungarian developments.

Besides making hVaR calculations and carrying out stress tests, K&H also monitors the risk concentrations through the secondary limits, such as the FX concentration limits for putting a cap on the exchange rate risk inherent in a specific FX position and the basis point value (BPV) limits for the interest rate risk. The BPV limits are set by foreign currency and periods.

KBC applies the combination of several limits for monitoring market risk, including the market risk arising from the trading activities of K&H (often in a hierarchy, whereby each sub-segment has its own limit).

- The framework system provides a clear and unambiguous description:
  - on the risk limits and the calculation of their utilisation rate,
  - on the scope of authority and responsibility of the various actors involved, as well as on their cooperation.

K&H monitors the hVaR global limit in respect of the entirety of its trading operations, and the periodic BVP limits, broken down by foreign currency in respect of its interest rate risk position. In addition, it also applies nominal limits relating to activities not falling within the scope of the hVaR limits.

The K&H Market and Liquidity Risk Department forwards an abstract of the available trading exposure data to the local dealers, the head of the Treasury and to the local Value and Risk Management by eRIS on a daily basis. The local Executive Committee (Integrated Risk Report) and the Board of Directors are kept informed on the limit utilisation rates in the form of a monthly and quarterly report, respectively. The Audit Committee also receives quarterly information regarding the key market risk indicators and issues.

The Bank applies the *standardised approach* for calculating the capital requirement of its exposures in the trading book. The Bank calculates the capital requirement of bonds and other securities, as well as for deposits and derivative transactions for the local regulator (MNB) on a daily basis. In addition, the capital requirement related to the exchange rate risk and commodities exposures is also calculated and reported daily.

Furthermore, in line with the *standardised approach* the Bank prepares a monthly supplementary report to the MNB showing the capital requirement of exposures from its bond and share positions as well as of the exchange rate risk and commodities risk. The following table presents the capital requirement of the market risks run by the K&H Group.

Capital requirement of market risk		
Risks	**Position value (HUF million)**	**Capital requirement (HUF million)**
Exposure to bond positions	54 164	1 546
Exposure to shares and investment units	1 011	63
Exchange rate risk	3 041	243
Commodities exchange risk	0	0
TOTAL	**58 216**	**1 852**

Table 41: Capital requirements of market risks

The Bank also reports its exposure to high risk counterparties to the Supervision on a quarterly basis a (banking and trading books combined).

Operational risk (CRR Article 446)

At K&H the definition of operational risk comprises the risk of fraud as well as the legal and compliance risks, but excludes strategic and systemic risks. K&H also takes into consideration the reputation risk to a certain level: when assessing the vulnerability of K&H to operational risk events, the impact of various incidents on the reputation of K&H is also taken into account.

The "*KBC Group Operational Risk Management Framework"* covers the management of operational risks end-to-end, from the identification of the risk up to its reporting. KBC Group implemented a uniform set of tools for applying the processes, risk event types and the methods for mitigating/measuring operational risks. For the purpose of reporting, processes and risk event types are used jointly as a common and general/uniform framework of reference. Risk mitigating controls comprise the processes for the proper separation of tasks and responsibilities, access management, reconciliation and monitoring. The tools currently applied for the management of operational risks were designed to cover the entire spectrum of expected, unexpected and even catastrophic loss events.

The following tools are used for the recognition and identification of the operational risks run by KBC Group entities:

Global Risk Surveys (GRS): GRS is a top-down, scenario-based questionnaire for the senior management to report the major issues that may give reason for concern as well as the existing operational and business risks. It is required to be completed once a year.

Risk Self-Assessment (RSA): These bottom-up assessments focus on the actual (residual) main operational risks posed by critical points, key products, processes and systems, which have not been properly mitigated as yet.

RSAs are forward-looking and allow the Bank to take into account future developments and events. Division heads and the *operational risk managers of the divisions (*LORM) are obliged to plan RSAs for a period of 3 years, using the process definitions of the relevant business area and their own professional experience.

Case Study Assessment (CSA): This assessment was designed to test and evaluation the level of defence against grave operational risk events – which actually occurred in the banking or insurance sector – ensured by the current regulatory environment.

Group key controls

These are the key principles for the uniform management of group-level key risks, and the regulation and mitigation of the material risks inherent in processes defined on KBC Group level. Group Key Controls ensure that significant operational risks are managed in a uniform manner throughout the entire group.

The following tools are applied for the purpose of measuring the operational risks of KBC Group entities:

Loss Event Database (LED): Since 2004 the KBC Group records each operational loss amounting to, or exceeding EUR 1,000 in a central database. The same database contains the legal claims filed against the Group entities. K&H adopted a decision to report each and every loss event to the central database, regardless of its amount.

Key Risk Indicators (KRIs): KRIs are metrics or indicators for monitoring exposure to a loss or other potential event. KRIs may pertain to the entire organisation or only a part thereof. The purpose of the KRIs is to combine the measurement of risk with the current risk management by way of a pragmatic approach allowing prompt application of the measures to the business area. The main KRIs are reported to the CROC.

At present there are no compulsory limits for operational risks, although certain risk limits have been set in respect of the Key Risk Indicators.

Internal risk reporting

The Capital and Risk Oversight Committee is responsible for monitoring the operational risk management framework in general. Their reporting obligation includes, without limitation, the following:

- developing and maintaining the proper regulation of operational risks
- reliability of operational risk management data – from financial and non-financial aspects – reported and/or identified within the organisation
- compliance with statutory, internal and external regulations
- allocating resources for the management of operational risks
- systematic review of all material operational risk related to loss events which occurred at K&H

The minutes taken at the meetings of the Operational Risk Committee are forwarded to the CROC.

External risk reporting

K&H regularly prepares reports and memoranda for the risk management of KBC Group presenting the developments in the main operational risks, internal controls and risk management processes of the K&H Group.

The (consolidated) capital requirement for operational risks is reported to KBC VRM in March each year. In the scope of the statutory reports to the Supervision, K&H regularly advises the MNB of the methodology of operational risk management and the changes therein. A periodical (quarterly) report is also submitted to the MNB on the capital requirement of operational risks.

In 2002 the KBC decided to manage its operational risks and calculate the capital requirement of operational risks according to the *standardised approach (*TSA) specified in Basel II. KBC Group seeks to focus on the actual (quality) management of operational risks rather than to optimise the capital requirement of operational risks using an internal financial/risk model.
Nevertheless – as it was discussed from the previous chapters – KBC applies the very same stringent standards as required under the *Advanced Measurement Approach (*AMA).

K&H has applied the *Standardised approach* since 1 January 2008.

According to the *Standardised approach* the total capital requirement of operational risks equals the simple aggregate of the capital requirements calculated by business line as defined in the Basel principles. The own funds requirement of the various business lines is calculated by multiplying the average of the eligible gross operating profit over three years with a *"beta factor"* assigned by the Capital Requirement Directive to the respective business line.

Operational risk capital requirement (HUF million)	K&H Bank	K&H Group
Standardised approach	21 087	19 281

Table 42: Capital requirement of operational risks

ALM risk (CRR Article 448)

The primary official tool of risk identification and recognition is the compulsory New and Active Product Procedure (NAPP). This Group standard was designed to ensure that the organisation is ready and able to handle the new products and that all legal, taxation, compliance, accounting, risk management etc. issues are properly addressed before we undertake positions in new products. Since 2009 active products also need to be re-negotiated in the scope of the NAPP in line with their review date.

Basis point value

One of the specific units of measurements used in connection with interest rate risks is the basis point value (BPV). BPV denotes the change in the actual value upon a 10 basis point (i.e., 0.10%) parallel movement in the interest rate curve. The BPV allows the CROC to assess our existing positions as the direction of the risk is known. In addition, the BPVs are easy to aggregate. The impact of non-parallel shifts on the economic value is also calculated and monitored on a monthly basis.

Interest rate gaps

The interest rate gap is used as a supplementary technique for measuring interest rate risks, and is reported periodically. This is one of the fundamental methods for assessing interest rate sensitivity. A positive cumulative gap position shows the net surplus of the assets to be re-priced in a given period. Having a positive cumulative gap, the Bank can increase the net interest margin when the interest rate curve is rising.

ICM ALM

ICM ALM measures the impact of very severe events on the Available Capital under Pillar 1 through a parametric VaR model. Only the impact on available capital is measured in the ICM.
In general, the VaR model is based on shifts which measure the impact of certain market risks on a pre-determined confidence level.

Net interest income (NII) sensitivity

By regularly calculating the change in the net interest income with the help of various scenarios, the Bank can analyse its re-pricing risk profile and keep track of the changes in the risk profile.

Scenario analysis and stress tests

With the view to measuring the ALM risks the KBC Group is exposed to, we conduct scenario analyses and stress tests both on individual risk factors and the comprehensive ALM risk factors. The following BPV tables present the year-end results of the stress test carried out on the economic value of the banking book. For the stress test, we used the scenario of 10, 100 and 200 basis point parallel shifts in the yield curve. An internal limit was implemented to put a cap on the BVP of the banking book.

10 bp parallel, UP scenario		10 bp parallel, DOWN scenario	
CHF	-0.35	CHF	0.35
EUR	203.20	EUR	-205.17
HUF	-962.14	HUF	968.78
USD	0.66	USD	-0.66
TOTAL	-758.63	TOTAL	763.30
100 bp parallel, UP scenario		**100 bp parallel, DOWN scenario**	
CHF	-3.53	CHF	3.54
EUR	1 946.75	EUR	-2 143.62
HUF	-9 331.31	HUF	9 995.96
USD	6.47	USD	-6.78
TOTAL	-7 381.62	TOTAL	7 849.11
200 bp parallel, UP scenario		**200 bp parallel, DOWN scenario**	
CHF	-7.04	CHF	08.júl
EUR	3 715.75	EUR	-4 505.47
HUF	-18 050.73	HUF	20 712.96
USD	12.65	USD	-13.86
TOTAL	-14 329.38	TOTAL	16 200.71

Table 43: Stress test results of the banking book positions

As K&H is an entity of the KBC Group, it has an ALM activity risk limit system, comprising a hierarchy of multiple limits. The limit system is reviewed by K&H on an annual basis to ensure that it remains updated.
As a substantial part of ALM is covered by interest rate risks in the K&H Group, the tolerance variance for BPV is narrow. The interest rate risk is also measured by way of conducting scenario analyses on the net interest income (see above). The banking book was characterised by an increasing exposure to interest rate risks, up to the full utilisation of the buffer. During the year the BPV limit was raised.

Both the Board of Directors and the Audit Committee of K&H receive information on the main ALM risk indicators and the utilisation of the limit on a quarterly basis.
The primary objective of the Asset and Liability Management of KBC and K&H is to create economic value. In the process of value creation, the role of ALM is restricted to providing market-compatible pricing of ALM risks to the business units (transfer pricing) to allow them to make well-informed pricing decisions. In addition, the ALM needs to set (i.e., to optimise) the appropriate risk/income profiles.

Due to No. 680/2014 Regulation (EU), the encumbered assets for K&H Bank are mainly driven by refinancing loans from EIB, and MNB LFG program.

Assets and collateral have been determined as encumbered with consistent with the definition provided in the EBA Guidelines on the Disclosure of Encumbered assets (EBA GL/2014/03), assets are considered encumbered when they have been pledged or used to secure, collateralise or credit enhance a transaction which impacts their transferability and free use. The ratio of our encumbered assets and collateral over 2015 ranged from 34.2% to 45.3%, with the 31 December 2015 showing HUF 291.5 bln of encumbered assets at carrying value. Asset encumbrance is integral to K&H Bank business and funding models which, over time, have increased as a result of the increasing participation on MNB LFG programs.
HUF 213.8 bln notional out of the HUF 291.5 bln YE 2015 carrying value is encumbered on refinancing purposes.

		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of non-encumbered assets	Fair value of non-encumbered assets
010	**Assets of the reporting institution**	257 916 324 045		2 203 737 635 031	
030	Equity instruments	0	0	2 477 237 163	2 477 237 163
040	Debt securities	245 069 810 237	272 591 131 977	408 681 428 918	425 300 569 362
120	Other assets	0		178 160 453 329	

Table 44: Encumbered Assets

		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
130	**Collateral received by the reporting institution**	0	5 625 986 729
150	Equity instruments	0	0
160	Debt securities	0	1 890 258 250
230	Other collateral received	0	0
240	**Own debt securities issued other than own covered bonds or ABSs**	0	0

Table 45: Received Collateral

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
010	**Carrying amount of selected financial liabilities**	227 539 642 051	257 916 324 045

Table 46: Liabilities due to encumbered assets and received collateral

Liquidity risk

The prime objective of KBC liquidity management is to be capable of financing the group on the one hand, and to make the generation of income from the main business activities of the group possible, even under unfavourable conditions.

In the KBC Group – and consequently, at K&H as well – the liquidity risk management system covers the liquidity financing risk, and not the market liquidity risk. In the second half of 2009 a more sophisticated liquidity framework system was implemented based on the following pillars:

- operational liquidity risk management
- structural liquidity risk management
- liquidity reserve risk management

Operational liquidity risk

Operational liquidity is measured with (5, 30 and 90-day) liquidity gap. K&H is required to cover the entirety of the liquidity gap with highly liquid intra-day security.

Structural liquidity risk

The Bank manages structural liquidity through the loan-to-deposit ratio (LTD), the balance sheet coverage ratio, the deposit coverage ratio, the foreign currency financing ratio, the net stable financing ratio and the liquidity coverage ratio, serving as a common benchmark to assess liquidity.

Liquidity reserve risk

The group uses a number of liquidity stress scenarios to measure liquidity reserve risk. Stress tests are conducted with the aim of measuring the changes in the liquidity buffer of K&H Group in stress situations. The liquidity buffer is calculated for each and every scenario: this will be the liquidity surplus for the relevant time periods. In fact, there are two different types of the stress test: the general market scenario and the KBC/K&H-specific scenarios. K&H would remain a going concern for the internally defined survival period under either of the two scenarios.

The majority of the above mentioned measurements are subject to the limits set by KBC. The liquidity thresholds applicable to the various subsidiaries are governed by the KBC liquidity risk management guidelines. Nevertheless, K&H has additional local limits in place, which boosts the security of the group. It is important to note that the management of these local limits is the responsibility of the local treasury and local liquidity risk units.

In addition to the periodical follow-up on the above measurements and limits, the local ALM risk management also takes into account the liquidity risk during the analysis of other business developments and trading operations. It is important to note that the local ALM risk management is not authorised to make a decision regarding any steps of the liquidity risk management process autonomously, it merely provides advice to the local CROC concerning the implementation of an appropriate framework e.g., in respect to the acceptable risk level, etc.

The local liquidity report on monitoring the operational liquidity limit is submitted daily to the Treasury by Risk Management (ALM department). The Controlling Department reports the changes in the loan to deposit ratio (LTD) on a monthly basis. Risk Management submits a monthly report (in the Integrated Risk Report) to the Executive Committee, presenting the changes in the operational liquidity and a summary of all measures related to liquidity. The liquidity stress test scenarios are calculated by KBC based on the information provided by the local risk management. The results are also submitted to the Audit Committee on a quarterly basis.

If the report on the liquidity risk shows e.g., an overrun of the operational liquidity risk limits or a deterioration in the long term liquidity position, the (internal) stakeholders (i.e., the committees receiving this information) are responsible for making the decision on the eventual corrective measures to be taken.

Chapter IV – Remuneration policy

K&H publishes the remuneration policy applicable to all organisational units and employees of the Bank, and the employees of the subsidiaries K&H Csoportszolgáltató Kft., K&H Befektetési Alapkezelő Zrt. and K&H Faktor Zrt. on its web site (www.kh.hu).

A detailed description of the decision making process used to define the remuneration policy can be found in Chapter 4.2 of the referenced regulation. The most important features of the remuneration system (including information on the requirements related to performance measurement and identification of the relevant risk, on the deferral policy and remuneration eligibilities), the information about the relation between performance and performance remuneration, and the performance-related criteria which the eligibility for phantom shares, the variable part of remuneration and options is based on can be found in chapters 2.1–3.4. The characteristics and conditions of performance remuneration and other non-cash remuneration can be found in Chapter 1.

The following tables show all quantitative information about 2015 remunerations.

Gross wage and bonus payments, with cafeteria benefits for 2015 broken down by division	
Division	**Gross wages, cafeteria, bonus (HUF mln)**
Retail Banking Division	2 369
Retail Banking Division - network	9 499
Corporate Institutional Banking Division	2 042
Corporate Institutional Banking Division - network	1 313
Chief Executive Officer	1 224
Value and Risk Management Division	663
Finance Division	1 787
Banking & Investment Division	3 763
Other	0
K&H Bank Zrt. Total	**22 660**
K&H Service Center	790
K&H Factor	94
K&H Asst management	341
K&H Bank Group Total	**23 884**

Table 47: Gross remuneration in 2015

Remuneration of persons in management position in 2015	
Number of persons receiving remuneration	6 persons
Fixed remuneration (HUF mln)	380,2
Performance based remuneration (HUF mln)	107,0
Of which cash (HUF mln)	59,5
Of which phantom stock (HUF mln)	47,5
Payments related to new employment contracts (0 item, HUF mln)	0 pcs, n/a

Deferred remuneration of persons in management position in 2015 (HUF mln)	
Deferred, already entitled (phantom stock):	26,1
Deferred, not yet entitled:	42,7
Deferred remuneration granted in 2015 paid out and performance-adjusted:	38,1

Members of the management body are selected by the Nomination Committee based on the following criteria:

- identification of the roles and skills required for membership in the given management body,
- assessment of the coherence between the knowledge, skills and experience levels of management body members,
- specifying the gender ratio within the management body and develop the necessary strategy to achieve the appropriate ratio (at KBC level institutions are obliged to publish their gender ratios, their strategy developed to achieve those ratios and the method of implementing that strategy).

2 members of the management body hold membership on the Board of Directors.

Chapter V – Appendix

List of abbreviations

BCBS	*Basel Committee of Banking Supervision*
CRD	*Capital Requirements Directive*
MNB	*the Central Bank of Hungary*
SREP	*Supervisory Review and Evaluation Process*
ECAP	*Economic capital*
ICAAP	*Internal Capital Adequacy Assessment Process*
RWA	*Risk Weighted Assets*
IFRS	*International Financial Reporting Standards*
HAS	*Hungarian Accounting Standards*
HPT	Credit Institutions and Financial Enterprises Act (Act CXII of *1996)*
STA	*Standardized Approach (credit risk)*
IRB	*Internal Ratings Based approach (credit risk)*
FIRB	*Foundation IRB approach (credit risk)*
AIRB	*Advanced IRB approach (credit risk)*
SMA	*Standardized Measurement Approach (market risk)*
IMA	*Internal Models Approach (market risk)*
BIA	*Basic Indicators Approach (operational risk)*
TSA	*Standardized Approach (operational risk)*
ASA	*Alternative Standardized Approach (operational risk)*
AMA	*Advanced Measurement Approach (operational risk)*
PD	*Probability of Default*
EAD	*Exposure at Default*
LGD	*Loss Given Default*
RAROC	*Risk-adjusted Return on Capital*
ERM	*Enterprise-wide Risk Management*
MC IM	*Management Committee International Markets*
CT	*Country Team*
BoD	*Board of Directors*
EXCO	*Executive Committee*
CROC	*Capital and Risk Oversight Committee*
CRC	*Credit Risk Council*
TRC	*Trading Risk Council*
ORC	*Operational Risk Council*
VRM	*Value and Risk Management*
ARC	*Audit Committee*
CRO	*Chief Risk Officer*
RC	*Remuneration Committee*
CrisCo	*Crisis Committee*
NAPP	*New and Active Products Process*
RCC	*Retail Credit Committee*
RPC	*Retail Product Committee*
RCs	*Retail Committees*
NCC	*National Credit Committee*
NCsC	*National Credit Sub-Committee*
CIC	*Corporate Institutional Committee*

Shares

	Direct, at net value	Indirect	Financial institutions, investment enterprises, insurance companies (PIBB)	Additional enterprise	Regulatory capital adjustment due to PIBB	Net value of all investments
financial company	2 040	0	2 040	0	0	2 040
insurance company	0	0	0	0	0	0
other domestic company	5 806	0	0	60	0	5 806
foreign financial company	4 355	0	4 355	0	0	4 355
foreign insurance company	0	0	0	0	0	0
other foreign company	0	0	0	0	0	0
Total	12 202	0	6 395	60	0	12 202

Table 48: K&H Bank shares CRR Article 447

Detailed breakdown of K&H Bank's loan portfolio

Maturity (HUF million)	Institutions	Corporates	Retail mortgage	Retail other	Small- and medium-sized enterprises	Central government and central bank	Total
<1 year	603 074	65 975	198 644	139 259	29 856	45 185	1 081 993
1 <= <5 years	367 649	36 054	168 615	189 783	18 268	23 089	803 459
5 <= <10 years	249 716	16 923	115 840	84 270	3 536	111 692	581 977
10 <= years	14 170	8 063	137 256	106 867	11 644	319 553	597 553
TOTAL	**1 234 608**	**127 015**	**620 356**	**520 180**	**63 304**	**499 518**	**3 064 981**

Table 49: Lending portfolio broken down by maturity and exposure class (K&H Bank) CRR Article 442(f)

Maturity (HUF million)	Institutions	Corporates	Retail mortgage	Retail other	Small- and medium-sized enterprises	Central government and central bank	Total
<1 year	1 148	191 914	45 185	29 856	135 892	603 137	**1 007 131**
1 <= <5 years	98 150	184 056	23 791	18 268	189 618	357 743	**871 626**
5 <= <10 years	13 738	105 312	111 692	3 536	84 270	277 316	**595 863**
10 <= years	720	97 655	319 553	11 644	106 867	14 170	**550 608**
TOTAL	**113 755**	**578 937**	**500 221**	**63 304**	**516 647**	**1 252 365**	**3 025 228**

Table 50: Lending portfolio broken down by maturity and exposure class (K&H Group) CRR Article 442(f)

Continent (HUF million)	Central government and central bank	Corporates	Institutions	Retail mortgage	Retail other	Small- and medium-sized enterprises	Total
Africa	-	-	91	-	-	-	**91**
Asia	-	0	8 614	-	-	0	**8 614**
Central and Eastern Europe	1 234 608	578 873	26 739	499 518	63 304	520 066	**2 923 108**
Middle East	-	-	439	-	-	-	**439**
North America	-	85	16 890	-	-	0	**16 975**
Australia and Oceania	-	-	41	-	-	-	**41**
Western Europe	-	41 397	73 972	-	-	113	**115 482**
Latin America	-	-	229	-	-	-	**229**
TOTAL	1 234 608	620 355	127 014	499 518	63 304	520 179	**3 064 981**

Table 51: Lending portfolio broken down by continent and exposure class (K&H Bank) CRR Article 442(d)

Continent (HUF million)	Central government and central bank	Corporates	Institutions	Retail mortgage	Retail other	Small- and medium-sized enterprises	Total
Africa	0	0	85	0	0	0	**85**
Asia	0	0	291	0	0	0	**291**
Central and Eastern Europe	1 252 365	537 454	97 731	500 221	63 304	516 534	**2 967 608**
Middle East	0	0	439	0	0	0	**439**
North America	0	85	3 991	0	0	0	**4 076**
Australia and Oceania	0	0	41	0	0	0	**41**
Western Europe	0	41 397	11 063	0	0	113	**52 574**
Latin America	0	0	115	0	0	0	**115**
TOTAL	1 252 365	578 937	113 755	**500 221**	**63 304**	**516 647**	**3 025 228**

Table 52: Lending portfolio broken down by continent and exposure class (K&H Group) CRR Article 442(d)

HUF mln	Institutions	Corporates	Retail Mortgage	Retail Other	Small- and medium-sized enterprises	Central government and central bank	Total
Hungary	17 094	571 324	499 518	63 304	520 066	1 234 259	2 905 565
Austria	61 614	0	0	0	0	0	61 614
Ireland	367	21 687	0	0	0	0	22 054
Russia	16 827	85	0	0	0	0	16 912
Other	341 113	27 260	0	0	113	348	58 835
Összesen	**127 015**	**620 356**	**499 518**	**63 304**	**516 647**	**1 252 365**	**3 064 981**

Table 53: Lending portfolio broken down by country and exposure class (K&H Bank) CRR Article 442(d)

HUF mln	Institutions	Corporates	Retail Mortgage	Retail Other	Small- and medium-sized enterprises	Central government and central bank	Total
Hungary	95 029	529 905	500 221	63 304	516 534	1 252 017	2 957 008
Austria	367	21 687	0	0	0	0	22 054
Ireland	143	13 440	0	0	0	0	13 583
Russia	1 241	5 827	0	0	0	348	7 416
Other	16 975	8 078	0	0	113	0	25 167
Összesen	**113 755**	**578 937**	**500 221**	**63 304**	**516 647**	**1 252 365**	**3 025 228**

Table *54:* Lending portfolio broken down by country and exposure class (K&H Group) CRR Article 442(d)

HUFmln	Country	Exposure
01 [0,00% - 0,10%*]	Hungary	103 704
	Belgium	60 943
	United States	15 981
	Other	23 888
02 [0,10% - 0,20%*]	Hungary	157 635
	Belgium	671
	Ausztria	336
	United States	122
	Other	18 242
03 [0,20% - 0,40%*]	Hungary	187 022
	Other	149
04 [0,40% - 0,80%*]	Hungary	371 251
	Ausztria	21 687
	Other	6 527
05 [0,80% - 1,60%*]	Hungary	346 961
	Other	2 930
06 [1,60% - 3,20%*]	Hungary	184 651
	Other	6 602
07 [3,20% - 6,40%*]	Hungary	81 049
	Ausztria	31
	United States	810
	Other	497
08 [6,40% - 12,80%*]	Hungary	44 248
09 [12,80% - 100,00%*]	Hungary	48 386
09 [100,00%]	Hungary	165 170
Összesen		**1 849 493**

HUFmln	Country	Exposure
01 [0,00% - 0,10%*]	Hungary	141 998
	Belgium	18
	United States	3 082
	Other	7 309
02 [0,10% - 0,20%*]	Hungary	193 813
	Ausztria	336
	United States	122
	Other	18 242
03 [0,20% - 0,40%*]	Hungary	174 011
	Other	149
04 [0,40% - 0,80%*]	Hungary	307 910
	Ausztria	21 687
	Other	6 412
05 [0,80% - 1,60%*]	Hungary	338 833
	Other	2 930
06 [1,60% - 3,20%*]	Hungary	203 914
	Other	6 602
07 [3,20% - 6,40%*]	Hungary	80 988
	Ausztria	31
	United States	810
	Other	490
08 [6,40% - 12,80%*]	Hungary	43 972
09 [12,80% - 100,00%*]	Hungary	48 386
09 [100,00%]	Hungary	164 906
Összesen		**1 766 952**

Table *55:* Credit risk exposures by relevant geographical location (K&H Bank) CRR Article 442(d)

Table *56:* Credit risk exposures by relevant geographical location (K&H Group)

HUFmln	Institutions	Corporates	Small- and medium-sized enterprises	Total	Small- and medium-sized enterprises	Central government and central bank	Total
Authorities					10	1 171 773	1 171 783
Other	13 721					62 835	598 053
Distribution & Traders	113 294	107 255			13 388		275 264
Agriculture Farming Fishing & Food		52 319			141 939		194 258
Finance & Insurance		58 788			131 232		190 021
Building & Construction		56 210			36 169		92 379
Automotive		53 135			31 524		84 659
Services		38 520			44 396		82 916
Energy Electricity & Water		66 150			9 930		76 080
Chemicals		45 299			16 113		61 412
Commertial Real estate		36 041			14 548		50 589
Textile Timber & Paper		33 447			12 097		45 544
Metals Machinery & Heavy Equipment		6 184			38 792		44 977
Shipping & Aviation		27 058			5 757		32 815
HORECA		26 889			2 760		29 648
IT & Electronics		9 812			18 548		28 360
Media & Telecom		3 073			2 973		6 046
Private Persons		175	499 518	63 304	3		178
Grand Total	**127 015**	**620 356**	**499 518**	**63 304**	**520 180**	**1 234 608**	**3 064 981**

Table 57: Lending portfolio broken down by sector and exposure class (K&H Bank) CRR Article 442(e)

HUFmln	Institutions	Corporates	Small- and medium-sized enterprises	Total	Small- and medium-sized enterprises	Central government and central bank	Total
Authorities					10	1 195 523	1 195 533
Other	91 702					56 842	689 972
Distribution & Traders		52 129			139 676		191 805
Agriculture Farming Fishing & Food		58 899			130 466		189 365
Finance & Insurance	22 053	65 655			13 388		123 193
Building & Construction		56 518			36 160		92 678
Automotive		53 206			31 507		84 712
Services		31 815			44 396		76 211
Energy Electricity & Water		66 153			9 930		76 082
Chemicals		42 038			15 713		57 752
Commertial Real estate		36 041			14 548		50 589
Textile Timber & Paper		33 531			12 067		45 597
Metals Machinery & Heavy Equipment		6 429			38 765		45 194
Shipping & Aviation		36 558			5 757		42 314
HORECA		26 889			2 760		29 648
IT & Electronics		9 828			18 548		28 376
Media & Telecom		3 075			2 953		6 029
Private Persons		175	500 221	63 304	3		178
Grand Total	**113 755**	**578 937**	**500 221**	**63 304**	**516 647**	**1 252 365**	**3 025 228**

Table 58: Lending portfolio broken down by sector and exposure class (K&H Group) CRR Article 442(e)

Detailed breakdown of the credit portfolio affected by provisions raised for credit losses

HUFmln	Corporate	Retail mortgage	Retail Other	Small and Medium enterprises	Total
Automotive	224	0	0	455	679
Building & Construction	27	0	0	299	326
Chemicals	1	0	0	736	737
Finance & Insurance	212	0	0	2 500	2 712
HORECA	3 684	0	0	11	3 695
Services	8	0	0	1 678	1 685
Agriculture Farming Fishing & Food	496	0	0	1 701	2 197
Commertial Real estate	2 954	0	0	1 795	4 750
Media & Telecom	0	0	0	245	245
Shipping & Aviation	0	0	0	196	196
Distribution & Traders	268	0	0	5 128	5 396
Energy Electricity & Water	6 090	0	0	0	6 090
IT & Electronics	75	0	0	2 573	2 647
Textile Timber & Paper	7	0	0	343	350
Metals Machinery & Heavy Equipment	4	0	0	2 552	2 556
Private Persons	0	129 572	1 578	0	131 150
Grand Total	**14 049**	**129 572**	**1 578**	**20 213**	**165 412**

Table 59: Breakdown of the lending portfolio affected by value adjustments and provisions by sector and exposure class (K&H Bank) – original exposure prior to credit conversion factors CRR Article 442(e)

HUFmln	Corporate	Retail Mortgage	Small and Medium sized enterprises	Total
Automotive	228		469	697
Building & Construction	28		309	336
Chemicals	1		734	735
Finance & Insurance	212		2 500	2 712
HORECA	3 721		11	3 732
Services	7		1 718	1 726
Agriculture Farming Fishing & Food	512		1 780	2 292
Commertial Real estate	2 997		1 878	4 875
Media & Telecom			255	255
Shipping & Aviation			203	203
Distribution & Traders	277		4 654	4 931
Energy Electricity & Water	6 124			6 124
IT & Electronics	75		2 682	2 757
Textile Timber & Paper	7		356	363
Metals Machinery & Heavy Equipment	4		2 579	2 583
unknown	1 577			131 151
Private Persons		129 574		0
Grand Total	**15 770**	**129 574**	**20 128**	**165 472**

Table 60: Breakdown of the lending portfolio affected by value adjustments and provisions by sector and exposure class (K&H Group) – original exposure prior to credit conversion factors CRR Article 442(e)

HUFmln	Corporates	Retail Mortgage	Retail Other	Small- and medium-sized enterprises	Total
Automotive	53	0	0	378	431
Building & Construction	23	0	0	284	306
Chemicals	1	0	0	393	393
Finance & Insurance	181	0	0	2 466	2 646
HORECA	1 311	0	0	11	1 322
Services	19	0	0	1 221	1 241
Agriculture Farming Fishing & Food	246	0	0	867	1 113
Commertial Real estate	2 135	0	0	435	2 570
Media & Telecom	0	0	0	160	160
Shipping & Aviation	0	0	0	160	160
Distribution & Traders	156	0	0	2 959	3 115
Energy Electricity & Water	4 749	0	0	0	4 749
IT & Electronics	0	0	0	1 494	1 494
Textile Timber & Paper	0	0	0	124	124
Metals Machinery & Heavy Equipment	0	0	0	2 329	2 329
Other	212	65 841	8 475	0	74 527
Authorities	0	0	0	0	0
Total	**9 085**	**65 841**	**8 475**	**13 278**	**96 679**

Table 61: Breakdown of the lending portfolio affected by value adjustments and provisions by sector and exposure class (K&H Bank) – value adjustments and provisions CRR Article 442(e)

HUFmln	Corporates	Retail Mortgage	Retail Other	Small- and medium-sized enterprises	Total
Automotive	53	0	0	378	431
Building & Construction	23	0	0	284	306
Chemicals	1	0	0	393	393
Finance & Insurance	181	0	0	2 466	2 646
HORECA	1 311	0	0	11	1 322
Services	19	0	0	1 221	1 241
Agriculture Farming Fishing & Food	246	0	0	867	1 113
Commertial Real estate	2 135	0	0	435	2 570
Media & Telecom	0	0	0	160	160
Shipping & Aviation	0	0	0	160	160
Distribution & Traders	156	0	0	2 959	3 115
Energy Electricity & Water	4 749	0	0	0	4 749
IT & Electronics	0	0	0	1 494	1 494
Textile Timber & Paper	0	0	0	124	124
Metals Machinery & Heavy Equipment	0	0	0	2 329	2 329
Other	212	65 841	8 475	0	74 527
Authorities	0	0	0	0	0
Összesen	**9 085**	**65 841**	**8 475**	**13 278**	**96 679**

Table 62: Breakdown of the lending portfolio affected by value adjustments and provisions by sector and exposure class (K&H Group) – value adjustments and provisions CRR Article 442(e)