Disclosure according to Pillar 3

Risk Report

K&H Banking Group and
K&H Bank Zrt

For the 2018 Financial Year

Table of contents

1. 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, of the Council (CRR) and in Article 122 of the Hpt.[1] and the relevant recommendations of the Hungarian National Bank. 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" four times a year (only once for the full year inluding the last quarter of the year), simultaneously with the disclosure of the "Annual Report" and makes it also accessible in Hungaran (and in English) on the K&H corporate website (www.kh.hu).

As the K&H Banking Group is a systemtically important institution on the Hungarian market, the bank also publishes half yearly and quartely reports in a simplified form.

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 HNB 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 will check 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 2018 and contains:

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

2. Risk Management, risk governance (CRR Article 438.)

Level I: Overarching company and risk committees

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

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

Board of Directors (as of 31 December 2018)	Title	Committee Membership
Luc Popelier	CEO, International Markets, KBC Bank&Insurance	Chairman
Christine Van Rijsseghem	KBC Group CRO, KBC Group NV.	Member
Willem Hueting	Senior General Manager International Markets	Member
David Moucheron	CEO of K&H Bank	Member
Gombás Attila	CFO of K&H Bank	Member
Beke Lajos	CRO of K&H Bank	Member

1. Table: Members of BOD

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

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 (RemCo)** approves the Bank's remuneration policy as well as the salaries of the Bank's senior managers. They decide about fringe benefits and performance based benefits as well. The Committee has 4 members (Luc Propelier, Chistine Van Rijsseghem, Williem Hueting, Katalin Bóna) and met 3 times in in 2018. (March 7, 2018; April 9, 2018; November 15, 2018.)

The **Nomination Committee (NomCo)** recommend the candidates for the senior manager positions. Apart from this task they regularly challenge the experience, knowledge and skills if they are really appropriate for their actual role. No issues occured in 2018.

The management of K&H subsidiaries (Group members) is independent in legal terms. However, adherence to a common KBC 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 KBC 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 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 Group. The new limits are also approved by this committee. 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. This committee evaluate the regular stress tests:

- credit risk (Annual stress tests: two historical scenarios and four hypothetical stress scenarios)
- market risk (both interest rate and ALM stress tests incorporate historical scenarios, interest rate risk scenarios, which are based on the stress of specific macroeconomic parameters)
- integrated risk stress test (3 year forward looking scenario)

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.

Level II: Specialized risk councils

- **Credit Risk Council (CRC)**. The CRC' 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 CRC is 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 CRC is chaired by the Bank's Chief Risk Officer.
- **Asset Liability Management Risk Council (ALM RC)**. ALM RC is to assist the ExCo and the CROC of K&H Bank Group with the running of the ALM&Liquidity risk management framework for K&H Bank Group in line with the KBC Group Framework, with the achievement of sound ALM&Liquidity risk/return performance and with the acknowledgement, application and implementation of ALM&Liquidity risk related standards decided by various bodies at KBC Group level applying to all KBC Group entities. ALM RC 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.

Level III: Other 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.

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 board of the K&H with accepting the Internal control statement for 2018 prooved that the risk management system is appropriate with respect to the risk profile and strategy of the bank.

3. Risk management, risk targets and policies by risk categories

3.1. 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.

3.1.1. Credit risk framework

Credit risk is the potential shortfall relative to the value expected consequent on non-payment or non-performance by an obligor. The term of obligitor is used in a general sense, including borrower, guarantor, counterparty to an inter-professional transaction or issuer of a debt instrument etc.

Credit risk may be caused by that obligitor's insolvency or lack of willingness to pay, or to events or measures taken by the political or monetary authorities of a particular country. Therefore, credit risk also includes country risk, dilution risk, settlement risk and counterparty risk.

Credit risk arises from mainly lending activities, contingent liabilities, guarantees - including letters of credit and loan commitments - investments in bonds and debt instruments, money market transactions and other related activities.

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.

3.1.2. 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 (as of 31.12.2018): Standard and Poor's: BBB-; Moody's: Baa3; Fitch: BBB- (credit rating: 3).

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).

3.1.3. Expected credit loss (ECL)

From 2018 the K&H Group applies the expected credit loss model established by IFRS 9 for impairment.

Expected credit losses are modelled over instrument's lifetime period. The lifetime period is equal to the remaining contractual period to maturity of debt instruments, adjusted for expected prepayments, if any. For loan commitments and financial guarantee contracts, it is the contractual period over which an entity has a present contractual obligation to extend credit. The exception from determining the lifetime exposure based on contractual maturity, for credit cards and overdrafts, the lifetime exposure is measured over a period that is based on expected life of the credit card contracts, based on internal statistics it is set to 30 years.

Management models *Lifetime ECL,* that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument is based on various models developed both locally and centrally depending on the sub-portfolio. The *12-month ECL,* represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining *lifetime period* of the financial instrument if it is less than a year.

It is important to note that the ECLs estimated for the purposes of these financial statements are point-in-time estimates, rather than through-the-cycle estimates that are commonly used for regulatory purposes. The estimates consider *forward looking information,* that is, ECLs reflect probability weighted development of key macroeconomic variables (e.g. unemployment, GDP evolution) that have an impact on credit risk.

The ECL modelling does not differ for Purchased or Originated Credit Impaired ("POCI") financial assets, except that (a) gross carrying value and discount rate are based on cash flows that were recoverable at initial recognition of the asset, rather than based on contractual cash flows, and (b) the ECL is always a lifetime ECL. POCI assets are financial assets that are credit-impaired upon initial recognition, such as loans affected by settlement of CHF mortgage loans which were NPL at the time of settlement. (On 16 June 2014, the Hungarian Supreme Court rendered its decision regarding the legal assessment of foreign currency based loans ("FX loans") for consumers under Hungarian civil law. In accordance with the Conversion Act the Group was required to convert foreign currency and foreign currency-based consumer mortgage loan contracts into Hungarian Forints with the effect date of 1 February 2015.)

For purposes of measuring PD, the Bank defines default as described in the Accounting policy – Definition of default chapter.

An instrument is considered to be no longer in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of three months. This period of three months has been determined based on an analysis that considers the likelihood of a financial instrument returning to default status after curing by using the definition of cures.

Although the default/non-default flag is conceptually conceived on client level, a different treatment is allowed in case of retail exposures. For these exposures, the definition of default can be applied at the level of a particular facility, rather than at the level of the obligor. As a consequence, a default of a client on one retail exposure does not require to treat all other retail exposure of this client as defaulted as well.

The assessment whether or not there has been a significant increase in credit risk ("SICR") since initial recognition is performed on an individual basis and on a portfolio basis. On loans issued to corporate entities, interbank loans and debt securities at AC or at FVOCI, SICR is assessed on an individual basis by monitoring the triggers stated below. For loans issued to individuals and other financial assets, SICR is assessed either on a portfolio basis or an individual basis, depending on the existence of scoring models. The criteria used to identify an SICR are monitored and reviewed periodically for appropriateness by the Group's Risk Management Department. The presumption, being that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has not been rebutted.

The Group considers a financial instrument to have experienced an SICR when one or more of the following quantitative, qualitative or backstop criteria has been met.

The level of ECL that is recognised in these consolidated financial statements depends on whether the credit risk of the borrower has increased significantly since initial recognition. This is a three-stage model for ECL measurement. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. The consequence of an asset being in Stage 3 is that the entity ceases to recognise interest income based on gross carrying value and applies the asset's effective interest rate to the carrying amount, net of ECL, when calculating interest income.

If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Group monitors whether that indicator continues to exist or has changed. The monitoring is done in an automated way in the engine which calculates ECL.

ECL for POCI financial assets is always measured on a lifetime basis. The Group therefore only recognises the cumulative changes in lifetime expected credit losses.

The Group has two approaches for ECL measurement: (i) assessment on an individual basis; (ii) assessment on a portfolio basis: internal ratings are estimated on an individual basis but the same credit risk parameters (e.g. PD, LGD) will be applied during the process of ECL calculations for the same credit risk ratings and homogeneous segments of the loan portfolio. The Group performs an assessment on an individual basis for non-retail clients above HUF 300mln exposure. The Group performs an assessment on a portfolio basis for the following types of loans: retail loans and non-retail loans where exposure is below HUF 300mln when no borrower-specific information is available.

ECL assessment on an individual basis is performed by weighting the estimates of credit losses for different possible outcomes against the probabilities of each outcome. The Group defines at least two possible outcomes for each assessed loan, one of which leads to a credit loss even if the probability of such a scenario may be very low. Individual assessment is primarily based on the expert judgement of experienced officers from the Credit Management Department. Expert judgements are regularly tested in order to decrease the difference between estimates and actual losses.

When assessment is performed on a portfolio basis, the Group determines the staging of the exposures and measures the loss allowance on a collective basis. The Group analyses its exposures by segments determined on the basis of shared credit risk characteristics, such that exposures within a group have homogeneous or similar risks. The different segments also reflect differences in credit risk parameters such as PD and LGD. The appropriateness of groupings/models is monitored and reviewed on yearly periodic basis by the Modelling Department and validated by Credit Risk Department locally or centrally depending on the specific model.

In general, ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained below, and discounted to present value using the instrument’s effective interest rate. The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future year during the lifetime period for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has been repaid). This effectively calculates an ECL for each future period, that is then discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

EADs are determined based on the expected payment profile, that varies by product type. EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis for amortising products and bullet repayment loans. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation. For revolving products, the EAD is predicted by taking the current drawn balance and adding a "credit conversion factor" that accounts for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type, current limit utilisation and other borrower-specific behavioural characteristics.

PDs are used for calculating ECLs: The Group uses different statistical approaches depending on the segment and product type to calculated lifetime ECLs, such as the extrapolation of 12-month ECLs based on migration matrixes, developing lifetime ECL curves based on the historical default data, hazard rate.

LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by the type of counterparty, type and seniority of the claim, and the availability of collateral or other credit support. LGDs are determined based on the factors that impact the expected recoveries after a default event. The approach to LGD measurement can be divided into three possible approaches:

- measurement of LGD based on the specific characteristics of the collateral;
- calculation of LGD on a portfolio basis based on recovery statistics; or
- individually defined LGD depending on different factors and scenarios.

The Group calculates LGD based on specific characteristics of the collateral, such as projected collateral values, historical discounts on sales and other factors for loans secured by real estate, cash and liquid securities. LGD is calculated on a collective basis based on the latest available recovery statistics for the remainder of the corporate loan portfolio and for retail secured and unsecured products.

ECL measurement for financial guarantees and loan commitments

The ECL measurement for these instruments includes the same steps as described above for on-balance sheet exposures and differs with respect to EAD calculation. The EAD is a product of credit conversion factor (“CCF”) and amount of the commitment (“$ExOff$”). CCF for undrawn credit lines of corporate customers, credit cards and overdrafts issued to both individuals and non-retail entities, and for financial guarantees is defined based on statistical analysis of past exposures at default.

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECLs both incorporate supportable forward-looking information. The Group identified certain key economic variables that correlate with developments in credit risk and ECLs. Forecasts of economic variables (the "base economic scenario") are provided by the Group's Chief Economist and provide the best estimate of the expected macro-economic development over the next five years. After five years, a mean reversion approach is used, which means that economic variables tend to revert to either a long run average rate (e.g. for unemployment) or a long run average growth rate (e.g. GDP). The impact of the relevant economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact that the changes in these variables historically had on the default rates and on the components of LGD and EAD.

In addition to the base economic scenario, the Group's Credit Risk Department also provides other possible scenarios (e.g. stress tests) along with scenario weightings. The number of other scenarios used is set based on the analysis of each major product type to ensure that non-linearities are captured. The number of scenarios and their attributes are reassessed at each reporting date. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking into account the range of possible outcomes of which each chosen scenario is representative. The assessment of SICR is performed using the12 month PD as a proxy for Lifetime PD under each of the bases and the other scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether a 12-month or lifetime ECL should be recorded. Following this assessment, the Group measures ECL as either a probability-weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

As with any economic forecast, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

The Group regularly reviews its methodology (back testing) and assumptions to reduce any difference between the estimates and the actual loss of credit. Such back testing is performed semi-annually.

The results of backtesting the ECL measurement methodology are communicated to Group Management and further steps for tuning models and assumptions are defined after discussions between authorised persons.

3.1.4. 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 limits are subject to regular review in order to meet market/macroeconomic requirements and the Bank's risk appetite.

Credit risk monitoring

Credit Risk Department prepares quarterly reports to the senior management regarding the whole consolidated credit portfolio of K&H including both retail (Private Persons and Micro SME) and non-retail (i.e. corporate + Premium SME) segment. These reports are regularly amend and fine-tuned to show information on the actual relevant issues/topics

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

These reports provide a comprehensive view of the given segment’s portfolio development in terms of exposures (eg approved limits, loans disbursed) and credit quality (eg delays, ratings, impairment losses, loan loss rates, etc.), and assess credit portfolio’ main risks broken down by indicators and sub-portfolios.

Also included here are reports from different pseudo portfolios that identify segments with specific risk characteristics (eg accumulation loans, settled loans which were converted to HUF).

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).

3.1.5. Changes in the exposure in 2018

Main credit risk changes in 2018 were as follows: Corporate and Premium SME segment showed stable risk parameters during the year, increase of volume also continued. Quality of FFG portfolio remains stable.

Quality of retail portfolio also stable, credit risk metrics show improving tendency. New lending was only slightly able to counterbalance the natural amortization of the portfolio, thus the net increase was only minor compared to new lending. Only Consumer Finance portfolio increased significantly, mainly due to Cash loan product. Quality of New book continues to be very good.

3.1.6. 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, commodity 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. Cash collateral received due to CSAs are also taken into the capital charge calculation as a mitigation tool.

3.1.7. 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). 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) Both in the retail and non retail segments the capital requirement is based on own estimations of PD, LGD and CCF risk parameters (Advanced IRB approach).

3.2. Market risk

3.2.1. 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 (ICM)
- 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 Market Directorate by Risk Analitics 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 Risk and Compliance 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 Bank also reports its exposure to high risk counterparties to the Supervision on a quarterly basis a (banking and trading books combined)

3.2.2. 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 a worst case scenario on the full economic balance sheet, i.e. including prepayment risk, defined as the maximum economic value the portfolio can lose

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.

	Yield curve increase	Yield curve decrease
200 bp parallel shift	-19 830	21 343
EBA parallel shift	-30 811	36 043
whereof HUF '200 bp parallel shift	-23 564	22 016
whereof HUF EBA parallel shift	-34 544	39 228
whereof EUR '200 bp parallel shift	3 809	-753
whereof EUR EBA parallel shift	3 803	-3 258

2. Table: Stress test results of the banking book positions (values in HUF million)

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 risks 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 due to early adoption of the maturity of transformation model. During the year the BPV limit was raised.

Both the Board of Directors and the Risk and Compliance 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. Asset encumbrance is integral to K&H Bank business and funding models which, over time, have increased as a result of participation on MNB LFG programs.

3.2.3. Liquidity risk (MNB proposal nr. 9/2017)

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. The liquidity framework system is 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 interbank funding 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 emergency liquidity 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.

	Total unweighted value AVG				Total weighted value AVG			
Quarter ending on	2018.03.31	2018.06.30	2018.09.30	2018.12.31	2018.03.31	2018.06.30	2018.09.30	2018.12.31
Number of data points used in the calculation of averages	3	3	3	3	3	3	3	3
HIGH-QUALITY LIQUID ASSETS								
Total high-quality liquid assets (HQLA)					**876 421**	**825 061**	**653 509**	**838 689**
CASH-OUTFLOWS								
Retail deposits and deposits from small business customers, of which:	**1 191 919**	**1 225 559**	**1 289 779**	**1 356 961**	**76 775**	**75 993**	**80 556**	**85 296**
Stable deposits	900 612	933 350	970 806	1 010 534	45 031	46 668	48 540	50 527
Less stable deposits	291 308	292 209	318 973	346 427	31 744	29 325	32 016	34 769
Unsecured wholesale funding	**966 623**	**968 823**	**955 772**	**979 377**	**520 949**	**516 606**	**493 496**	**530 622**
Operational deposits (all counterparties) and deposits in networks of cooperative banks	0	0	0	0	0	0	0	0
Non-operational deposits (all counterparties)	966 623	968 823	955 772	979 377	520 949	516 606	493 496	530 622
Unsecured debt	0	0	0	0	0	0	0	0
Secured wholesale funding					**0**	**0**	**0**	**0**
Additional requirements	**499 957**	**501 648**	**502 559**	**501 996**	**180 608**	**187 912**	**201 259**	**188 148**
Outflows related to derivative exposures and other collateral requirements	99 107	107 237	119 210	117 852	99 107	107 237	119 210	117 852
Outflows related to loss of funding on debt products	0	0	0	0	0	0	0	0
Credit and liquidity facilities	400 850	394 411	383 349	384 144	81 501	80 675	82 049	70 296
Other contractual funding obligations	**10 191**	**7 382**	**5 689**	**10 067**	**4 141**	**2 566**	**889**	**4 900**
Other contingent funding obligations	**338 125**	**358 898**	**360 558**	**392 242**	**20 942**	**20 783**	**26 663**	**45 503**
TOTAL CASH OUTFLOWS					**803 416**	**803 860**	**802 862**	**854 469**
CASH-INFLOWS								
Secured lending (eg reverse repos)	**26 446**	**22 336**	**37 430**	**27 304**	**0**	**0**	**0**	**0**
Inflows from fully performing exposures	**262 724**	**310 700**	**430 923**	**303 572**	**249 886**	**297 130**	**417 487**	**288 241**
Other cash inflows	**1 045**	**4 440**	**0**	**135**	**1 045**	**4 440**	**0**	**135**
(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					0	0	0	0
(Excess inflows from a related specialised credit institution)					0	0	0	0
TOTAL CASH INFLOWS	**290 214**	**337 476**	**468 353**	**331 011**	**250 931**	**301 570**	**417 487**	**288 376**
Fully exempt inflows	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***
Inflows Subject to 90% Cap	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***
Inflows Subject to 75% Cap	***290 214***	***337 476***	***468 353***	***331 011***	***250 931***	***301 570***	***417 487***	***288 376***
TOTAL ADJUSTED VALUE								
LIQUIDITY BUFFER					**889 384**	**825 079**	**653 491**	**838 707**
TOTAL NET CASH OUTFLOWS					**552 484**	**502 290**	**385 376**	**566 093**
LIQUIDITY COVERAGE RATIO (%)					**162%**	**164%**	**170%**	**149%**

3. Table: EU LIQ1 - quantitative information on LCR (values in HUF million, K&H Group)

	Total unweighted value AVG				Total weighted value AVG			
Quarter ending on	2018.03.31	2018.06.30	2018.09.30	2018.12.31	2018.03.31	2018.06.30	2018.09.30	2018.12.31
Number of data points used in the calculation of averages	3	3	3	3	3	3	3	3
HIGH-QUALITY LIQUID ASSETS								
Total high-quality liquid assets (HQLA)					**876 421**	**825 061**	**653 509**	**838 689**
CASH-OUTFLOWS								
Retail deposits and deposits from small business customers, of which:	**1 191 919**	**1 225 559**	**1 289 779**	**1 356 961**	**76 775**	**75 993**	**80 556**	**85 296**
Stable deposits	900 612	933 350	970 806	1 010 534	45 031	46 668	48 540	50 527
Less stable deposits	291 308	292 209	318 973	346 427	31 744	29 325	32 016	34 769
Unsecured wholesale funding	**991 097**	**1 005 389**	**981 537**	**986 771**	**539 475**	**546 984**	**513 616**	**533 125**
Operational deposits (all counterparties) and deposits in networks of cooperative banks	0	0	0	0	0	0	0	0
Non-operational deposits (all counterparties)	991 097	1 005 389	981 537	986 771	539 475	546 984	513 616	533 125
Unsecured debt	0	0	0	0	0	0	0	0
Secured wholesale funding					**0**	**0**	**0**	**0**
Additional requirements	**569 290**	**577 648**	**553 226**	**501 996**	**249 941**	**263 912**	**251 925**	**188 148**
Outflows related to derivative exposures and other collateral requirements	168 440	183 237	169 877	117 852	168 440	183 237	169 877	117 852
Outflows related to loss of funding on debt products	0	0	0	0	0	0	0	0
Credit and liquidity facilities	400 850	394 411	383 349	384 144	81 501	80 675	82 049	70 296
Other contractual funding obligations	**10 091**	**7 282**	**5 589**	**9 950**	**4 141**	**2 566**	**889**	**4 900**
Other contingent funding obligations	**352 085**	**379 131**	**376 429**	**407 320**	**25 210**	**27 185**	**31 703**	**48 022**
TOTAL CASH OUTFLOWS					**895 542**	**916 640**	**878 690**	**859 491**
CASH-INFLOWS								
Secured lending (eg reverse repos)	**26 446**	**22 336**	**37 430**	**27 304**	**0**	**0**	**0**	**0**
Inflows from fully performing exposures	**267 961**	**317 337**	**436 961**	**310 050**	**257 845**	**305 670**	**425 578**	**297 790**
Other cash inflows	**1 045**	**4 469**	**0**	**135**	**1 045**	**4 469**	**0**	**135**
(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					0	0	0	0
(Excess inflows from a related specialised credit institution)					0	0	0	0
TOTAL CASH INFLOWS	**295 452**	**344 142**	**474 390**	**337 489**	**258 890**	**310 138**	**425 578**	**297 925**
Fully exempt inflows	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***
Inflows Subject to 90% Cap	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***
Inflows Subject to 75% Cap	***295 452***	***344 142***	***474 390***	***337 489***	***258 890***	***310 138***	***425 578***	***297 925***
TOTAL ADJUSTED VALUE								
LIQUIDITY BUFFER					**876 421**	**825 061**	**653 509**	**838 689**
TOTAL NET CASH OUTFLOWS					**636 652**	**606 502**	**453 112**	**561 567**
LIQUIDITY COVERAGE RATIO (%)					**138%**	**136%**	**144%**	**150%**

4. Table: EU LIQ1 - quantitative information on LCR (values in HUF million, K&H Bank)

3.3. 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 they see as a potential threat 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 main (residual) operational risks represented by errors, weaknesses, gaps related to 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. Accountable managers and the operational risk managers appointed for end-to-end processes (LORM) are obliged to plan RSAs on a yearly basis, using the process definitions of the relevant business area and their own professional experience.

Scenario Analysis:

Although operational risk capital requirement is calculated with standard approach, Bank applies some elements of the advanced AMA methodology - including scenario analysis – in order to evaluate the adequacy of capital requirement calculated under Pillar 1 and Pillar 2 (benchmarking).

Scenario analyzes are reviewed on yearly basis where experts give their estimation for relevant risk events affecting K&H Bank. The results of scenario analysis are included in K&H's capital benchmarking model as extreme events.

Group Key Controls

The Group Key Controls (GKC) are top down basic control objectives defined on KBC Group level, to mitigate key inherent risks of the underlying processes and activities of K&H Group. GKCs ensure that significant operational risks are managed in an 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 (LER): 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 collects and registers the operational risk related loss events in structured manner in line with the group standards.

Key Risk Indicators (KRIs): KRIs are metrics or indicators for monitoring exposure to a loss or other potential event (risks). 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 a Loss Tolerance Limit and a corresponding Early Warning Limit is in place for operational losses while warning and alert risk limits have been set in respect of the Key Risk Indicators.

3.3.1. Internal risk reporting

The Capital and Risk Oversight Committee is responsible for monitoring the operational risk profile and the implementation of the operational risk management framework in general. The 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

CROC also ratifies the minutes taken at the meetings of the Operational Risk Committees.

3.3.2. 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 CROC at the second quarter 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 2008 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. K&H is prepared to switch to the new OPR capital calculation method, the Standard Measurement Approach.

4. 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.

4.1. Capital structure and 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.

		equity	subordinated loan capital #1	subordinated loan capital #2	subordinated loan capital #3
1	Issuer	K&H Bank Zrt.	KBC Bank NV	KBC Bank NV	KBC Bank NV
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN: HU0000075304	N/A	N/A	N/A
3	Governing law(s) of the instrument	Hungarian law	Belgian law	Belgian law	Belgian law
Regulatory treatment					
4	Transitional CRR rules	core Tier 1 capital instrumentum	Tier 2 capital instrumentum	Tier 2 capital instrumentum	Tier 2 capital instrumentum
5	Post-transitional CRR rules	core Tier 1 capital instrumentum	Tier 2 capital instrumentum	Tier 2 capital instrumentum	Tier 2 capital instrumentum
6	Eligible at solo/ (sub-)consolidated/ solo&(sub-)consolidated	individuel and (sub)consolidated	individuel and (sub)consolidated	individuel and (sub)consolidated	individuel and (sub)consolidated
7	Instrument type (types to be specified by each jurisdiction)	Share, Common Equity Tier 1 as published in Regulation (EU) No 575/2013 article 28	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	HUF 140,978 million	EUR 60 million	EUR 30 million	EUR 37 million
9	Nominal amount of instrument	HUF 140,978 million	EUR 60 million	EUR 30 million	EUR 37 million
9a	Issue price	N/A	100%	100%	100%
9b	Redemption price	N/A	100%	100%	100%
10	Accounting classification	equity	subordinated loan	subordinated loan	subordinated loan
11	Original date of issuance	N/A	2006.06.30	2015.09.28	2017.12.22
12	Perpetual or dated	perpetual	dated	dated	dated
13	Original maturity date	no maturity	2026.06.30	2025.09.28	2027.12.22
14	Issuer call subject to prior supervisory approval	N/A	No	No	No
15	Optional call date, contingent call dates and redemption amount	N/A	Pursuant to CRR Article 63	Pursuant to CRR Article 63	Pursuant to CRR Article 63
16	Subsequent call dates, if applicable	N/A	N/A	N/A	N/A
Coupons / dividends					
17	Fixed or floating dividend/coupon	N/A	variable	variable	variable
18	Coupon rate and any related index	N/A	EURIBOR+2.70%	EURIBOR+3.05%	EURIBOR+1.53%
19	Existence of a dividend stopper	No	N/A	N/A	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A	N/A	N/A	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A	N/A	N/A	N/A
21	Existence of step up or other incentive to redeem	N/A	No	No	No
22	Noncumulative or cumulative	N/A	Noncumulative	Noncumulative	Noncumulative
23	Convertible or non-convertible	N/A	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A
30	Write-down features	N/A	No	No	No
31	If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	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	Pursuant to CRR Article 63
36	Non-compliant transitioned features	N/A	N/A	N/A	N/A
37	If yes, specify non-compliant features	N/A	N/A	N/A	N/A
(1) Insert 'N/A' if the question is not applicable					

5. Table: Capital Instruments main features

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 quarterly 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 etc.).

4.2. Capital requirements (CRR Articles 451.)

The table below provide information about the risk weight assets of the bank and the exact value of the capital adequacy ratio at the end of 2018.

Risk Weighted Assets (RWA)	K&H Group	K&H Bank
Total RWA	1 839 381	1 873 710
Credit Risk (incl. CVA)	1 567 699	1 601 463
Market Risk	14 040	14 040
Operational Risk	257 642	258 207
Capital Adequacy Ratio	17,1%	16,7%

6. Table: Capital adequecy ratio, values in million HUF

Institution-specific **countercyclical capital buffer** (Article CRR 440.)

Breakdown by country	General credit exposures		Trading book exposure		Securitisation exposure		Own funds requirements				Own funds requirement weights	Countercyclical capital buffer rate
	Exposure value for SA	Exposure value IRB	Sum of long and short position of trading book	Value of trading book exposure for internal	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total		
HU	241 064	1 800 975					105 679			105 679	0,982	
AT		5 274					255			255	0,002	
CN		103					5			5	0,000	
CZ		6 022					743			743	0,007	1,0000%
GB		21					2			2	0,000	1,0000%
IE		4 391					270			270	0,003	
LU		25					4			4	0,000	
RO		685					46			46	0,000	
RU		1 617					3			3	0,000	
SK		1 909					179			179	0,002	1,2500%
US		84					1			1	0,000	
ZA		4 508					144			144	0,001	
CH		2 466					279			279	0,003	
Total	**241 064**	**1 828 080**					**107 610**			**107 610**	**1,000**	**0,0090%**

7. Table: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer (values in million HUF, K&H Group)

Breakdown by country	General credit exposures		Trading book exposure		Securitisation exposure		Own funds requirements				Own funds requirement weights	Countercyclical capital buffer rate
	Exposure value for SA	Exposure value IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total		
HU	226 985	1 845 289					107 384			107 384	0,982	
AT		5 274					255			255	0,002	
CN		103					5			5	0,000	
CZ		6 022					753			753	0,007	1,0000%
GB		21					2			2	0,000	1,0000%
IE		4 391					270			270	0,003	
LU		25					4			4	0,000	
RO		685					44			44	0,000	
RU		1 617					3			3	0,000	
SK		1 909					179			179	0,002	1,2500%
US		84					1			1	0,000	
ZA		4 508					144			144	0,001	
CH		2 466					279			279	0,003	
Total	**226 985**	**1 872 394**					**109 323**			**109 323**	**1,000**	**0,0089%**

8. Table: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer (values in million HUF, K&H Bank)

Total risk exposure amount	1 839 381
Institution specific countercyclical buffer rate	0,0090%
Institution specific countercyclical buffer requirement	166

9. Table: Amount of institution-specific countercyclical capital buffer (values in million HUF, K&H Group)

Total risk exposure amount	1 873 710
Institution specific countercyclical buffer rate	0,0089%
Institution specific countercyclical buffer requirement	167

10. Table: Amount of institution-specific countercyclical capital buffer (values in million HUF, K&H Bank)

According to the 2013/36/EU directive (CRD) the institution-specific countercyclical capital buffer rate shall consist of the weighted average of the countercyclical buffer rates that apply in the jurisdictions where the relevant credit exposures of the institution are located. The institution-specific countercyclical capital buffer rate of K&H Group was below 0.01 %point at 31st December 2018.

Overview of RWAs:

	RWA		Minimum capital
	T	T-1 year	T
Credit risk (excluding CCR)	**1 540 705**	**1 400 182**	**123 256**
Of which the standardised approach	95 774	85 943	7 662
Of which the foundation IRB (FIRB) approach			
Of which the advanced IRB (AIRB) approach	1 400 760	1 276 607	112 061
Of which MRA	44 171	37 632	3 534
Of which equity IRB under the simple risk-weighted approach or the IMA			
CCR	**26 994**	**25 210**	**2 160**
Of which mark to market	26 457	23 754	2 117
Of which original exposure			
Of which the standardised approach			
Of which internal model method (IMM)			
Of which risk exposure amount for contributions to the default fund of a CCP			
Of which CVA	538	1 456	43
Settlement risk			
Securitisation exposures in the banking book (after the cap)			
Of which IRB approach			
Of which IRB supervisory formula approach (SFA)			
Of which internal assessment approach (IAA)			
Of which standardised approach			
Market risk	**14 040**	**25 976**	**1 123**
Of which the standardised approach	14 040	25 976	1 123
Of which IMA			
Large exposures			
Operational risk	**257 642**	**246 796**	**20 611**
Of which basic indicator approach			
Of which standardised approach	257 642	246 796	20 611
Of which advanced measurement approach			
Amounts below the thresholds for deduction (subject to 250% risk weight)			
Floor adjustment			
Total	**1 839 381**	**1 698 163**	**147 150**

11. Table: EU OV1 – Overview of RWAs (values in HUF million; K&H Group compared to last year)

	RWA		Minimum capital
	T	T-1 year	T
Credit risk (excluding CCR)	**1 574 381**	**1 424 890**	**125 950**
Of which the standardised approach	86 962	65 533	6 957
Of which the foundation IRB (FIRB) approach			
Of which the advanced IRB (AIRB) approach	1 443 248	1 321 725	115 460
Of which MRA	44 171	37 632	3 534
Of which equity IRB under the simple risk-weighted approach or the IMA			
CCR	**27 082**	**25 410**	**2 167**
Of which mark to market	26 545	23 954	2 124
Of which original exposure			
Of which the standardised approach			
Of which internal model method (IMM)			
Of which risk exposure amount for contributions to the default fund of a CCP			
Of which CVA	538	1 456	43
Settlement risk			
Securitisation exposures in the banking book (after the cap)			
Of which IRB approach			
Of which IRB supervisory formula approach (SFA)			
Of which internal assessment approach (IAA)			
Of which standardised approach			
Market risk	**14 040**	**25 976**	**1 123**
Of which the standardised approach	14 040	25 976	1 123
Of which IMA			
Large exposures			
Operational risk	**258 207**	**249 869**	**20 657**
Of which basic indicator approach			
Of which standardised approach	258 207	249 869	20 657
Of which advanced measurement approach			
Amounts below the thresholds for deduction (subject to 250% risk weight)			
Floor adjustment			
Total	**1 873 710**	**1 726 145**	**149 897**

12. Table: EU OV1 – Overview of RWAs (values in HUF million; K&H Bank compared to last year)

	RWA		Minimum capital
	T	T-1 quarter	T
Credit risk (excluding CCR)	**1 540 705**	**1 602 218**	**123 256**
Of which the standardised approach	95 774	97 829	7 662
Of which the foundation IRB (FIRB) approach			
Of which the advanced IRB (AIRB) approach	1 400 760	1 464 302	112 061
Of which MRA	44 171	40 087	3 534
Of which equity IRB under the simple risk-weighted approach or the IMA			
CCR	**26 994**	**32 206**	**2 160**
Of which mark to market	26 457	31 586	**2 117**
Of which original exposure			
Of which the standardised approach			
Of which internal model method (IMM)			
Of which risk exposure amount for contributions to the default fund of a CCP			
Of which CVA	538	620	43
Settlement risk			
Securitisation exposures in the banking book (after the cap)			
Of which IRB approach			
Of which IRB supervisory formula approach (SFA)			
Of which internal assessment approach (IAA)			
Of which standardised approach			
Market risk	**14 040**	**15 795**	**1 123**
Of which the standardised approach	14 040	15 795	1 123
Of which IMA			
Large exposures			
Operational risk	**257 642**	**246 588**	**20 611**
Of which basic indicator approach			
Of which standardised approach	257 642	246 588	20 611
Of which advanced measurement approach			
Amounts below the thresholds for deduction (subject to 250% risk weight)			
Floor adjustment			
Total	**1 839 381**	**1 896 807**	**147 150**

13. Table: EU OV1 – Overview of RWAs (values in HUF million; K&H Group compared to last quarter)

	RWA		Minimum capital
	T	T-1 quarter	T
Credit risk (excluding CCR)	**1 574 381**	**1 629 891**	**125 950**
Of which the standardised approach	86 962	72 299	6 957
Of which the foundation IRB (FIRB) approach			
Of which the advanced IRB (AIRB) approach	1 443 248	1 517 505	115 460
Of which MRA	44 171	40 087	3 534
Of which equity IRB under the simple risk-weighted approach or the IMA			
CCR	**27 082**	**32 253**	**2 167**
Of which mark to market	26 545	31 633	**2 124**
Of which original exposure			
Of which the standardised approach			
Of which internal model method (IMM)			
Of which risk exposure amount for contributions to the default fund of a CCP			
Of which CVA	538	620	43
Settlement risk			
Securitisation exposures in the banking book (after the cap)			
Of which IRB approach			
Of which IRB supervisory formula approach (SFA)			
Of which internal assessment approach (IAA)			
Of which standardised approach			
Market risk	**14 040**	**15 795**	**1 123**
Of which the standardised approach	14 040	15 795	1 123
Of which IMA			
Large exposures			
Operational risk	**258 207**	**249 454**	**20 657**
Of which basic indicator approach			
Of which standardised approach	258 207	249 454	20 657
Of which advanced measurement approach			
Amounts below the thresholds for deduction (subject to 250% risk weight)			
Floor adjustment			
Total	**1 873 710**	**1 927 392**	**149 897**

14. Table: EU OV1 – Overview of RWAs (values in HUF million; K&H Bank compared to last quarter)

4.3. Own funds (CRR Articles 437.)

		K&H Group	K&H Bank
	Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	189 753	189 753
	of which: Instrument type 1	140 978	140 978
	of which: Instrument type 2	48 775	48 775
	of which: Instrument type 2	0	0
2	Retained earnings	33 785	32 228
3	Accumulated other comprehensive income (and other reserves)	6 128	6 133
3a	Funds for general banking risk	17 639	17 630
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	0	0
5	Minority interests (amount allowed in consolidated CET1)	0	0
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	54 913	54 049
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**302 218**	**299 793**
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)		
8	Intangible assets (net of related tax liability) (negative amount)	-19 770	-19 767
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)		
11	Fair value reserves related to gains or losses on cash flow hedges	-2 156	-2 156
12	Negative amounts resulting from the calculation of expected loss amounts	-6 780	-6 520
13	Any increase in equity that results from securitised assets (negative amount)		
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-8	-8
15	Defined-benefit pension fund assets (negative amount)		
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)		
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)		
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)		
20a	Exposure amount of the following items which qualify for a RW of 1250 %, where the institution opts for the deduction alternative		
20b	of which: qualifying holdings outside the financial sector (negative amount)		
20c	of which: securitisation positions (negative amount)		
20d	of which: free deliveries (negative amount)		
21	Deferred tax assets arising from temporary differences (amount above 10 % threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)		
22	Amount exceeding the 15 % threshold (negative amount)		
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities		
25	of which: deferred tax assets arising from temporary differences		
25a	Losses for the current financial year (negative amount)		
25b	Foreseeable tax charges relating to CET1 items (negative amount)		
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)		
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-28 714**	**-28 451**
29	**Common Equity Tier 1 (CET1) capital**	**273 504**	**271 342**

	Additional Tier 1 (AT1) capital: instruments		
30	Capital instruments and the related share premium accounts		
31	of which: classified as equity under applicable accounting standards		
32	of which: classified as liabilities under applicable accounting standards		
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1		
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties		
35	of which: instruments issued by subsidiaries subject to phase out		
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**		
	Additional Tier 1 (AT1) capital: regulatory adjustments		
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)		
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)		
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)		
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)		
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**		
44	**Additional Tier 1 (AT1) capital**		
45	**Tier 1 capital (T1 = CET1 + AT1)**	**273 504**	**271 342**
	Tier 2 (T2) capital: instruments and provisions		
46	Capital instruments and the related share premium accounts		
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2		
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties		
49	of which: instruments issued by subsidiaries subject to phase out		
50	Credit risk adjustments		
51	**Tier 2 (T2) capital before regulatory adjustments**	**40 832**	**40 832**
	Tier 2 (T2) capital: regulatory adjustments		
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)		
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)		
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)		
57	**Total regulatory adjustments to Tier 2 (T2) capital**		
58	**Tier 2 (T2) capital**	**40 832**	**40 832**
59	**Total capital (TC = T1 + T2)**	**314 336**	**312 174**
60	**Total risk weighted assets**	**1 839 381**	**1 873 710**

	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	14,87%	14,48%
62	Tier 1 (as a percentage of total risk exposure amount)	14,87%	14,48%
63	Total capital (as a percentage of total risk exposure amount)	17,09%	16,66%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	43 851	35 299
65	of which: capital conservation buffer requirement	34 488	35 132
66	of which: countercyclical buffer requirement	166	167
67	of which: systemic risk buffer requirement		
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	9 197	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	2,38%	1,88%
	Amounts below the thresholds for deduction (before risk weighting)		
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10 % threshold and net of eligible short positions)		
75	Deferred tax assets arising from temporary differences (amount below 10 % threshold, net of related tax liability where the conditions in Article 38 (3) are met)		
	Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)		
77	Cap on inclusion of credit risk adjustments in T2 under standardised		
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)		
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements		
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		
82	Current cap on AT1 instruments subject to phase out arrangements		
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		
84	Current cap on T2 instruments subject to phase out arrangements		
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		

15. Table: Own funds (values in HUF million, K&H Group and K&H Bank)

4.4. Leverage ratio (CRR Article 451.)

The below tables show the leverage ratio.

	Applicable Amount	
	K&H Group	K&H Bank
Total assets as per published financial statements	4 407 928	4 422 289
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation		
(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)		
Adjustments for derivative financial instruments		
Adjustment for securities financing transactions (SFTs)		
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)		
(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)		
(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)		
Other adjustments		
Leverage ratio total exposure measure	**4 407 928**	**4 422 289**

16. Table: LRSum - Summary reconciliation of accounting assets and leverage ratio exposures (values in million HUF, K&H Group and K&H Bank)

		CRR leverage ratio exposures	
		K&H Group	K&H Bank
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	3 300 646	3 324 538
2	(Asset amounts deducted in determining Tier 1 capital)	- 22 289	- 22 286
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fidu- ciary assets) (sum of lines 1 and 2)**	**3 278 357**	**3 302 252**
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligi- ble cash variation margin)	148 587	148 594
5	Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method)		
EU-5a	Exposure determined under Original Exposure Method		
6	Gross-up for derivatives collateral provided where deducted from the bal- ance sheet assets pursuant to the applicable accounting framework		
7	(Deductions of receivables assets for cash variation margin provided in deri- vatives transactions)		
8	(Exempted CCP leg of client-cleared trade exposures)		
9	Adjusted effective notional amount of written credit derivatives		
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)		
11	**Total derivatives exposures (sum of lines 4 to 10)**	**148 587**	**148 594**
	SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales ac- counting transactions	11 091	11 091
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)		
14	Counterparty credit risk exposure for SFT assets		
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013		
15	Agent transaction exposures		
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)		
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**11 091**	**11 091**

Other off-balance sheet exposures			
17	Off-balance sheet exposures at gross notional amount		
18	(Adjustments for conversion to credit equivalent amounts)	969 893	960 353
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**969 893**	**960 353**
Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)			
EU-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))		
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))		
Capital and total exposure mesure			
20	**Tier 1 capital**	273 504	271 342
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**4 407 928**	**4 422 290**
Leverage ratio			
22	**Leverage ratio**	**6,20%**	**6,14%**
Choice on transitional arrangements and amount of derecognised fiduciary items			
EU-23	Choice on transitional arrangements for the definition of the capital mea- sure		
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013		

17. Table: LRCom - Leverage ratio common disclosure (values in million HUF, K&H Group and K&H Bank)

		CRR leverage ratio exposures	
		K&H Group	**K&H Bank**
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	3 300 646	3 324 538
EU-2	Trading book exposures		
EU-3	Banking book exposures, of which:	3 300 646	3 324 538
EU-4	Covered bonds		
EU-5	Exposures treated as sovereigns	1 140 781	1 140 046
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns		
EU-7	Institutions	453 013	453 893
EU-8	Secured by mortgages of immovable properties	486 963	486 963
EU-9	Retail exposures	61 890	61 932
EU-10	Corporate	849 111	868 844
EU-11	Exposures in default	87 200	87 200
EU-12	Other exposures (eg equity, securitisations, and other non-credit obliga- tion assets)	221 688	225 660

18. Table: LRSpl - Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)(values in million HUF, K&H Group and K&H Bank)

5. ICAAP model

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:

- credit risk
- operational risk
- market risk (trading and ALM)
- business risk

One of the main component of ICAAP process is to define the risk appetite. We callibrate our operational limits and early warning triggers and their measurement and management methods based on our actual risk appetite. The fist step of this process setting up the risk profile of the Bank and compare the risk profile of the actual year with the one of the previous year. The risk appetite (risk acceptance) and the risk profile needs to be syncron. The board of the K&H accepted the K&H Banking Group Risk Appetite Statement 2018 - 2020 document as of 20th of March, 2018.

The board defines the risk appetite and the methods of measurement of risk. The bank monitors these limits monthly and weekly as well (in the Integrated Risk Dashboard and on the weekly specific risk committe meetings) to avoid the limit overruns.

6. Encumbered assets (No. 680/2014 Regulation (EU))

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. Asset encumbrance is integral to K&H Bank business and funding models which, over time, have increased as a result of participation on MNB LFG programs.

[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.

	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
Assets of the reporting institution	**274 263**				**2 900 751**			
Equity instruments					2 669			
Debt securities	144 100		152 168		482 839		507 149	
of which: covered bonds								
of which: asset-backed securities								
of which: issued by general governments	144 100		152 168		482 839		507 149	
of which: issued by financial corporations								
of which: issued by non-financial corporations								
Other assets	124 054				2 356 422			
of which: ...								

19. Table: Encumbered and unencumbered assets (values in million HUF, K&H Group)

	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		of which notionally eligible EHQLA		of which notionally eligible EHQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
Assets of the reporting institution	**290 491**				**2 912 619**			
Equity instruments					2 669			
Debt securities	144 100		152 168		482 938		507 248	
of which: covered bonds								
of which: asset-backed securities								
of which: issued by general governments	144 001		152 068		482 170		506 434	
of which: issued by financial corporations			99					
of which: issued by non-financial corporations					768		814	
Other assets	140 149				2 372 407			
of which: ...								

20. Table: Encumbered and unencumbered assets (values in million HUF, K&H Bank)

	Fair value of encumbered collateral received or own debt securities issued		Unencumbered, Fair value of collateral received or own debt securities issued available for encumbrance	
		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
Collateral received by the reporting institution			**8 047**	
Loans on demand			8 047	
Equity instruments				
Debt securities				
of which: covered bonds				
of which: asset-backed securities				
of which: issued by general governments				
of which: issued by financial corporations				
of which: issued by non-financial corporations				
Loans and advances other than loans on demand				
Other collateral received				
of which: ...				
Own debt securities issued other than own covered bonds or asset-backed securities				
Own covered bonds and asset-backed securities issued and not yet pledged				
TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	**274 263**			

21. Table: Received Collateral (values in HUF million, K&H Group)

	Fair value of encumbered collateral received or own debt securities issued		Unencumbered, Fair value of collateral received or own debt securities issued available for encumbrance	
		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
Collateral received by the reporting institution			**8 047**	
Loans on demand			8 047	
Equity instruments				
Debt securities				
of which: covered bonds				
of which: asset-backed securities				
of which: issued by general governments				
of which: issued by financial corporations				
of which: issued by non-financial corporations				
Loans and advances other than loans on demand				
Other collateral received				
of which: ...				
Own debt securities issued other than own covered bonds or asset-backed securities				
Own covered bonds and asset-backed securities issued and not yet pledged				
TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	**290 491**			

22. Table: Received Collateral (values in HUF million, K&H Bank)

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	**282 183**	**274 263**
Derivatives	75 863	18 288
Deposits	111 468	143 070
Debt securities issued	88 000	101 623

23. Table: Source of encumbrance (values in HUF million, K&H Group)

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	**283 660**	**274 263**
Derivatives	75 864	18 288
Deposits	207 796	246 095
Debt securities issued		

24. Table: Source of encumbrance (values in HUF million, K&H Bank)

7. Remuneration policy (CRR Articles 450.)

K&H publishes the remuneration policy applicable to all organisational units and employees of the Bank, and the employees of the subsidiaries K&H Group Service Provider Ltd., K&H Investment Fund Management Plc., K&H Factor Plc. 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 5.2 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 with the eligibility for phantom shares, the variable part of remuneration and options is based on can be found in chapters 3.1–4.5. 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 2018 remunerations.

Division	Gross wages, cafeteria, bonus (HUF mln)
Retail Banking Division	1 977
Retail Banking Division - network	9 602
Business Banking Division	2 047
Business Banking Division - network	2 544
Chief Executive Officer	1 202
CRO Services Division	633
Finance Division	2 137
Operation, Technologies and Retail Credit Management Division	7 122
Other	-
K&H Bank Zrt. Total	**27 264**
K&H Group service provider	848
K&H Factor	99
K&H Asset management	343
K&H Bank Group Total	**28 554**

25. Table: By division breakdown of gross remuneration (K&H Group)

Remuneration of persons in management position and key identified staff in 2018	
Number of persons receiving remuneration	52
Fixed remuneration (HUF mln)	1 277
Performance based remuneration (HUF mln)	406
Of which cash (HUF mln)	358
Of which phantom stock (HUF mln)	48
Severance payment made to number of people, amount	0 item, 0 HUF mln
Payments related to new employment contracts (0 item, HUF mln)	0 item, 0 HUF mln

26. Table: Remuneration of persons in management position and key identified staff (K&H Group)

Deferred remuneration of persons in management position and key identified staff in 2018 (HUF mln)	
Deferred, already entitled (phantom stock):	23
Deferred, not yet entitled:	118
Deferred remuneration granted in 2018 paid out and performance-adjusted:	264

27. Table: Deferred remuneration of persons in management position and key identified staff (K&H Group)

	Committee with governing rights (Board of Directors)	Committee with supervising rights (Supervisory Board)
Number of persons receiving remuneration	3	2
Fixed remuneration (HUF mln)	190	16
Performance based remuneration (HUF mln)	52	1
Of which cash (HUF mln)	26	1
Of which phantom stock (HUF mln)	26	-
Severance payment made to number of people, amount	0 item, 0 HUF mln	0 item, 0 HUF mln
Payments related to new employment contracts (0 item, HUF mln)	0 item, 0 HUF mln	0 item, 0 HUF mln

28. Table: Remuneration of Governing and supervising board members (K&H Group)

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).

The members of the management body hold membership on the Board of Directors

8. Information on the scope of application of the regulatory framework

	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items				
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to
Assets							
Cash and cash balances at central banks	404 298	404 298	404 298				
Other demand deposit with credit institutions	76 350	76 350	76 350				
Securities held-for-trading	4 700	4 700				4 700	
Derivative financial instruments	82 379	82 379		82 379		65 114	
Loans and advances to banks	420 142	420 142	420 142				
Loans and advances to customers	2 001 366	2 001 366	2 001 366				
Reverse repurchase agreements and other similar secured lending							
Fair value through other comprehensive income	95 161	95 161	95 161				
Mandatory fair value through profit or loss	20 066	20 066	20 066				
Other assets	94 267	94 267	74 497				19 770
...							
Total assets	**3 198 727**	**3 198 727**	**3 091 879**	**82 379**		**69 814**	**19 770**
Liabilities							
Measured at amortised cost- Deposits from banks	-104 496	-104 496					-104 496
Measured at amortised cost - Customer accounts	-2 541 565	-2 541 565					-2 541 565
Repurchase agreements and other similar secured borrowings	-10 748	-10 748					-10 748
Held-for-trading (excluding derivatives)	-125	-125				-125	
Financial liabilities designated at fair value	-88 790	-88 790					-88 790
Derivative financial instruments	-67 829	-67 829		-67 829		-54 263	
Other liabilities	-79 956	-79 956					-79 956
...							
Total liabilities	**-2 893 509**	**-2 893 509**		**-67 829**		**-54 388**	**-2 825 555**

29. Table: EU LI1 – Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories (values in HUF million, K&H Group)

	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items				
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to
Assets							
Cash and cash balances at central banks	404 298	404 298	404 298				
Other demand deposit with credit institutions	76 350	76 350	76 350				
Securities held-for-trading	4 700	4 700				4 700	
Derivative financial instruments	82 382	82 382		82 382		65 117	
Loans and advances to banks	420 074	420 074	420 074				
Loans and advances to customers	2 021 214	2 021 214	2 021 214				
Reverse repurchase agreements and other similar secured lending							
Available-for-sale securities	106 266	106 266	106 266				
Held-to-maturity securities	20 066	20 066	20 066				
Other assets	93 895	93 895	74 128				19 767
...							
Total assets	**3 229 244**	**3 229 244**	**3 122 396**	**82 382**		**69 817**	**19 767**
Liabilities							
Measured at amortised cost-Deposits from banks	- 211 825	- 211 825					- 211 825
Measured at amortised cost - Customer accounts	- 2 445 959	- 2 445 959					- 2 445 959
Repurchase agreements and other similar secured borrowings	- 10 748	- 10 748					- 10 748
Held-for-trading (excluding derivatives)	- 125	- 125				- 125	
Financial liabilities designated at fair value	- 88 790	- 88 790					- 88 790
Derivative financial instruments	- 67 830	- 67 830		- 67 830		- 54 263	
Other liabilities	- 101 174	- 101 174					- 101 174
...							
Total liabilities	**- 2 926 449**	**- 2 926 449**		**- 67 830**		**- 54 388**	**- 2 858 495**

30. Table: EU LI1 – Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories (values in HUF million, K&H Bank)

	Total	Items subject to			
		Credit risk framewo	CCR framework	Securitisation framework	Market risk framework
Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	3 244 072	3 091 879	82 379		69 814
Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	- 122 217		- 67 829		- 54 388
Total net amount under the regulatory scope of consolidation	3 121 855	3 091 879	14 550		15 426
Off-balance-sheet amounts	877 428	877 428			
Differences in valuations					
Differences due to different netting rules, other than those already included in row 2	- 53 225		- 53 225		
Differences due to consideration or provisions	- 11 809	- 11 809			
Differences due to prudential filters					
Collateral placded at the institution	13 780		13 780		
Potential future exposure	88 065		88 065		
Effect of Advanced IRB method	- 149 913	- 149 913			
Other	- 1 765				- 1 765
Exposure amounts considered for regulatory purposes	3 884 415	3 807 585	63 167		13 664

31. Table: EU LI2 - Main sources of differences between regulatory exposure amounts and carrying values in financial statements (values in HUF million, K&H Group)

	Total	Items subject to			
		Credit risk framework	CCR framework	Securitisation framework	Market risk framework
Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	3 274 594	3 122 396	82 382		69 817
Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	- 122 218		- 67 830		- 54 388
Total net amount under the regulatory scope of consolidation	3 121 855	3 122 396	14 552	-	15 429
Off-balance-sheet amounts	877 428	885 758			
Differences in valuations					
Differences due to different netting rules, other than those already included in row 2	- 53 225		- 53 225		
Differences due to consideration or provisions	- 795	- 795			
Differences due to prudential filters					
Collateral placded at the institution	13 780		13 780		
Potential future exposure	88 065		88 065		
Effect of Advanced IRB method	- 188 290	- 188 290			
Other	- 1 765				- 1 765
Exposure amounts considered for regulatory purposes	3 895 904	3 819 068	63 173		13 664

32. Table: EU LI2 - Main sources of differences between regulatory exposure amounts and carrying values in financial statements (values in HUF million, K&H Bank)

Explanations of differences between accounting and regulatory exposure amounts:

- **Market risk framework**: market risk of K&H, the capital requirement of the market risk of trading activities (including FX-risk) is calculated based on the standard method of CRR. Capital requirement of the standard method is calculated based on portfolios, instead of the classic credit risk EADs, where netting is not fully considered in case of FX and interest rate risk. Therefore it is calculated from a different type computed EAD.
- **Counterparty credit risk framework:** The Bank applies the netting according to CRR based on the permission of HNB, while netting according to Basel regulations is different from the accounting view of balance sheet netting.

Name of the entitiy	Method of accounting consolidation	Method of regulatory consolidation				Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
K&H Jelzálogbank Zrt.	Full consilidation	x				Credit institution
K&H Ingatlanlízing ZRt.	Full consilidation	x				Financial corporation / Leasing company
K&H Autópark Kft.	Full consilidation	x				Leasing company / operative leasing
K&H Eszközlízing Kft.	Full consilidation	x				Leasing company / operative leasing
K&H Faktor Pénzügyi Szolgáltató Zrt.	Full consilidation	x				Financial Corporation / Factoring
K&H Csoportszolgáltató Kft.	Full consilidation	x				Non financial corporation
K&H Befektetési Alapkezelő Zrt	Full consilidation	x				Financial corporation / Investment fund
K&H Equities ZRt.	Full consilidation	x				Non financial corporation

33. Table: EU LI3 Outline of the differences in the scopes of consolidation (entity by entity)

9. Information on the credit portfolio

In the following tables we demonstate the credit portfolio of the K&H Group. We demonstate the off balance and on balance items as well devided by asset classes.

Specialised lending							
Regulatory categories	Remaining maturity	On-balance sheet amount	Off-balance sheet amount	Risk weight	Exposure amount	RWAs	Expected losses
Category 1	Less than 2.5 years	51 643	17 350	50%	69 929	17 474	871
	Equal to or more than 2.5 years	22 344	551	70%	23 156	13 713	52
Category 2	Less than 2.5 years	3 190	7 509	70%	10 589	6 007	30
	Equal to or more than 2.5 years	53 618	19 201	90%	70 673	56 862	264
Category 3	Less than 2.5 years	626	462	115%	975	981	16
	Equal to or more than 2.5 years	5 191	62	115%	5 301	5 198	26
Category 4	Less than 2.5 years	557	728	250%	1 291	2 545	142
	Equal to or more than 2.5 years	22 972	5 865	250%	29 141	68 932	1 026
Category 5	Less than 2.5 years						
	Equal to or more than 2.5 years						
Total	Less than 2.5 years	**56 015**	**26 050**		**82 784**	**27 007**	**1 059**
	Equal to or more than 2.5 years	**104 124**	**25 679**		**128 271**	**144 705**	**1 368**
Equities under the simple risk-weighted approach							
Categories		On-balance sheet amount	Off-balance sheet amount	Risk weight	Exposure amount	RWAs	Capital requirement
Exchange-traded equity exposures				190%			
Private equity exposures				290%			
Other equity exposures				370%			
Total							

34. Table: EU CR10 -IRB specialised lending and equities (values in HUF million, K&H Group)

Specialised lending							
Regulatory categories	Remaining maturity	On-balance sheet amount	Off-balance sheet amount	Risk weight	Exposure amount	RWAs	Expected losses
Category 1	Less than 2.5 years	51 186	15 047	50%	67 167	16 403	865
	Equal to or more than 2.5 years	18 882	1 255	70%	20 363	11 763	45
Category 2	Less than 2.5 years	3 422	9 815	70%	13 129	7 231	35
	Equal to or more than 2.5 years	56 909	17 554	90%	72 332	57 714	255
Category 3	Less than 2.5 years	624	462	115%	973	988	17
	Equal to or more than 2.5 years	3 140	62	115%	3 223	3 112	15
Category 4	Less than 2.5 years	559	729	250%	1 293	2 552	142
	Equal to or more than 2.5 years	25 418	6 805	250%	32 577	72 092	1 068
Category 5	Less than 2.5 years						
	Equal to or more than 2.5 years						
Total	Less than 2.5 years	**55 790**	**26 053**		**82 562**	**27 174**	**1 058**
	Equal to or more than 2.5 years	**104 350**	**25 676**		**128 494**	**144 681**	**1 382**
Equities under the simple risk-weighted approach							
Categories		On-balance sheet amount	Off-balance sheet amount	Risk weight	Exposure amount	RWAs	Capital requirement
Exchange-traded equity exposures				190%			
Private equity exposures				290%			
Other equity exposures				370%			
Total							

35. Table: EU CR10 -IRB specialised lending and equities (values in HUF million, K&H Bank)

9.1. Credit risk and general information about credit risk mitigation

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.

9.1.1. General quantitative information about credit risk

Exposure class	Net value of exposures at the end of the period	Average net exposures over the period
Central governments or central banks	54 508	59 051
Institutions	789 667	897 805
Corporates	1 365 459	1 555 954
Of which: Specialised lending	209 689	202 760
Of which: SMEs	619 988	622 080
Retail	566 493	666 575
Secured by real estate property	481 105	465 707
SMEs		
Non-SMEs		
Qualifying revolving		
Other retail	85 388	59 244
SMEs		
Non-SMEs		
Equity		
Total IRB approach	**2 776 127**	**3 179 385**
Central governments or central banks	1 112 756	938 242
Regional governments or local authorities		

36. Table: EU CRB-B – Total and average net amount of exposures (values in HUF million, K&H Group)

Exposure class	Net value of exposures at the end of the period	Average net exposures over the period
Central governments or central banks	54 506	59 040
Institutions	804 088	904 666
Corporates	1 422 508	1 613 499
Of which: Specialised lending	209 689	202 760
Of which: SMEs	620 181	622 128
Retail	566 493	524 951
Secured by real estate property	481 105	465 707
SMEs		
Non-SMEs		
Qualifying revolving		
Other retail	85 388	59 244
SMEs		
Non-SMEs		
Equity		
Total IRB approach	**2 847 595**	**3 102 157**
Central governments or central banks	1 090 096	914 284
Regional governments or local authorities		

37. Table: EU CRB-B – Total and average net amount of exposures (values in HUF million, K&H Bank)

Exposure class	Middle and East Europe	Hungary	Other	Western Europe	France	United Kingdom	Spain	Other	Africa	North America	Asia	Middle East	Australia	Total
Central governments or central banks	54 401	54 401		107		107								54 508
Institutions	701 256	699 038	2 218	83 413	26 040	27 531	15 000	14 843	62	3 997	389	456	94	789 667
Corporates	1 336 612	1 326 458	10 155	24 207		21		24 186	4 460	77	103			1 365 459
Retail	566 493	566 493												566 493
Equity														
Total IRB approach	2 658 762	2 646 390	12 372	107 727	26 040	27 658	15 000	39 029	4 522	4 075	491	456	94	2 776 127
Central governments or central banks	1 112 756	1 112 756												1 112 756
Regional governments or local authorities														
Public sector entities														
Multilateral development banks														
International organisations														
Institutions														
Corporates	29 101	29 101												29 101
Retail	0	0												0
Secured by mortgages on immovable property														
Exposures in default	1 752	1 752	0	0	0	0		0	0	0	0		0	1 753
Items associated with particularly high risk														
Covered bonds														
Claims on institutions and corporates with a short-term credit assessment														
Collective investments undertakings														
Equity exposures	2 216	2 216												2 216
Other exposures	219 472	219 472												219 472
Total standardised approach	1 365 298	1 365 297	0	0	0	0		0	0	0	0		0	1 365 298
Total	4 024 060	4 011 687	12 373	107 728	26 040	27 658	15 000	39 029	4 522	4 075	491	456	94	4 141 426

38. Table: EU CRB-C– Geographical breakdown of exposures (values in HUF million, K&H Group)

Kitettségi osztályok	Közép- és Kelet-Európa	Magyarország	Egyéb	Nyugat-Európa	Franciaország	Nagy Britannia	Spanyolország	Egyéb	Afrika	Észak-Amerika	Ázsia	Közel-Kelet	Ausztrália és Óceánia	Összesen
Központi kormányzatok vagy központi bankok	54 399	54 399		107		107								54 506
Intézmények	22 289	13 148	9 141	750 137	27 326	32 930	15 000	674 880	62	30 662	389	456	94	804 088
Vállalkozások	1 393 660	1 383 506	10 155	24 207		21		24 186	4 460	77	103			1 422 508
Lakosság (retail)	566 493	566 493												566 493
Részvényjellegű														
IRB-módszer összesen	2 036 842	2 017 547	19 295	774 451	27 326	33 058	15 000	699 067	4 522	30 739	491	456	94	2 847 595
Központi kormányzatok vagy központi bankok	1 090 096	1 090 096												1 090 096
Regionális kormányzatok vagy helyi hatóságok														
Közszektorbeli intézmények														
Multilaterális fejlesztési bankok														
Nemzetközi szervezetek														
Intézmények														
Vállalkozások	1	1												1
Lakosság (retail)	42	42												42
Ingatlanra bejegyzett jelzáloggal fedezett														
Nemteljesítő kitettségek (Exposures in default)	1 752	1 752	0	0	0	0		0	0	0	0		0	1 753
Kiemelkedően magas kockázatú tételek														
Fedezett kötvények														
Rövidtávú hitelminősítéssel rendelkező intézményekkel és vállalatokkal szembeni követelések														
Kollektív befektetési vállalkozások														
Részvényjellegű kitettségek	2 216	2 216												2 216
Egyéb kitettségek	223 444	223 444												223 444
Sztenderd módszer összesen	1 317 551	1 317 551	0	0	0	0		0	0	0	0		0	1 317 552
Összesen	3 354 393	3 335 098	19 296	774 451	27 326	33 058	15 000	699 067	4 522	30 739	491	456	94	4 165 147

39. Table: EU CRB-C – Geographical breakdown of exposures (values in HUF million, K&H Bank)

Exposure class	Automitive	Other	Building and construction	Metal machinery and heavy equipment	Shipping and aviation	Authority	IT nd Electronics	Commercial real estate	Private Person	Media & Telecom	Agriculture, farming, fishing and food	Finance and insurance	Shipping and aviation	HORECA	Utility	Textil, timber and paper	Chemicals	Electricity and water	Total
Central governments or central banks						54 401						107							54 508
Institutions		691 206										98 461							789 667
Corporates	85 624	7 792	115 970	56 368	217 397	11	53 586	179 374		3 654	223 056	59 793	23 294	16 317	81 917	26 515	68 633	146 157	1 365 459
Retail									566 493										566 493
Equity																			
Total IRB approach	85 624	698 997	115 970	56 368	217 397	54 412	53 586	179 374	566 493	3 654	223 056	158 361	23 294	16 317	81 917	26 515	68 633	146 157	2 776 127
Central governments or central banks						1 112 756													1 112 756
Regional governments or local authorities																			
Public sector entities																			
Multilateral development banks																			
International organisations																			
Institutions																			
Corporates	224	42	336	141	686		15						27 242		255	22	140		29 101
Retail									0										0
Secured by mortgages on immovable property																			
Exposures in default	5	1 058	21	21	22	460	1	23	0	1	15	1	1	2	119	2	0	1	1 753
Items associated with particularly high risk																			
Covered bonds																			
Claims on institutions and corporates with a short-term credit assessment																			
Collective investments undertakings																			
Equity exposures		2 216										0							2 216
Other exposures		219 472																	219 472
Total standardised approach	228	222 788	356	162	708	1 113 217	16	23	0	1	15	1	27 242	2	375	23	140	1	1 365 298
Total	85 853	921 785	116 326	56 530	218 105	1 167 629	53 603	179 397	566 493	3 655	223 071	158 362	50 537	16 319	82 292	26 538	68 773	146 157	4 141 426

40. Table: EU CRB-D - Concentration of exposures by industry or counterparty types (values in HUF million, K&H Group)

Exposure class	Automitive	Other	Building and construction	Metal machinery and heavy equipment	Shipping and aviation	Authority	IT nd Electronics	Commercial real estate	Private Person	Media & Telecom	Agriculture, farming, fishing and food	Finance and insurance	Shipping and aviation	HORECA	Utility	Textil, timber and paper	Chemicals	Electricity and water	Total
Central governments or central banks						54 399						107							54 506
Institutions		1 414										802 674							804 088
Corporates	85 624	6 610	115 970	56 368	217 397	11	53 586	179 374		3 654	223 056	112 892	23 294	16 317	87 048	26 515	68 633	146 157	1 422 508
Retail									566 493										566 493
Equity																			
Total IRB approach	85 624	8 025	115 970	56 368	217 397	54 411	53 586	179 374	566 493	3 654	223 056	915 672	23 294	16 317	87 048	26 515	68 633	146 157	2 847 595
Central governments or central banks		9 167				1 080 929													1 090 096
Regional governments or local authorities																			
Public sector entities																			
Multilateral development banks																			
International organisations																			
Institutions																			
Corporates	0		0		1										0				1
Retail		42							0										42
Secured by mortgages on immovable property																			
Exposures in default	5	1 058	21	21	22	460	1	23	0	1	15	1	1	2	119	2	0	1	1 753
Items associated with particularly high risk																			
Covered bonds																			
Claims on institutions and corporates with a short-term credit assessment																			
Collective investments undertakings																			
Equity exposures		2 216										0							2 216
Other exposures		223 444																	223 444
Total standardised approach	5	235 927	21	21	23	1 081 389	1	23	0	1	15	1	1	2	119	2	0	1	1 317 552
Total	85 629	243 951	115 991	56 389	217 420	1 135 800	53 587	179 397	566 493	3 655	223 071	915 673	23 295	16 319	87 167	26 517	68 633	146 157	4 165 147

41. Table: EU CRB-D - Concentration of exposures by industry or counterparty types (values in HUF million, K&H Bank)

Exposure class	On demand	≤ 1 year	>1 year ≤ 5 year	> 5 year	No stated maturity	Total
Central governments or central banks		54 508				54 508
Institutions		76 969	9 355	703 343		789 667
Corporates		399 335	500 004	466 120		1 365 459
Retail		16 979	57 917	491 598		566 493
Equity						
Total IRB approach		547 790	567 276	1 661 062		2 776 127
Central governments or central banks			0	1 112 756		1 112 756
Regional governments or local						
Public sector entities						
Multilateral development banks						
International organisations						
Institutions						
Corporates		27 725	1 110	266		29 101
Retail				0		0
Secured by mortgages on immovable						
Exposures in default		271		1 482		1 753
Items associated with particularly high						
Covered bonds						
Claims on institutions and corporates with a short-term credit assessment						
Collective investments undertakings						
Equity exposures				2 216		2 216
Other exposures				219 472		219 472
Total standardised approach		27 996	1 110	1 336 192		1 365 298
Total		575 786	568 386	2 997 254		4 141 426

42. Table: EU CRB-E - Maturity of exposures (values in HUF million, K&H Group)

Exposure class	On demand	≤ 1 year	>1 year ≤ 5 year	> 5 year	No stated maturity	Total
Central governments or central banks		2 258	32 930	19 318		54 506
Institutions		446 874	287 170	70 044		804 088
Corporates		412 475	500 877	509 156		1 422 508
Retail		16 979	57 917	491 598		566 493
Equity						
Total IRB approach		878 585	878 893	1 090 116		2 847 595
Central governments or central banks		428 776	252 905	408 415		1 090 096
Regional governments or local						
Public sector entities						
Multilateral development banks						
International organisations						
Institutions						
Corporates		1				1
Retail		40	1	0		42
Secured by mortgages on immovable						
Exposures in default		271		1 482		1 753
Items associated with particularly high						
Covered bonds						
Claims on institutions and corporates with a short-term credit assessment						
Collective investments undertakings						
Equity exposures				2 216		2 216
Other exposures				223 444		223 444
Total standardised approach		429 088	252 906	635 557		1 317 552
Total		1 307 674	1 131 799	1 725 673		4 165 147

43. Table: EU CRB-E - Maturity of exposures (values in HUF million, K&H Bank)

Exposure classes and Instruments	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non-defaulted exposures					(a+b-c-d)
Central governments or central banks	14	54 519	0	24	NA	-24	54 508
Institutions		789 988	320	0	NA	3	789 667
Corporates	19 699	1 361 401	12 352	3 289	NA	-1 085	1 365 459
Of which: Specialised lending	2 828	209 040	1 578	602	NA	-608	209 689
Of which: SMEs	16 472	615 831	9 884	2 431	NA	-2 184	619 988
Retail	44 680	571 926	44 874	5 238	NA	-1 101	566 493
Secured by real estate property	43 446	485 682	44 185	3 838	NA	-396	481 105
SMEs					NA		
Non-SMEs					NA		
Qualifying revolving					NA		
Other retail	1 235	86 244	689	1 400	NA	-705	85 389
SMEs					NA		
Non-SMEs					NA		
Equity					NA		
Total IRB approach	64 393	2 777 833	57 547	8 552		-2 207	2 776 127
Central governments or central banks		1 112 756		1	NA	-1	1 112 756
Regional governments or local authorities					NA		
Public sector entities					NA		
Multilateral development banks					NA		
International organisations					NA		
Institutions					NA		
Corporates		29 116	0	15	NA	3	29 101
Of which: SMEs		1 146	0	15	NA	1	1 131
Retail					NA		
Of which: SMEs					NA		
Secured by mortgages on immovable property					NA		
Of which: SMEs					NA		
Exposures in default	2 251		377	121	NA	-78	1 753
Items associated with particularly high risk					NA		
Covered bonds					NA		
Claims on institutions and corporates with a short-term credit assessment					NA		
Collective investments undertakings					NA		
Equity exposures		2 216		0	NA		2 216
Other exposures		219 753		281	NA		219 472
Total standardised approach	2 251	1 363 842	377	418	NA	-75	1 365 298
Total	66 644	4 141 675	57 924	8 970	NA	-2 281	4 141 426
Of which: Loans	63 003	2 461 306	56 711	8 537	NA	-2 322	2 459 061
Of which: Debt securities		714 118			NA		714 118
Of which: Off-balance-sheet exposures	3 641	966 252	1 214	432	NA	41	968 247

44. Table: EU CR1-A - Credit quality of exposures by exposure class and instrument (values in HUF million, K&H Group)

Exposure classes and Instruments	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the	Net values
	Defaulted exposures	Non-defaulted exposures					(a+b-c-d)
Central governments or central banks	14	54 517	7	18	NA	-18	54 506
Institutions		804 409	320	1	NA	3	804 088
Corporates	19 699	1 418 478	12 348	3 321	NA	-1 110	1 422 508
Of which: Specialised lending	2 828	209 040	1 578	602	NA	-608	209 689
Of which: SMEs	16 472	616 024	9 884	2 431	NA	-2 184	620 181
Retail	44 680	571 926	46 611	3 501	NA	-1 101	566 493
Secured by real estate property	43 446	485 682	45 922	2 101	NA	-396	481 105
SMEs					NA		
Non-SMEs					NA		
Qualifying revolving					NA		
Other retail	1 235	86 244	689	1 400	NA	-705	85 388
SMEs					NA		
Non-SMEs					NA		
Equity					NA		
Total IRB approach	64 393	2 849 329	59 286	6 841	NA	-2 226	2 847 595
Central governments or central banks		1 090 096		0	NA	-7	1 090 096
Regional governments or local authorities					NA		
Public sector entities					NA		
Multilateral development banks					NA		
International organisations					NA		
Institutions					NA		
Corporates		16	0	15	NA	2	1
Of which: SMEs		16	0	15	NA	1	1
Retail		42		0	NA	1	42
Of which: SMEs					NA		
Secured by mortgages on immovable					NA		
Of which: SMEs					NA		
Exposures in default	2 251		377	121	NA	-78	1 753
Items associated with particularly high risk					NA		
Covered bonds					NA		
Claims on institutions and corporates with a short-term credit assessment					NA		
Collective investments undertakings					NA		
Equity exposures		2 216			NA		2 216
Other exposures		223 726		282	NA		223 444
Total standardised approach	2 251	1 316 096	377	418	NA	-81	1 317 552
Total	66 644	4 165 425	59 663	7 259	NA	-2 307	4 165 147
Of which: Loans	63 003	2 494 400	58 450	6 818	NA	-2 319	2 492 135
Of which: Debt securities		714 313			NA		714 313
Of which: Off-balance-sheet exposures	3 641	956 712	1 214	441	NA	12	958 698

45. Table: EU CR1-A – Credit quality of exposures by exposure class and instrument (values in HUF million, K&H Bank)

Industries	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non-defaulted exposures					(a+b-c-d)
Authorities	842	1 158 002	363	24	NA	-380	1 158 456
unknown	1 414	930 582	785	2 761	NA	2 168	928 450
Private Persons	44 680	571 926	44 868	3 857	NA	-1 101	567 881
Agriculture Farming Fishing & Food	2 717	222 790	1 625	477	NA	-443	223 405
Distribution & Traders	5 139	216 269	1 704	431	NA	-536	219 273
Finance & Insurance	2	158 387	322	32	NA	-15	158 035
Commertial Real estate	2 946	178 568	1 612	507	NA	-615	179 396
Energy Electricity & Water	243	146 214	189	111	NA	-63	146 157
Building & Construction	394	116 297	234	114	NA	-53	116 344
Services	479	82 225	174	229	NA	-54	82 301
Metals Machinery & Heavy Equipment	3 822	55 490	2 711	80	NA	-333	56 520
Automotive	362	85 858	204	173	NA	-228	85 842
Shipping & Aviation	255	50 526	195	62	NA	-42	50 524
Chemicals	254	68 647	143	27	NA	-155	68 731
IT & Electronics	2 513	53 537	2 418	29	NA	-359	53 602
Textile Timber & Paper	421	26 401	260	29	NA	-83	26 533
HORECA	17	16 323	4	16	NA	8	16 321
Media & Telecom	145	3 632	113	9	NA	3	3 655
Total	66 644	4 141 675	57 924	8 970	-	-2 281	4 141 426

46. Table: EU CR1-B – Credit quality of exposures by industry or counterparty types (values in HUF million, K&H Group)

Industries	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non-defaulted exposures					(a+b-c-d)
Authorities	842	1 135 340	363	26	NA	-381	1 135 793
Unknown	1 414	243 261	780	209	NA	2 160	243 686
Private Persons	44 680	571 926	46 611	4 669	NA	-1 101	565 326
Agriculture Farming Fishing & Food	2 717	222 790	1 625	477	NA	-443	223 405
Distribution & Traders	5 139	215 584	1 704	431	NA	-536	218 587
Finance & Insurance	2	916 035	322	49	NA	-12	915 667
Commertial Real estate	2 946	178 568	1 612	507	NA	-615	179 396
Energy Electricity & Water	243	146 214	189	111	NA	-63	146 157
Building & Construction	394	115 962	234	114	NA	-53	116 009
Services	479	87 113	174	241	NA	-75	87 176
Metals Machinery & Heavy Equipment	3 822	55 349	2 711	80	NA	-333	56 379
Automotive	362	85 635	204	173	NA	-228	85 619
Shipping & Aviation	255	23 284	195	62	NA	-42	23 282
Chemicals	254	68 508	143	27	NA	-155	68 592
IT & Electronics	2 513	53 521	2 418	29	NA	-359	53 587
Textile Timber & Paper	421	26 380	260	29	NA	-83	26 512
HORECA	17	16 323	4	16	NA	8	16 321
Media & Telecom	145	3 632	113	9	NA	3	3 655
Total	66 644	4 165 425	59 663	7 259	-	-2 307	4 165 147

47. Table: EU CR1-B – Credit quality of exposures by industry or counterparty types (values in HUF million, K&H Bank)

Geographic territories and countries	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non-defaulted exposures					(a+b-c-d)
Central Eastern Europe	66 643	4 024 306	57 603	8 959	NA	-2 288	4 024 387
HUNGARY	66 640	4 011 848	57 601	8 873	NA	-2 215	4 012 014
Other	3	12 458	2	86	NA	-73	12 373
Western Europe	1	107 730	321	9	NA	7	107 401
UNITED KINGDOM	0	27 658		0	NA	-0	27 658
FRANCE	0	26 040	0	0	NA	-0	26 040
SPAIN		15 000			NA		15 000
Other	1	39 032	321	9	NA	7	38 703
Africa	0	4 522		0	NA	0	4 522
North America	0	4 075		0	NA	-0	4 075
Asia	0	491		0	NA	-0	491
Middle East		457		0	NA	-0	456
Australia and Oceania	0	94			NA		94
Total	66 644	4 141 675	57 924	8 970		-2 281	4 141 426

48. Table: EU CR1-C - Credit quality of exposures by geography (values in HUF million, K&H Group)

Geographic territories and countries	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non-defaulted exposures					(a+b-c-d)
Central Eastern Europe	66 643	3 354 347	59 342	7 248	NA	- 2 314	3 354 400
HUNGARY	66 640	3 334 966	59 341	7 162	NA	- 2 241	3 335 104
Other	3	19 381	2	86	NA	- 73	19 296
Western Europe	1	774 774	321	9	NA	7	774 445
BELGIUM		382 605	320	1	NA	10	382 283
IRELAND		287 181		7	NA	- 2	287 174
UNITED KINGDOM	0	33 058		0	NA	- 0	33 058
Other	1	71 930	1	0	NA	- 0	71 930
Africa	0	30 740		0	NA	- 0	30 739
North America	0	4 522		0	NA	0	4 522
Asia	0	491		0	NA	- 0	491
Middle East		457			NA		457
Australia and Oceania	0	94		0	NA	- 0	93
Total	66 644	4 165 425	59 663	7 259		- 2 307	4 165 147

49. Table: EU CR1-C - Credit quality of exposures by geography (values in HUF million, K&H Bank)

Past-due exposures	Gross carrying values					
	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
Loans	48 728	106	299	748	1 000	12 123
Debt securities						
Total exposures	48 728	106	299	748	1 000	12 123

50. Table: EU CR1-D Ageing of past-due exposures (values in HUF million, K&H Group)

Past-due exposures	Gross carrying values					
	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
Loans	48 728	106	299	748	1 000	12 123
Debt securities						
Total exposures	48 728	106	299	748	1 000	12 123

51. Table: EU CR1-D – Ageing of past-due exposures (values in HUF million, K&H Bank)

	Gross carrying amount of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
		Of which performing but past due > 30 days and <= 90 days	Of which performing forborne	Of which non-performing				On performing exposures		On non-performing exposures		On non-performing exposures	Of which forborne exposures
					Of which defaulted	Of which impaired	Of which forborne		Of which forborne		Of which forborne		
Loans and advances	2 524 309	3 589	9 482	63 003	63 003	63 003	20 533	-7 633	-437	-33 609	-9 481	25 252	15 947
Debt securities	714 118							-645					
Off-balance-sheet exposures	969 893			3 641	3 641	3 641		380		1 160		618	
Total Exposure	4 208 320	3 589	9 482	66 644	66 644	66 644	20 533	-7 897	-437	-32 449	-9 481	25 871	15 947

52. Table: EU CR1-E – Non-performing and forborne exposures (values in HUF million, K&H Group)

	Gross carrying amount of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
		Of which performing but past due > 30 days and <= 90 days	Of which performing forborne	Of which non-performing				On performing exposures		On non-performing exposures		On non-performing exposures	Of which forborne exposures
					Of which defaulted	Of which impaired	Of which forborne		Of which forborne		Of which forborne		
Loans and advances	2 557 403	3 523	9 482	63 003	63 003	63 003	20 536	-7 361	-437	-34 098	-9 483	25 245	15 948
Debt securities	714 313							-645					
Off-balance-sheet exposures	960 353			3 641	3 641	3 641		388		1 160		618	
Total Exposure	4 232 069	3 523	9 482	66 644	66 644	66 644	20 536	-7 618	-437	-32 938	-9 483	25 863	15 948

53. Table: EU CR1-E – Non-performing and forborne exposures (values in HUF million, K&H Bank)

	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
Opening balance	39 440	9 417
Increases due to amounts set aside for estimated loan losses during the period	9 704	4 212
Decreases due to amounts reversed for estimated loan losses during the period	-11 269	-4 964
Decreases due to amounts taken against accumulated credit risk adjustments	-1 967	-57
Transfers between credit risk adjustments		
Impact of exchange rate differences	-18	-6
Business combinations, including acquisitions and disposals of subsidiaries		
Other adjustments	-1 014	55
Closing balance	34 876	8 658
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss		
Specific credit risk adjustments directly recorded to the statement of profit or loss		

54. Table: EU CR2-A – Changes in the stock of general and specific credit risk adjustments (values in HUF million, K&H Group)

	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
Opening balance	39 437	9 086
Increases due to amounts set aside for estimated loan losses during the period	9 704	4 212
Decreases due to amounts reversed for estimated loan losses during the period	-12 243	-4 683
Decreases due to amounts taken against accumulated credit risk adjustments	-1 967	-57
Transfers between credit risk adjustments		
Impact of exchange rate differences	-18	-6
Business combinations, including acquisitions and disposals of subsidiaries		
Other adjustments	-90	-197
Closing balance	34 823	8 355
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss		
Specific credit risk adjustments directly recorded to the statement of profit or loss		

55. Table: EU CR2-A – Changes in the stock of general and specific credit risk adjustments (values in HUF million, K&H Bank)

	Gross carrying value defaulted exposures
Opening balance	70 489
Loans and debt securities that have defaulted or impaired since the last reporting period	4 662
Returned to non-defaulted status	-3 555
Amounts written off	-9 809
Other changes	-360
Closing balance	61 427

56. Table: EU CR2-B - Changes in the stock of defaulted and impaired loans and debt securities (values in HUF million, K&H Group)

	Gross carrying value defaulted exposures
Opening balance	70 488
Loans and debt securities that have defaulted or impaired since the last reporting period	4 662
Returned to non-defaulted status	-3 555
Amounts written off	-9 809
Other changes	363
Closing balance	62 149

57. Table: EU CR2-B - Changes in the stock of defaulted and impaired loans and debt securities (values in HUF million, K&H Bank)

	Direct at net value	Indirect	PIBB	Regulatory Capital adjustment due to PIBB	Net value of all investments	Total net value
Credit institution						
Financial company	640		640			640
Insurance cmpany						
Other domestic company						
Foreign financial company	1 577		1 571			1 577
Foreign insurance company						
Other foreign company						
Total	2 217		2 211			2 217

58. Table: Shares out of Trading Book CRR Article 447 (values in million HUF, K&H Group)

	Direct at net value	Indirect	PIBB	Regulatory Capital adjustment due to PIBB	Net value of all investments	Total net value
Credit institution	4 500		4 500			4 500
Financial company	2 050		2 050			2 050
Insurance cmpany						
Other domestic company	4 994		0			4 994
Foreign financial company	1 577		1 571			1 577
Foreign insurance company						
Other foreign company						
Total	13 121		8 121			13 121

59. Table: Shares out of Trading Book CRR Article 447 (values in million HUF, K&H Bank)

9.1.2. Qualitative informations about credit risk mitigation methods (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). K&H Bank uses both netting and collateral received through CSAs and GMRA as risk mitigation tool in the capital charge calculation.

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.

9.1.3. Quantitaive informations about credit risk mitigation

	Exposures unsecured – Carrying amount	Exposures to be secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	2 448 807	1 045 395	827 286	218 109	
Total debt securities	712 181	1 937	57	1 880	
Total exposures	3 160 989	1 047 331	827 342	219 989	
Of which defaulted	18 792	47 852	45 833	2 020	

60. Table: EU CR3 – CRM techniques – Overview (values in HUF million, K&H Goup)

	Exposures unsecured – Carrying amount	Exposures to be secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	2 520 730	997 026	794 674	202 352	
Total debt securities	714 212	102	57	45	
Total exposures	3 234 941	997 128	794 731	202 397	
Of which defaulted	18 793	47 851	45 832	2 019	

61. Table: EU CR3 – CRM techniques – Overview (values in HUF million, K&H Bank)

Exposure classes	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWA	RW
Central governments or central banks	1 090 146	22 610	1 090 146	22 610	5 004	0%
Regional government or local authorities						0%
Public sector entities						0%
Multilateral development banks						0%
International organisations						0%
Institutions						0%
Corporates	18 102	11 014	18 087	0	18 005	100%
Retail	0		0		0	75%
Secured by mortgages on immovable property						0%
Exposures in default	2 251	0	1 752	0	2 628	150%
Higher-risk categories						0%
Covered bonds						0%
Institutions and corporates with a short-term credit assessment						0%
Collective investment undertakings						0%
Equity	2 216	0	2 216	0	2 216	100%
Other Items	219 753		219 472		67 920	31%
Total	**1 332 469**	**33 625**	**1 331 674**	**22 610**	**95 774**	**7%**

62. Table: EU CR4 – Standardised approach – Credit risk exposure and CRM effects (values in million HUF, K&H Group)

Exposure classes	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWA	RW
Central governments or central banks	1 090 096		1 090 096		5 004	0%
Regional government or local authorities						0%
Public sector entities						0%
Multilateral development banks						0%
International organisations						0%
Institutions						0%
Corporates	16	0	1	0	1	76%
Retail	42		42		31	75%
Secured by mortgages on immovable property						0%
Exposures in default	2 251	0	1 752	0	2 628	150%
Higher-risk categories						0%
Covered bonds						0%
Institutions and corporates with a short-term credit assessment						0%
Collective investment undertakings						0%
Equity	2 216	0	2 216	0	2 216	100%
Other Items	223 726		223 444		77 082	34%
Total	**1 318 347**	**0**	**1 317 551**	**0**	**86 962**	**7%**

63. Table: EU CR4 – Standardised approach – Credit risk exposure and CRM effects (values in million HUF, K&H Bank)

Exposure classes	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Other	Deductions	Total	Of which: not qualified
	Risk weight																	
Central governments or central banks	1 060 663			52 094		0		0	0			0	0	0			1 112 756	
Regional government or local authorities																		
Public sector entities																		
Multilateral development banks																		
International organisations																		
Institutions																		
Corporates					0	0	0	0		29 116	0						29 116	
Retail									0								0	
Secured by mortgages on immovable property																		
Exposures in default										50	2 202						2 251	
Higher-risk categories																		
Covered bonds																		
Institutions and corporates with a short-term credit assessment																		
Collective investment undertakings																		
Equity										2 216		0		0			2 216	
Other Items	152 315									66 929		509					219 753	
Total	1 212 978	0	0	52 094	0	0	0	0	0	98 311	2 202	509	0	0	0	0	1 366 094	

64. Table: EU CR5 – Standardised approach (values in million HUF, K&H Group)

Exposure classes	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Other	Deductions	Total	Of which: not qualified
	Risk weight																	
Central governments or central banks	1 038 003			52 094		0		0	0			0	0	0			1 090 096	
Regional government or local authorities																		
Public sector entities																		
Multilateral development banks																		
International organisations																		
Institutions																		
Corporates					0	0	0	0		16	0						16	
Retail									42								42	
Secured by mortgages on immovable property																		
Exposures in default										50	2 202						2 251	
Higher-risk categories																		
Covered bonds																		
Institutions and corporates with a short-term credit assessment																		
Collective investment undertakings																		
Equity										2 216		0		0			2 216	
Other Items	146 362									77 364		0					223 726	
Total	1 184 365	0	0	52 094	0	0	0	0	42	79 645	2 202	0	0	0	0	0	1 318 347	

65. Table: EU CR5 – Standardised approach (values in million HUF, K&H Bank)

9.1.4. IRB Approach (CRR Artilcle 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. After the backtest, redesign of a model validation performed independently from the modelling unit and the validator asses the model adequacy based on pre-defined aspects in the validation advice.

A substantial part of the models is designed by statistical modelling, using regression on the internal data of the Bank, while in the case of segments where fewer observations are available (for example: Country risk PD model, Project Financing PD model) KBC Group level models were introduced. These latter models, of which many cover low default portfolios, are designed by statistical modelling as well, in most of the cases by using regression to assess probability of default. For certain special portfolios the bank uses the so-called Flexible Rating Tool (FRT).

Exposure class	PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjust-ments and provisions
Central governments or central banks	01 [0,00% - 0,10%]	107		101%	108	0,03%	2	64,99%	1,00	17	16%	0	0
	02 [0,10% - 0,20%]	38	27	97%	61	0,11%	18	52,98%	1,35	17	28%	0	0
	03 [0,20% - 0,40%]	31 956	5	101%	32 172	0,28%	1 818	26,49%	3,99	654	2%	1	1
	04 [0,40% - 0,80%]	14 807	2 186	98%	15 644	0,50%	463	7,37%	4,48	1 893	12%	7	3
	05 [0,80% - 1,60%]	3 377	2 013	91%	4 037	1,21%	502	36,85%	2,54	3 509	87%	18	13
	06 [1,60% - 3,20%]												
	07 [3,20% - 6,40%]		1	100%	1	4,53%	1 126	59,39%	1,00	1	178%	0	
	08 [6,40% - 12,80%]	1	1	95%	1	8,72%	3	29,99%	1,00	1	109%	0	0
	09 [12,80% - 99,99%]	2	0	99%	2	21,23%	2	71,55%	1,00	8	381%	0	0
	10 [100,00%] (default)	14		100%	14	100,00%	3	35,00%	1,00		0%	7	7
	Subtotal	50 300	4 232	95%	52 039	0,42%	3 937	21,66%	4,02	6 099	12%	33	25
Institutions	01 [0,00% - 0,10%]	446 806	288 985	88%	569 263	0,05%	314	2,75%	4,86	151 632	27%	145	321
	02 [0,10% - 0,20%]	5 497	42 838	56%	19 720	0,12%	169	64,25%	0,91	7 756	39%	15	0
	03 [0,20% - 0,40%]	137	963	99%	1 074	0,29%	23	62,75%	1,64	767	71%	2	0
	04 [0,40% - 0,80%]	189	1 153	30%	406	0,54%	14	59,13%	1,05	343	84%	1	0
	05 [0,80% - 1,60%]		129	100%	129	1,25%	5	62,70%	1,00	154	119%	1	
	06 [1,60% - 3,20%]	2 372	269	100%	2 642	2,04%	18	62,70%	0,24	3 386	128%	34	
	07 [3,20% - 6,40%]	386	258	99%	593	3,88%	78	62,92%	1,17	1 143	193%	15	0
	08 [6,40% - 12,80%]		4	100%	4	8,75%	9	62,70%	1,00	11	245%	0	-
	09 [12,80% - 99,99%]												
	10 [100,00%] (default)												
	Subtotal	455 388	334 600	75%	593 832	0,07%	630	5,28%	4,70	165 193	28%	213	321
Corporates	01 [0,00% - 0,10%]	7 791	11 602	93%	14 968	0,07%	2 276	52,52%	1,61	2 274	15%	6	1
	02 [0,10% - 0,20%]	22 047	80 131	83%	64 472	0,15%	6 837	58,31%	1,40	21 485	33%	58	12
	03 [0,20% - 0,40%]	116 497	134 162	78%	195 957	0,30%	8 885	54,40%	1,84	106 740	54%	316	30
	04 [0,40% - 0,80%]	189 461	147 373	98%	282 386	0,58%	12 298	47,45%	2,04	188 214	67%	778	186
	05 [0,80% - 1,60%]	237 634	110 418	90%	311 712	1,16%	14 074	45,15%	2,50	264 933	85%	1 643	293
	06 [1,60% - 3,20%]	136 669	56 304	102%	173 933	2,25%	10 988	48,38%	2,71	200 509	115%	1 871	595
	07 [3,20% - 6,40%]	53 877	22 807	101%	67 935	4,55%	40 437	49,92%	1,66	82 632	122%	1 534	326
	08 [6,40% - 12,80%]	21 281	3 326	106%	24 520	8,94%	2 548	52,51%	1,81	41 968	171%	1 149	711
	09 [12,80% - 99,99%]	8 810	1 210	100%	9 492	24,42%	2 146	47,74%	2,20	16 022	169%	1 179	568
	10 [100,00%] (default)	16 498	3 201	99%	17 883	100,00%	1 541	73,49%	1,48	38 595	216%	12 920	12 920
	Subtotal	810 565	570 535	84%	1 163 258	1,52%	102 030	49,46%	2,16	963 372	83%	21 453	15 641
Of which: Specialised lending	01 [0,00% - 0,10%]												
	02 [0,10% - 0,20%]												
	03 [0,20% - 0,40%]	14 828	11 120	102%	26 431	0,29%	149	37,17%	1,58	8 430	32%	28	10
	04 [0,40% - 0,80%]	53 448	13 933	101%	67 805	0,57%	213	30,53%	3,09	38 059	56%	116	109
	05 [0,80% - 1,60%]	57 709	12 503	100%	70 002	1,13%	312	29,03%	4,52	46 946	67%	230	146
	06 [1,60% - 3,20%]	28 479	12 846	99%	40 161	2,16%	268	47,94%	4,54	62 185	155%	399	313
	07 [3,20% - 6,40%]	2 586	1 297	95%	3 550	4,88%	151	38,60%	2,15	3 204	90%	69	23
	08 [6,40% - 12,80%]	274	6	103%	287	7,71%	19	14,15%	1,12	93	32%	3	0
	09 [12,80% - 99,99%]	11	1	100%	12	30,30%	9	76,53%	1,00	35	298%	3	1
	10 [100,00%] (default)	2 806	23	99%	2 809	100,00%	38	88,14%	2,54	12 761	454%	1 578	1 578
	Subtotal	160 140	51 729	100%	211 056	1,11%	1 159	35,06%	3,63	171 712	81%	2 426	2 179
Of which: SMEs	01 [0,00% - 0,10%]	7 791	10 598	95%	14 662	0,07%	2 077	53,61%	1,54	2 095	14%	6	0
	02 [0,10% - 0,20%]	18 932	22 389	95%	33 502	0,15%	5 402	53,43%	1,70	8 153	24%	27	3
	03 [0,20% - 0,40%]	36 574	30 005	97%	55 855	0,30%	7 733	53,25%	1,83	22 279	40%	88	14
	04 [0,40% - 0,80%]	90 855	48 126	100%	121 933	0,59%	10 039	49,29%	1,81	70 641	58%	356	52
	05 [0,80% - 1,60%]	113 584	54 224	89%	148 539	1,19%	10 575	49,01%	2,01	121 588	82%	870	106
	06 [1,60% - 3,20%]	72 556	27 550	102%	90 390	2,29%	8 877	47,14%	2,10	77 478	86%	975	146
	07 [3,20% - 6,40%]	39 831	12 666	102%	47 926	4,62%	10 412	48,13%	1,77	51 412	107%	1 060	220
	08 [6,40% - 12,80%]	17 710	2 442	107%	20 440	8,89%	2 389	52,41%	1,96	33 331	163%	948	241
	09 [12,80% - 99,99%]	8 791	1 209	100%	9 471	24,41%	2 074	47,69%	2,21	15 961	169%	1 175	566
	10 [100,00%] (default)	13 293	3 179	99%	14 677	100,00%	1 412	71,03%	1,29	25 753	175%	10 965	10 965
	Subtotal	419 915	212 387	88%	557 394	2,05%	60 990	50,19%	1,89	428 689	77%	16 469	12 314
Retail	01 [0,00% - 0,10%]	2		101%	2	0,09%	1	26,84%	5,00	0	7%	0	0
	02 [0,10% - 0,20%]	12 151	2	101%	12 267	0,15%	3 382	25,84%	4,88	1 088	9%	5	0
	03 [0,20% - 0,40%]	201 566	6 528	101%	210 112	0,28%	125 264	28,43%	4,79	32 214	15%	166	158
	04 [0,40% - 0,80%]	94 919	8 784	101%	104 418	0,55%	150 515	35,60%	4,38	31 340	30%	203	236
	05 [0,80% - 1,60%]	124 753	5 618	101%	131 116	1,10%	92 941	32,59%	4,79	58 508	45%	474	399
	06 [1,60% - 3,20%]	36 618	4 948	101%	41 706	2,32%	76 316	36,69%	4,51	29 938	72%	359	462
	07 [3,20% - 6,40%]	39 598	324	101%	40 343	4,68%	33 518	40,05%	4,47	38 196	95%	768	925
	08 [6,40% - 12,80%]	13 947	105	102%	14 282	9,10%	11 171	35,80%	4,65	21 589	151%	469	557
	09 [12,80% - 99,99%]	21 909	154	102%	22 399	41,59%	14 862	35,84%	4,70	43 306	193%	3 305	2 431
	10 [100,00%] (default)	44 241	440	151%	67 527	100,00%	68 969	59,46%	1,79	9 919	15%	44 944	44 944
	Subtotal	589 704	26 902	104%	644 172	2,79%	576 939	35,33%	4,36	266 097	41%	50 692	50 113
Secured by real estate property	01 [0,00% - 0,10%]												
	02 [0,10% - 0,20%]	12 085	2	101%	12 201	0,15%	3 365	25,84%	4,88	1 081	9%	5	0
	03 [0,20% - 0,40%]	201 435	26	100%	201 893	0,27%	34 471	28,09%	4,94	30 245	15%	154	139
	04 [0,40% - 0,80%]	69 113	50	100%	69 432	0,56%	16 939	29,02%	4,89	17 933	26%	112	152
	05 [0,80% - 1,60%]	116 577	528	101%	117 695	1,09%	20 553	30,78%	4,94	50 946	43%	395	324
	06 [1,60% - 3,20%]	30 798	92	101%	31 138	2,23%	8 274	32,82%	4,89	22 634	73%	228	338
	07 [3,20% - 6,40%]	22 448	24	101%	22 655	4,41%	5 838	33,38%	4,90	24 736	109%	334	430
	08 [6,40% - 12,80%]	12 618	2	101%	12 728	8,97%	3 438	34,66%	4,89	20 327	160%	397	463
	09 [12,80% - 99,99%]	19 882	1	101%	20 066	42,02%	4 716	34,70%	4,91	40 508	202%	2 909	1 928
	10 [100,00%] (default)	43 328	118	153%	66 293	100,00%	9 501	59,27%	1,77	6 614	10%	44 248	44 248
	Subtotal	528 283	844	105%	554 100	2,77%	107 095	33,33%	4,55	215 024	39%	48 782	48 023
Other retail	01 [0,00% - 0,10%]	2		101%	2	0,09%	1	26,84%	5,00	0	7%	0	0
	02 [0,10% - 0,20%]	66		101%	67	0,18%	17	25,68%	4,87	7	10%	0	0
	03 [0,20% - 0,40%]	131	6 501	124%	8 219	0,38%	90 793	36,88%	1,00	1 969	24%	12	19
	04 [0,40% - 0,80%]	25 806	8 734	103%	34 986	0,53%	133 576	48,65%	3,36	13 407	38%	91	83
	05 [0,80% - 1,60%]	8 176	5 090	103%	13 421	1,21%	72 388	48,41%	3,46	7 562	56%	79	75
	06 [1,60% - 3,20%]	5 820	4 856	101%	10 568	2,57%	68 042	48,10%	3,37	7 304	69%	131	124
	07 [3,20% - 6,40%]	17 150	299	102%	17 688	5,02%	27 680	48,60%	3,92	13 460	76%	434	495
	08 [6,40% - 12,80%]	1 329	104	110%	1 554	10,10%	7 733	45,17%	2,62	1 261	81%	72	94
	09 [12,80% - 99,99%]	2 027	152	108%	2 334	37,84%	10 146	45,64%	2,86	2 798	120%	396	503
	10 [100,00%] (default)	913	322	100%	1 234	100,00%	59 468	69,69%	2,73	3 304	268%	696	696
	Subtotal	61 421	26 057	103%	90 072	2,90%	469 844	47,60%	3,24	51 072	57%	1 909	2 090
Total (all portfolios)		1 905 958	936 269	86%	2 453 301	1,43%	683 536	34,47%	3,39	1 400 760	57%	72 391	66 099

66. Table: EU CR6 – IRB approach – Credit risk exposures by exposure class and PD range(values in million HUF, K&H Group)

Exposure class	PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjust-ments and provisions
Central governments or central banks	01 [0,00% - 0,10%]	107		101%	108	0,04%	2	64,99%	1,00	21	20%	0	0
	02 [0,10% - 0,20%]	38	27	97%	61	0,11%	17	52,98%	1,35	17	28%	0	0
	03 [0,20% - 0,40%]	31 956	5	101%	32 172	0,28%	12	1,84%	3,18	738	2%	2	1
	04 [0,40% - 0,80%]	14 806	2 186	98%	15 643	0,47%	456	7,37%	4,48	1 878	12%	6	3
	05 [0,80% - 1,60%]	3 376	2 013	91%	4 036	1,18%	496	36,85%	2,54	3 475	86%	17	13
	06 [1,60% - 3,20%]			0%		0,00%		0,00%			0%		
	07 [3,20% - 6,40%]		1	100%	1	4,53%	1 123	59,39%	1,00	1	178%	0	
	08 [6,40% - 12,80%]		1	89%	0	7,18%	2	71,55%	1,00	1	258%	0	0
	09 [12,80% - 99,99%]	2	0	99%	2	22,81%	2	71,55%	1,00	8	386%	0	0
	10 [100,00%] (default)	14		100%	14	100,00%	3	35,00%	1,00		0%	7	7
	Subtotal	50 299	4 232	95%	52 037	0,41%	2 113	6,42%	3,51	6 139	12%	33	25
Institutions	01 [0,00% - 0,10%]	456 056	287 430	92%	568 148	0,04%	291	61,88%	1,75	151 554	27%	146	321
	02 [0,10% - 0,20%]	6 145	48 917	63%	24 738	0,12%	184	63,88%	1,66	12 617	51%	19	0
	03 [0,20% - 0,40%]	137	963	99%	1 074	0,28%	22	62,75%	1,72	762	71%	2	0
	04 [0,40% - 0,80%]	189	1 153	30%	406	0,50%	15	59,13%	1,05	333	82%	1	0
	05 [0,80% - 1,60%]		129	100%	129	1,13%	5	62,70%	1,00	147	114%	1	
	06 [1,60% - 3,20%]	2 372	269	100%	2 642	2,26%	13	62,70%	1,00	3 896	147%	37	
	07 [3,20% - 6,40%]	386	258	99%	594	4,04%	78	62,92%	1,65	1 211	204%	15	0
	08 [6,40% - 12,80%]		4	100%	4	9,05%	9	62,70%	1,00	11	249%	0	
	09 [12,80% - 99,99%]			0%		0,00%		0,00%			0%		
	10 [100,00%] (default)			0%		0,00%		0,00%			0%		
	Subtotal	465 286	339 123	74%	597 735	0,06%	617	61,96%	1,74	170 531	29%	221	321
Corporates	01 [0,00% - 0,10%]	7 791	10 373	95%	14 495	0,07%	2 246	53,54%	1,55	2 059	14%	6	0
	02 [0,10% - 0,20%]	58 045	96 287	87%	105 805	0,15%	6 770	59,65%	2,16	55 123	52%	92	28
	03 [0,20% - 0,40%]	116 489	135 112	78%	196 227	0,29%	8 944	54,38%	1,84	105 504	54%	310	30
	04 [0,40% - 0,80%]	189 482	147 039	98%	282 107	0,58%	12 304	47,46%	2,04	188 054	67%	775	186
	05 [0,80% - 1,60%]	239 306	114 436	100%	315 340	1,16%	14 095	45,33%	2,49	268 882	85%	1 669	305
	06 [1,60% - 3,20%]	136 501	56 305	102%	173 767	2,30%	11 002	48,38%	2,70	201 570	116%	1 910	595
	07 [3,20% - 6,40%]	53 877	22 807	101%	67 935	4,51%	40 012	49,92%	1,66	82 332	121%	1 518	326
	08 [6,40% - 12,80%]	21 281	3 326	106%	24 520	8,89%	2 548	52,51%	1,81	41 826	171%	1 143	711
	09 [12,80% - 99,99%]	8 810	1 210	100%	9 492	18,96%	2 146	47,74%	2,20	16 535	174%	868	568
	10 [100,00%] (default)	16 498	3 201	99%	17 883	100,00%	1 542	73,49%	1,48	38 595	216%	12 920	12 920
	Subtotal	848 080	590 096	84%	1 207 572	1,43%	101 609	49,93%	2,19	1 000 481	83%	21 210	15 669
Of which: Specialised lending	01 [0,00% - 0,10%]												
	02 [0,10% - 0,20%]												
	03 [0,20% - 0,40%]	14 828	11 120	102%	26 431	0,29%	149	37,17%	1,58	8 465	32%	28	10
	04 [0,40% - 0,80%]	53 448	13 933	101%	67 805	0,57%	213	30,53%	3,09	38 075	56%	116	109
	05 [0,80% - 1,60%]	57 709	12 503	100%	70 002	1,10%	312	29,03%	4,52	46 467	66%	224	146
	06 [1,60% - 3,20%]	28 479	12 846	99%	40 161	2,28%	268	47,94%	4,54	62 753	156%	419	313
	07 [3,20% - 6,40%]	2 586	1 297	95%	3 550	4,92%	151	38,60%	2,15	3 206	90%	69	23
	08 [6,40% - 12,80%]	274	6	103%	287	7,90%	19	14,15%	1,12	95	33%	4	0
	09 [12,80% - 99,99%]	11	1	100%	12	22,81%	9	76,53%	1,00	34	291%	2	1
	10 [100,00%] (default)	2 806	23	99%	2 809	100,00%	38	88,14%	2,54	12 761	454%	1 578	1 578
	Subtotal	160 140	51 729	100%	211 056	1,13%	1 159	35,06%	3,63	171 855	81%	2 440	2 179
Of which: SMEs	01 [0,00% - 0,10%]	7 791	10 373	95%	14 495	0,07%	2 049	53,54%	1,55	2 059	14%	6	0
	02 [0,10% - 0,20%]	18 861	21 843	95%	33 372	0,15%	5 336	53,51%	1,70	7 982	24%	26	3
	03 [0,20% - 0,40%]	36 566	30 732	97%	56 032	0,29%	7 791	53,20%	1,82	22 225	40%	87	14
	04 [0,40% - 0,80%]	90 876	47 792	100%	121 653	0,58%	10 044	49,31%	1,82	70 345	58%	353	52
	05 [0,80% - 1,60%]	113 622	54 793	100%	148 916	1,19%	10 594	49,01%	2,00	121 518	82%	872	106
	06 [1,60% - 3,20%]	72 574	27 552	102%	90 411	2,31%	8 889	47,14%	2,10	77 626	86%	982	147
	07 [3,20% - 6,40%]	39 831	12 666	102%	47 926	4,58%	10 411	48,13%	1,77	51 216	107%	1 050	220
	08 [6,40% - 12,80%]	17 710	2 442	107%	20 440	8,78%	2 389	52,41%	1,96	33 097	162%	936	241
	09 [12,80% - 99,99%]	8 791	1 209	100%	9 471	18,95%	2 074	47,69%	2,21	16 475	174%	865	566
	10 [100,00%] (default)	13 293	3 179	99%	14 677	100,00%	1 413	71,03%	1,29	25 753	175%	10 965	10 965
	Subtotal	419 915	212 580	88%	557 394	1,95%	60 990	50,19%	1,89	428 297	77%	16 141	12 314
Retail	01 [0,00% - 0,10%]	2		101%	2	0,09%	1	26,84%	5,00	0	7%	0	0
	02 [0,10% - 0,20%]	12 151	2	101%	12 267	0,15%	3 382	25,84%	4,88	1 088	9%	5	0
	03 [0,20% - 0,40%]	201 566	6 528	101%	210 112	0,28%	125 264	28,43%	4,79	32 214	15%	166	158
	04 [0,40% - 0,80%]	94 919	8 784	101%	104 418	0,55%	150 515	35,60%	4,38	31 340	30%	203	236
	05 [0,80% - 1,60%]	124 753	5 618	101%	131 116	1,10%	92 941	32,59%	4,79	58 508	45%	474	399
	06 [1,60% - 3,20%]	36 618	4 948	101%	41 706	2,32%	76 316	36,69%	4,51	29 938	72%	359	462
	07 [3,20% - 6,40%]	39 598	324	101%	40 343	4,68%	33 518	40,05%	4,47	38 196	95%	768	925
	08 [6,40% - 12,80%]	13 947	105	102%	14 282	9,10%	11 171	35,80%	4,65	21 589	151%	469	557
	09 [12,80% - 99,99%]	21 909	154	102%	22 399	41,59%	14 862	35,84%	4,70	43 306	193%	3 305	2 431
	10 [100,00%] (default)	44 241	440	151%	67 527	100,00%	68 969	59,46%	1,79	9 919	15%	44 944	44 944
	Subtotal	589 704	26 902	104%	644 172	2,79%	576 939	35,33%	4,36	266 097	41%	50 692	50 113
Secured by real estate property	01 [0,00% - 0,10%]												
	02 [0,10% - 0,20%]	12 085	2	101%	12 201	0,15%	3 365	25,84%	4,88	1 081	9%	5	0
	03 [0,20% - 0,40%]	201 435	26	100%	201 893	0,27%	34 471	28,09%	4,94	30 245	15%	154	139
	04 [0,40% - 0,80%]	69 113	50	100%	69 432	0,56%	16 939	29,02%	4,89	17 933	26%	112	152
	05 [0,80% - 1,60%]	116 577	528	101%	117 695	1,09%	20 553	30,78%	4,94	50 946	43%	395	324
	06 [1,60% - 3,20%]	30 798	92	101%	31 138	2,23%	8 274	32,82%	4,89	22 634	73%	228	338
	07 [3,20% - 6,40%]	22 448	24	101%	22 655	4,41%	5 838	33,38%	4,90	24 736	109%	334	430
	08 [6,40% - 12,80%]	12 618	2	101%	12 728	8,97%	3 438	34,66%	4,89	20 327	160%	397	463
	09 [12,80% - 99,99%]	19 882	1	101%	20 066	42,02%	4 716	34,70%	4,91	40 508	202%	2 909	1 928
	10 [100,00%] (default)	43 328	118	153%	66 293	100,00%	9 501	59,27%	1,77	6 614	10%	44 248	44 248
	Subtotal	528 283	844	105%	554 100	2,77%	107 095	33,33%	4,55	215 024	39%	48 782	48 023
Other retail	01 [0,00% - 0,10%]	2		101%	2	0,09%	1	26,84%	5,00	0	7%	0	0
	02 [0,10% - 0,20%]	66		101%	67	0,18%	17	25,68%	4,87	7	10%	0	0
	03 [0,20% - 0,40%]	131	6 501	124%	8 219	0,38%	90 793	36,88%	1,00	1 969	24%	12	19
	04 [0,40% - 0,80%]	25 806	8 734	103%	34 986	0,53%	133 576	48,65%	3,36	13 407	38%	91	83
	05 [0,80% - 1,60%]	8 176	5 090	103%	13 421	1,21%	72 388	48,41%	3,46	7 562	56%	79	75
	06 [1,60% - 3,20%]	5 820	4 856	101%	10 568	2,57%	68 042	48,10%	3,37	7 304	69%	131	124
	07 [3,20% - 6,40%]	17 150	299	102%	17 688	5,02%	27 680	48,60%	3,92	13 460	76%	434	495
	08 [6,40% - 12,80%]	1 329	104	110%	1 554	10,10%	7 733	45,17%	2,62	1 261	81%	72	94
	09 [12,80% - 99,99%]	2 027	152	108%	2 334	37,84%	10 146	45,64%	2,86	2 798	120%	396	503
	10 [100,00%] (default)	913	322	100%	1 234	100,00%	59 468	69,69%	2,73	3 304	268%	696	696
	Subtotal	61 421	26 057	103%	90 072	2,90%	469 844	47,60%	3,24	51 072	57%	1 909	2 090
Total (all portfolios)		**1 953 369**	**960 353**	**86%**	**2 501 516**	**1,39%**	**681 278**	**48,14%**	**2,67**	**1 443 248**	**58%**	**72 156**	**66 127**

67. Table: EU CR6 – IRB approach – Credit risk exposures by exposure class and PD range (values in million HUF, K&H Bank)

	Pre-credit derivatives RWAs	Actual RWAs
Exposures under FIRB		
Central governments and central banks		
Institutions		
Corporates – SMEs		
Corporates – Specialised lending		
Corporates – Other		
Exposures under AIRB		
Central governments and central banks	6 099	6 099
Institutions	165 193	165 193
Corporates – SMEs	428 689	428 689
Corporates – Specialised lending	171 712	171 712
Corporates – Other	362 971	362 971
Retail – Secured by real estate SMEs		
Retail – Secured by real estate non-SMEs	215 024	215 024
Retail – Qualifying revolving		
Retail – Other SMEs		
Retail – Other non-SMEs	51 072	51 072
Equity IRB		
Other non credit obligation assets		
Total	**1 400 760**	**1 400 760**

68. Table: EU CR7 – IRB approach – Effect on the RWAs of credit derivatives used as CRM techniques (values in million HUF, K&H Group)

	Pre-credit derivatives RWAs	Actual RWAs
Exposures under FIRB		
Central governments and central banks		
Institutions		
Corporates – SMEs		
Corporates – Specialised lending		
Corporates – Other		
Exposures under AIRB		
Central governments and central banks	6 139	6 139
Institutions	170 531	170 531
Corporates – SMEs	428 297	428 297
Corporates – Specialised lending	171 855	171 855
Corporates – Other	400 328	400 328
Retail – Secured by real estate SMEs		
Retail – Secured by real estate non-SMEs	215 024	215 024
Retail – Qualifying revolving		
Retail – Other SMEs		
Retail – Other non-SMEs	51 072	51 072
Equity IRB		
Other non credit obligation assets		
Total	**1 443 248**	**1 443 248**

69. Table: EU CR7 – IRB approach – Effect on the RWAs of credit derivatives used as CRM techniques (values in million HUF, K&H Bank)

	RWA amounts	Capital requirements
RWAs on 31.12.2017	1 276 607	102 129
Asset size	140 851	11 268
Asset quality	-194 794	-15 584
Model updates	168 093	13 447
Methodology and policy		
Acquisitions and disposals		
Foreign exchange movements	10 003	800
Other		
RWAs on 31.12.2018	1 400 760	112 061

70. Table: EU CR8 – RWA flow statements of credit risk exposures under the IRB approach (year to year, values in million HUF, K&H Group)

	RWA amounts	Capital requirements
RWAs on 30.09.2018	1 464 302	117 144
Asset size	-43 590	-3 487
Asset quality	-53 853	-4 308
Model updates	36 000	2 880
Methodology and policy		
Acquisitions and disposals		
Foreign exchange movements	-2 098	-168
Other		
RWAs on 31.12.2018	1 400 760	112 061

71. Table: EU CR8 – RWA flow statements of credit risk exposures under the IRB approach (quarter to quarter, values in million HUF, K&H Group)

	RWA amounts	Capital requirements
RWAs on 31.12.2017	1 321 725	105 738
Asset size	143 747	11 500
Asset quality	-200 588	-16 047
Model updates	168 093	13 447
Methodology and policy		
Acquisitions and disposals		
Foreign exchange movements	10 272	822
Other		
RWAs on 31.12.2018	1 443 248	115 460

72. Table: EU CR8 – RWA flow statements of credit risk exposures under the IRB approach (year to year, values in million HUF, K&H Bank)

	RWA amounts	Capital requirements
RWAs on 30.09.2018	1 517 505	121 400
Asset size	-49 118	-3 929
Asset quality	-59 003	-4 720
Model updates	36 000	2 880
Methodology and policy		
Acquisitions and disposals		
Foreign exchange movements	-2 136	-171
Other		
RWAs on 31.12.2018	1 443 248	115 460

73. Table: EU CR8 – RWA flow statements of credit risk exposures under the IRB approach (quarter to quarter, values in million HUF, K&H Bank

Exposure Class	PD-Range	External rating equivalent	Weighted average PD	Arithmetic average PD	Number of obligors		Defaulted obligors in the year	Of which new obligors	Average historical annual default rate
					End of previous year	End of the year			
Central governments or central banks	01 [0,00% - 0,10%]	A	0,0003	0,0003		1			0,00%
	02 [0,10% - 0,20%]	BBB		0,0011		13			0,00%
	03 [0,20% - 0,40%]	BBB-	0,0030	0,0022	699	1817			0,00%
	04 [0,40% - 0,80%]	BB+	0,0053	0,0060	436	459	1	1	0,41%
	05 [0,80% - 1,60%]	BB	0,0121	0,0116	265	499			0,00%
	06 [1,60% - 3,20%]	BB-	0,0226		4				0,04%
	07 [3,20% - 6,40%]	B	0,0453	0,0453	1016	1126			0,65%
	08 [6,40% - 12,80%]	B-	0,0872	0,0889	2	3			0,00%
	09 [12,80% - 100,00%]	CCC	0,2123	0,2123		1			0,00%
Institutions	01 [0,00% - 0,10%]	A	0,0007	0,0006	338	313			0,00%
	02 [0,10% - 0,20%]	BBB	0,0011	0,0012	147	166			0,00%
	03 [0,20% - 0,40%]	BBB-	0,0030	0,0029	9	22			0,00%
	04 [0,40% - 0,80%]	BB+	0,0056	0,0061	41	14			0,00%
	05 [0,80% - 1,60%]	BB	0,0130	0,0123	8	5			0,00%
	06 [1,60% - 3,20%]	BB-	0,0204	0,0204	6	15			0,00%
	07 [3,20% - 6,40%]	B	0,0400	0,0439	375	77			0,00%
	08 [6,40% - 12,80%]	B-	0,0882	0,0875	2	9			0,00%
	09 [12,80% - 100,00%]	CCC							0,00%
Corporates	01 [0,00% - 0,10%]	A	0,0008	0,0008	1327	1739	1	1	0,12%
	02 [0,10% - 0,20%]	BBB	0,0015	0,0015	4076	5198	1	1	0,00%
	03 [0,20% - 0,40%]	BBB-	0,0029	0,0030	5714	6586			0,29%
	04 [0,40% - 0,80%]	BB+	0,0057	0,0058	9167	9344	2	2	0,36%
	05 [0,80% - 1,60%]	BB	0,0116	0,0119	9758	10915	5	5	0,34%
	06 [1,60% - 3,20%]	BB-	0,0225	0,0228	8522	8491	13	13	0,44%
	07 [3,20% - 6,40%]	B	0,0451	0,0454	38132	38929	12	12	1,27%
	08 [6,40% - 12,80%]	B-	0,0903	0,0897	2114	1874	9	9	3,20%
	09 [12,80% - 100,00%]	CCC	0,2574	0,2970	1599	1510	62	56	7,43%
of which specialised lending	01 [0,00% - 0,10%]	A							0,00%
	02 [0,10% - 0,20%]	BBB	0,0016		21				0,00%
	03 [0,20% - 0,40%]	BBB-	0,0032	0,0030	140	147			0,00%
	04 [0,40% - 0,80%]	BB+	0,0055	0,0060	128	211			4,76%
	05 [0,80% - 1,60%]	BB	0,0116	0,0128	202	311			0,09%
	06 [1,60% - 3,20%]	BB-	0,0220	0,0224	110	261			0,00%
	07 [3,20% - 6,40%]	B	0,0471	0,0465	82	146			0,00%
	08 [6,40% - 12,80%]	B-	0,0873	0,0822	27	15			0,02%
	09 [12,80% - 100,00%]	CCC	0,1973	0,2595	13	7			23,34%
of which SMEs	01 [0,00% - 0,10%]	A	0,0008	0,0008	1168	1540	1	1	0,12%
	02 [0,10% - 0,20%]	BBB	0,0015	0,0015	2907	3811	1	1	0,00%
	03 [0,20% - 0,40%]	BBB-	0,0030	0,0030	4587	5517			0,04%
	04 [0,40% - 0,80%]	BB+	0,0059	0,0058	7365	7231	2	2	0,02%
	05 [0,80% - 1,60%]	BB	0,0118	0,0117	7214	7749	5	5	0,34%
	06 [1,60% - 3,20%]	BB-	0,0229	0,0228	6873	6656	13	13	0,80%
	07 [3,20% - 6,40%]	B	0,0452	0,0455	9062	8967	11	11	1,29%
	08 [6,40% - 12,80%]	B-	0,0901	0,0897	1898	1721	8	8	4,63%
	09 [12,80% - 100,00%]	CCC	0,2583	0,2998	1489	1441	62	56	6,10%
Retail	01 [0,00% - 0,10%]	A		0,0009		1			0,29%
	02 [0,10% - 0,20%]	BBB	0,0019	0,0016	23042	3382	15	13	0,15%
	03 [0,20% - 0,40%]	BBB-	0,0029	0,0033	41901	79904	82	67	0,26%
	04 [0,40% - 0,80%]	BB+	0,0059	0,0057	96888	97837	1 755	1 172	0,64%
	05 [0,80% - 1,60%]	BB	0,0110	0,0115	59589	61307	1 410	991	0,63%
	06 [1,60% - 3,20%]	BB-	0,0219	0,0248	47229	46993	953	691	1,26%
	07 [3,20% - 6,40%]	B	0,0476	0,0481	29269	28618	879	640	1,59%
	08 [6,40% - 12,80%]	B-	0,0845	0,0929	9447	9130	742	467	3,22%
	09 [12,80% - 100,00%]	CCC	0,3275	0,4071	13016	12676	2 751	1 662	19,34%
Mortgage	01 [0,00% - 0,10%]	A							0,11%
	02 [0,10% - 0,20%]	BBB	0,0019	0,0016	23038	3365	15	13	0,15%
	03 [0,20% - 0,40%]	BBB-	0,0029	0,0027	20754	34471	35	27	0,23%
	04 [0,40% - 0,80%]	BB+	0,0063	0,0058	8186	16939	62	47	0,56%
	05 [0,80% - 1,60%]	BB	0,0109	0,0110	16093	20553	156	111	0,57%
	06 [1,60% - 3,20%]	BB-	0,0208	0,0226	11669	8274	266	169	1,09%
	07 [3,20% - 6,40%]	B	0,0434	0,0446	5512	5838	270	110	1,50%
	08 [6,40% - 12,80%]	B-	0,0825	0,0899	3992	3438	375	147	3,28%
	09 [12,80% - 100,00%]	CCC	0,3238	0,4169	7005	4716	1 511	664	19,09%
Retail - Qualifying revolving									0,00%
Other Retail	01 [0,00% - 0,10%]	A		0,0009		1			0,53%
	02 [0,10% - 0,20%]	BBB	0,0018	0,0018	4	17			0,22%
	03 [0,20% - 0,40%]	BBB-	0,0034	0,0038	21147	45433	47	40	0,95%
	04 [0,40% - 0,80%]	BB+	0,0051	0,0057	88702	80898	1 693	1 125	0,60%
	05 [0,80% - 1,60%]	BB	0,0120	0,0118	43496	40754	1 254	880	0,96%
	06 [1,60% - 3,20%]	BB-	0,0261	0,0252	35560	38719	687	522	2,00%
	07 [3,20% - 6,40%]	B	0,0530	0,0491	23757	22780	609	530	1,79%
	08 [6,40% - 12,80%]	B-	0,1023	0,0947	5455	5692	367	320	4,16%
	09 [12,80% - 100,00%]	CCC	0,3705	0,4013	6011	7960	1 240	998	22,61%
Equity IRB									0,00%

74. Table: EU CR9 – IRB approach – Backtesting of PD per exposure class (K&H Group)

Exposure Class	PD-Range	External rating equivalent	Weighted average PD	Arithmetic average PD	Number of obligors: End of previous year	Number of obligors: End of the year	Defaulted obligors in the year	Of which new obligors	Average historical annual default rate
Central governments or central banks	01 [0,00% - 0,10%]	A	0,0004	0,0004	0	1	0	0	0,00%
	02 [0,10% - 0,20%]	BBB	0,0000	0,0011	0	13	0	0	0,00%
	03 [0,20% - 0,40%]	BBB-	0,0027	0,0029	153	12	0	0	0,00%
	04 [0,40% - 0,80%]	BB+	0,0050	0,0060	436	455	1	1	0,41%
	05 [0,80% - 1,60%]	BB	0,0119	0,0116	265	495	0	0	0,00%
	06 [1,60% - 3,20%]	BB-	0,0226	0,0000	4	0	0	0	0,04%
	07 [3,20% - 6,40%]	B	0,0453	0,0453	1006	1123	0	0	0,65%
	08 [6,40% - 12,80%]	B-	0,0000	0,0812	0	2	0	0	0,00%
	09 [12,80% - 100,00%]	CCC	0,2281	0,2281	0	1	0	0	0,00%
Institutions	01 [0,00% - 0,10%]	A	0,0006	0,0006	303	290	0	0	0,00%
	02 [0,10% - 0,20%]	BBB	0,0012	0,0013	181	183	0	0	0,00%
	03 [0,20% - 0,40%]	BBB-	0,0029	0,0028	9	21	0	0	0,00%
	04 [0,40% - 0,80%]	BB+	0,0052	0,0057	41	15	0	0	0,00%
	05 [0,80% - 1,60%]	BB	0,0118	0,0113	8	5	0	0	0,00%
	06 [1,60% - 3,20%]	BB-	0,0226	0,0226	5	13	0	0	0,00%
	07 [3,20% - 6,40%]	B	0,0416	0,0444	375	77	0	0	0,00%
	08 [6,40% - 12,80%]	B-	0,0905	0,0905	2	9	0	0	0,00%
	09 [12,80% - 100,00%]	CCC	0,0000	0,0000	0	0	0	0	0,00%
Corporates	01 [0,00% - 0,10%]	A	0,0007	0,0008	1309	1716	1	1	0,12%
	02 [0,10% - 0,20%]	BBB	0,0015	0,0014	4050	5143	1	1	0,00%
	03 [0,20% - 0,40%]	BBB-	0,0029	0,0029	5735	6637	0	0	0,29%
	04 [0,40% - 0,80%]	BB+	0,0058	0,0058	9146	9346	2	2	0,36%
	05 [0,80% - 1,60%]	BB	0,0116	0,0118	9796	10931	6	5	0,34%
	06 [1,60% - 3,20%]	BB-	0,0227	0,0228	8523	8503	13	13	0,44%
	07 [3,20% - 6,40%]	B	0,0449	0,0453	37723	38504	26	17	1,27%
	08 [6,40% - 12,80%]	B-	0,0891	0,0901	2115	1874	9	9	3,20%
	09 [12,80% - 100,00%]	CCC	0,1914	0,1979	1599	1510	62	56	7,43%
of which specialised lending	01 [0,00% - 0,10%]	A	0,0000	0,0000	0	0	0	0	0,00%
	02 [0,10% - 0,20%]	BBB	0,0015	0,0000	21	0	0	0	0,00%
	03 [0,20% - 0,40%]	BBB-	0,0031	0,0029	140	147	0	0	0,00%
	04 [0,40% - 0,80%]	BB+	0,0056	0,0061	128	211	0	0	4,76%
	05 [0,80% - 1,60%]	BB	0,0113	0,0123	202	311	0	0	0,09%
	06 [1,60% - 3,20%]	BB-	0,0230	0,0232	110	261	0	0	0,00%
	07 [3,20% - 6,40%]	B	0,0473	0,0466	82	146	1	0	0,00%
	08 [6,40% - 12,80%]	B-	0,0870	0,0833	27	15	0	0	0,02%
	09 [12,80% - 100,00%]	CCC	0,1878	0,2281	13	7	0	0	23,34%
of which SMEs	01 [0,00% - 0,10%]	A	0,0007	0,0008	1153	1519	1	1	0,12%
	02 [0,10% - 0,20%]	BBB	0,0015	0,0015	2885	3757	1	1	0,00%
	03 [0,20% - 0,40%]	BBB-	0,0029	0,0029	4617	5567	0	0	0,04%
	04 [0,40% - 0,80%]	BB+	0,0059	0,0058	7344	7232	2	2	0,02%
	05 [0,80% - 1,60%]	BB	0,0117	0,0117	7238	7763	5	5	0,34%
	06 [1,60% - 3,20%]	BB-	0,0230	0,0228	6876	6666	13	13	0,80%
	07 [3,20% - 6,40%]	B	0,0450	0,0454	9061	8966	23	15	1,29%
	08 [6,40% - 12,80%]	B-	0,0886	0,0901	1899	1721	8	8	4,63%
	09 [12,80% - 100,00%]	CCC	0,1916	0,1980	1489	1441	62	56	6,10%
Retail	01 [0,00% - 0,10%]	A	0,0000	0,0009	0	1	0	0	0,29%
	02 [0,10% - 0,20%]	BBB	0,0019	0,0016	23042	3382	15	13	0,15%
	03 [0,20% - 0,40%]	BBB-	0,0029	0,0033	41901	79904	171	139	0,26%
	04 [0,40% - 0,80%]	BB+	0,0059	0,0057	96888	97837	1927	1335	0,64%
	05 [0,80% - 1,60%]	BB	0,0110	0,0115	59589	61307	1505	1084	0,63%
	06 [1,60% - 3,20%]	BB-	0,0219	0,0248	47229	46993	1054	788	1,26%
	07 [3,20% - 6,40%]	B	0,0476	0,0481	29269	28618	931	688	1,59%
	08 [6,40% - 12,80%]	B-	0,0845	0,0929	9447	9130	779	503	3,22%
	09 [12,80% - 100,00%]	CCC	0,3275	0,4071	13016	12676	2788	1699	19,34%
Mortgage	01 [0,00% - 0,10%]	A	0,0000	0,0000	0	0	0	0	0,11%
	02 [0,10% - 0,20%]	BBB	0,0019	0,0016	23038	3365	15	13	0,15%
	03 [0,20% - 0,40%]	BBB-	0,0029	0,0027	20754	34471	37	29	0,23%
	04 [0,40% - 0,80%]	BB+	0,0063	0,0058	8186	16939	63	48	0,56%
	05 [0,80% - 1,60%]	BB	0,0109	0,0110	16093	20553	157	112	0,57%
	06 [1,60% - 3,20%]	BB-	0,0208	0,0226	11669	8274	266	169	1,09%
	07 [3,20% - 6,40%]	B	0,0434	0,0446	5512	5838	270	110	1,50%
	08 [6,40% - 12,80%]	B-	0,0825	0,0899	3992	3438	375	147	3,28%
	09 [12,80% - 100,00%]	CCC	0,3238	0,4169	7005	4716	1511	664	19,09%
Retail - Qualifying revolving			0,0000	0,0000	0	0	0	0	0,00%
Other Retail	01 [0,00% - 0,10%]	A	0,0000	0,0009	0	1	0	0	0,53%
	02 [0,10% - 0,20%]	BBB	0,0018	0,0018	4	17	0	0	0,22%
	03 [0,20% - 0,40%]	BBB-	0,0034	0,0038	21147	45433	134	110	0,95%
	04 [0,40% - 0,80%]	BB+	0,0051	0,0057	88702	80898	1864	1287	0,60%
	05 [0,80% - 1,60%]	BB	0,0120	0,0118	43496	40754	1348	972	0,96%
	06 [1,60% - 3,20%]	BB-	0,0261	0,0252	35560	38719	788	619	2,00%
	07 [3,20% - 6,40%]	B	0,0530	0,0491	23757	22780	661	578	1,79%
	08 [6,40% - 12,80%]	B-	0,1023	0,0947	5455	5692	404	356	4,16%
	09 [12,80% - 100,00%]	CCC	0,3705	0,4013	6011	7960	1277	1035	22,61%
Equity IRB			0	0	0	0	0	0	0,00%

75. Table: EU CR9 – IRB approach – Backtesting of PD per exposure class (K&H Bank)

9.2. Quantitative information about Counterparty Credit risk exposure: (CRR Article 439.)

	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
Mark to market		114 828	88 065			42 067	26 382
Original exposure							
Standardised approach							
IMM (for derivatives and SFTs)							
Of which securities financing transactions							
Of which derivatives and long settlement transactions							
Of which from contractrual cross product netting							
Financial collateral simple method (for SFTs)							
Financial collateral comprehensive method (for SFTs)						364	23
VAR for SFTs							
Total							**26 405**

76. Table: EU CCR1 – Analysis of CCR exposure by approach (values in million HUF, K&H Group and K&H Bank)

	Esposure value	RWAs
Total portfolios subject to the advanced method		
i. VaR component (including the 3x multiplier)		
ii. SVaR component (including the 3x multiplier)		
All portfolios subject to the standardised method	1 267	538
Based on the original exposure method		
Total subject to the CVA capital charge	**1 267**	**538**

77. Table: EU CCR2 – CVA capital charge (values in million HUF, K&H Group and K&H Bank)

Exposure classes	Risk weight											Total	Of which unrated
	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Egyéb		
Central governments or central banks	7 277											7 277	
Regional government or local authorities													
Public sector entities													
Multilateral development banks													
International organisations													
Institutions													
Corporates													
Retail													
Institutions and corporates with a short-term credit assessment													
Other Items													
Total	7 277											7 277	

78. Table: EU CCR3 – Standardised approach – CCR exposures by regulatory portfolio and risk (values in million HUF, K&H Group and K&H Bank)

Exposure class	PD scale	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density
Institutions	0,00 – <0,15	33 555	0,05%	21112	37,29%	1,75	7 452	22,21%
	0,15 – <0,25	27	0,18%	2	62,70%	1,00	15	55,42%
	0,25 – <0,50	193	0,28%	5	0,00%	2,01	0	0,00%
	0,50 – <0,75							
	0,75 – <2,50	113	2,26%	12	62,70%	1,00	166	147,49%
	2,50 – <10,00							
	10,00 – <100,00							
	100,00 (default)							
	Subtotal	**33 888**	**0,06%**	**21131**	**37,18%**	**1,75**	**7 633**	**22,53%**
Corporates	0,00 – <0,15	368	0,11%	288	62,21%	1,17	119	32,34%
	0,15 – <0,25	1 097	0,19%	498	60,31%	1,20	463	42,18%
	0,25 – <0,50	2 038	0,33%	1885	58,73%	2,16	1 409	69,11%
	0,50 – <0,75	9 436	0,60%	2820	45,94%	2,23	6 833	72,42%
	0,75 – <2,50	6 030	1,38%	4936	60,13%	2,37	7 086	117,51%
	2,50 – <10,00	1 522	4,13%	2143	61,32%	1,57	2 393	157,24%
	10,00 – <100,00	136	18,10%	67	37,00%	1,65	228	168,48%
	100,00 (default)	24	100,00%	127	59,39%	1,75	175	742,34%
	Subtotal	**20 650**	**1,26%**	**12764**	**53,49%**	**2,14**	**18 706**	**90,59%**
of which SMEs	0,00 – <0,15	182	0,11%	286	61,72%	1,35	45	24,73%
	0,15 – <0,25	232	0,22%	177	59,68%	1,00	67	28,93%
	0,25 – <0,50	492	0,37%	630	56,66%	1,71	267	54,19%
	0,50 – <0,75	2 885	0,65%	2163	59,45%	1,17	2 107	73,04%
	0,75 – <2,50	2 516	1,39%	2895	59,58%	1,21	2 298	91,35%
	2,50 – <10,00	971	4,46%	1394	59,10%	1,25	1 379	141,93%
	10,00 – <100,00	136	18,10%	67	37,00%	1,65	228	168,48%
	100,00 (default)	24	100,00%	127	59,39%	1,75	175	742,34%
	Subtotal	**7 436**	**1,99%**	**7739**	**58,92%**	**1,24**	**6 566**	**88,29%**
of which specialised lending	0,00 – <0,15							
	0,15 – <0,25	35	0,22%	11	81,21%	1,00	18	52,54%
	0,25 – <0,50							
	0,50 – <0,75	5 464	0,57%	11	36,13%	2,85	3 699	67,70%
	0,75 – <2,50	1 576	1,43%	40	63,35%	4,68	2 585	164,09%
	2,50 – <10,00	148	2,88%	20	81,21%	4,97	338	229,20%
	10,00 – <100,00							
	100,00 (default)	368	0,11%	288	62,21%	1,17	119	0,00%
	Subtotal	**7 590**	**0,77%**	**370**	**44,13%**	**3,18**	**6 760**	**89,07%**
Total (all portfolios)		**54 537**	**0,51%**	**33895**	**43,36%**	**1,90**	**26 339**	**48,30%**

79. Table: EU CCR4 – IRB approach – CCR exposures by portfolio and PD scale (values in HUF million, K&H Group and K&H Bank)

	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Derivatives	12 585	96 481	43 447	3 053	40 393
SFTs	10 836		11 091	10 727	364
Cross-product netting					
Total	**23 422**	**96 481**	**54 537**	**13 780**	**40 757**

80. Table: EU CCR5-A – Impact of netting and collateral held on exposure values (values in HUF million, K&H Group and K&H Bank)

	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash collateral		3 053		3 795	10 727	
Total		3 053		3 795	10 727	

81. Table: EU CCR5-B – Composition of collateral for exposures to CCR (values in HUF million, K&H Group and K&H Bank)

The bank did not have deals contracted via central contracting agency at end of year 2018.

The bank did not have credit derivatives at end of year 2018.

10. Quantitative information about market risk

	RWAs	Capital requirements
Outright products		
Interest rate risk (general and specific)	11 603	928
Equity risk (general and specific)	681	54
Foreign exchange risk	1 756	141
Commodity risk		
Options		
Simplified approach		
Delta-plus method		
Scenario approach		
Securitisation (specific risk)		
Total	**14 040**	**1 123**

82. Table: EU MR1 – Market risk under the standardised approach (values in HUF million, K&H Bank and K&H Group)

11. List of abbreviations

AIRB	*Advanced IRB approach (credit risk)*
AMA	*Advanced Measurement Approach (operational risk)*
ARC	*Audit Committee*
ASA	*Alternative Standardized Approach (operational risk)*
BCBS	*Basel Committee of Banking Supervision*
BIA	*Basic Indicators Approach (operational risk)*
BoD	*Board of Directors*
CIC	*Corporate Institutional Committee*
CRC	*Credit Risk Council*
CRD	*Capital Requirements Directive*
CrisCo	*Crisis Committee*
CRO	*Chief Risk Officer*
CROC	*Capital and Risk Oversight Committee*
CT	*Country Team*
EAD	*Exposure at Default*
ERM	*Enterprise-wide Risk Management*
EXCO	*Executive Committee*
FFG	*Funding for growth*
FIRB	*Foundation IRB approach (credit risk)*
HAS	*Hungarian Accounting Standards*
HPT	Credit Institutions and Financial Enterprises Act (Act CXII of *1996)*
ICAAP	*Internal Capital Adequacy Assessment Process*
ICM	*Internal Capital Model*
IFRS	*International Financial Reporting Standards*
IMA	*Internal Models Approach (market risk)*
IRB	*Internal Ratings Based approach (credit risk)*
LGD	*Loss Given Default*
MC IM	*Management Committee International Markets*
MNB	*the Central Bank of Hungary*

NAPP	*New and Active Products Process*
NCC	*National Credit Committee*
NCsC	*National Credit Sub-Committee*
ORC	*Operational Risk Council*
PD	*Probability of Default*
RAROC	*Risk-adjusted Return on Capital*
RC	*Remuneration Committee*
RCC	*Retail Credit Committee*
RCs	*Retail Committees*
RPC	*Retail Product Committee*
RWA	*Risk Weighted Assets*
SICR	*Significant Increase in Credit Risk*
SMA	*Standardized Measurement Approach* (*market risk)*
SREP	*Supervisory Review and Evaluation Process*
STA	*Standardized Approach* (*credit risk)*
TSA	*Standardized Approach (operational risk)*
VRM	*Value and Risk Management*