

Disclosure according to Pillar 3

Risk Report

K&H Banking Group and
K&H Bank Zrt

For the First Quarter of 2018 Financial Year

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 13/2017 (XI.30) recommendation 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.

K&H publishes its “Risk Report” five times a year (only once for the full year), simultaneously with the disclosure of the “Annual Report” and makes it also accessible in Hungary (and in English) on the K&H corporate website (www.kh.hu). As the K&H Bank Zrt is a systemically important institution on the Hungarian market, the bank also publishes half yearly and quartely reports in a simplified form.

Overview of RWAs and capital requirements as of 31th of March, 2018:

Table 1 : Risk weighted assets and capital adequacy ratio (values in HUF bln)

Risk Weight Asset (RWA)	K&H Group	K&H Bank
Total RWA	1658	1687
Credit Risk (CVA included)	1399	1425
Market Risk	13	13
Operational Risk	247	250
Capital Adequacy Ratio	16,03%	15,68%

¹ Act CCXXXVII of 2013 on “credit institutions and financial enterprises” (Hpt.)

Table 2 EU- OV1 Overview of RWAs (K&H Group)

Values in HUF million	RWAs		Minimum capital requirements
	T	T-1	T
Credit risk (excluding CCR)	1 375 439	1 400 182	110 035
Of which the standardised approach	94 361	85 943	7 549
Of which the foundation IRB (FIRB) approach	0	0	0
Of which the advanced IRB (AIRB) approach	1 239 174	1 276 607	99 134
Of which MRA	41 904	37 632	3 352
Of which equity IRB under the simple risk-weighted approach or the IMA		0	0
CCR	23 294	25 210	1 864
Of which mark to market	22 337	23 754	1 787
Of which original exposure	0	0	0
Of which the standardised approach	0	0	0
Of which internal model method (IMM)	0	0	0
Of which risk exposure amount for contributions to the default fund of a CCP	0	0	0
Of which CVA	957	1 456	77
Settlement risk	0	0	0
Securitisation exposures in the banking book (after the cap)	0	0	0
Of which IRB approach	0	0	0
Of which IRB supervisory formula approach (SFA)	0	0	0
Of which internal assessment approach (IAA)	0	0	0
Of which standardised approach	0	0	0
Market risk	12 608	25 976	1 009
Of which the standardised approach	12 608	25 976	1 009
Of which IMA	0	0	0
Large exposures	0	0	0
Operational risk	246 796	246 796	19 744
Of which basic indicator approach	0	0	0
Of which standardised approach	246 796	246 796	19 744
Of which advanced measurement approach	0	0	0
Amounts below the thresholds for deduction (subject to 250% risk weight)	0	0	0
Floor adjustment	0	0	0
Total	1 658 137	1 698 163	132 651

Table 3 EU- OV1 Overview of RWAs (K&H Bank)

Values in HUF million	RWAs		Minimum capital requirements
	T	T-1	T
Credit risk (excluding CCR)	1 401 248	1 424 890	112 100
Of which the standardised approach	71 837	65 533	5 747
Of which the foundation IRB (FIRB) approach	0	0	0
Of which the advanced IRB (AIRB) approach	1 287 507	1 321 725	103 001
Of which MRA	41 904	37 632	3 352
Of which equity IRB under the simple risk-weighted approach or the IMA		0	0
CCR	23 470	25 410	1 878
Of which mark to market	22 513	23 954	1 801
Of which original exposure	0	0	0
Of which the standardised approach	0	0	0
Of which internal model method (IMM)	0	0	0
Of which risk exposure amount for contributions to the default fund of a CCP	0	0	0
Of which CVA	957	1 456	77
Settlement risk	0	0	0
Securitisation exposures in the banking book (after the cap)	0	0	0
Of which IRB approach	0	0	0
Of which IRB supervisory formula approach (SFA)	0	0	0
Of which internal assessment approach (IAA)	0	0	0
Of which standardised approach	0	0	0
Market risk	12 608	25 976	1 009
Of which the standardised approach	12 608	25 976	1 009
Of which IMA	0	0	0
Large exposures	0	0	0
Operational risk	249 869	249 869	19 990
Of which basic indicator approach	0	0	0
Of which standardised approach	249 869	249 869	19 990
Of which advanced measurement approach	0	0	0
Amounts below the thresholds for deduction (subject to 250% risk weight)	0	0	0
Floor adjustment	0	0	0
Total	1 687 195	1 726 145	134 976

Own funds and leverage ratio:

Table 4: Component of own funds

Components of own funds (HUF million)	K&H Bank	K&H Group
OWN FUNDS	265 763	265 763
_ TIER 1 CAPITAL(TIER 1 OR T1 CAPITAL)	226 069	226 069
__ COMMON EQUITY TIER 1 CAPITAL (CET 1 CAPITAL)	226 069	226 069
___ Capital instruments eligible as CET1 capital	189 753	189 753
___ Paid up capital instruments	140 978	140 978
___ Memorandum item: Capital instruments not eligible	-	-
___ Share premium	48 775	48 775
___ (-) Own CET1 instruments		-
___ (-) Direct holdings of CET1 instruments	-	-
___ (-) Indirect holdings of CET1 instruments	-	-
___ (-) Synthetic holdings of CET1 instruments	-	-
___ (-) Actual or contingent obligations to purchase own CET1 instruments	-	-
___ Retained earnings	33 787	33 787

___ Previous years retained earnings	33 787	33 787
___ Profit or loss eligible		-
___ Profit/loss attributable to owners of the parent	9 589	9 589
___(-) Part of interim or year-end profit not eligible	- 9 589	- 9 589
___ Accumulated other comprehensive income	8 440	8 440
___ Other reserves	-	-
___ Funds for general banking risk	17 631	17 631
___ Transitional adjustments due to grandfathered CET1 Capital instruments		-
___ Minority interest given recognition in CET1 capital	-	-
___ Transitional adjustments due to additional minority interests	-	-
___ Adjustments to CET1 due to prudential filters	- 4 386	- 4 386
(-) Increases in equity resulting from securitised assets	-	-
___ Cash flow hedge reserve	- 3 855	- 3 855
___ Cumulative gains and losses due to changes in own credit risk on fair valued liabilities	- 46	- 46
___ Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	- 4	- 4
___(-) Value adjustments due to the requirements for prudent valuation	- 481	- 481
___(-) Goodwill	-	-
___(-) Goodwill accounted for as intangible asset	-	-
___(-) Goodwill included in the valuation of significant investments	-	-
___ Deferred tax liabilities associated to goodwill	-	-
___(-) Other intangible assets	- 14 538	- 14 538
___(-) Other intangible assets gross amount	- 14 538	- 14 538
___ Deferred tax liabilities associated to other intangible assets	-	-
___(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	- 0	- 0
___(-) IRB shortfall of credit risk adjustments to expected losses	- 4 618	- 4 618
___(-) Defined benefit pension fund assets	-	-
___(-) Defined benefit pension fund assets gross amount	-	-
___ Deferred tax liabilities associated to defined benefit pension fund assets	-	-
___ Defined benefit pension fund assets which the institution has an unrestricted ability to use	-	-
___(-) Reciprocal cross holdings in CET1 Capital	-	-
___(-) Excess of deduction from AT1 items over AT1 Capital	-	-
___(-) Qualifying holdings outside the financial sector which can alternatively be subject to a 1,250 % risk weight	-	-
___(-) Securitisation positions which can alternatively be subject to a 1250 % risk weight	-	-
___(-) Free deliveries which can alternatively be subject to a 1,250 % risk weight	-	-
___(-) Positions in a basket for which an institution cannot determine the risk weight under the IRB approach, and can alternatively be subject to a 1,250 % risk weight	-	-
___(-) Equity exposures under an internal models approach which can alternatively be subject to a 1,250 % risk weight	-	-
___(-) CET1 instruments of financial sector entities where the institution does not have a significant investment	-	-
___(-) Deductible deferred tax assets that rely on future profitability and arise from temporary differences	-	-
___(-) CET1 instruments of financial sector entities where the institution has a significant investment	-	-
___(-) Amount exceeding the 17,65 % threshold	-	-
___ Other transitional adjustments to CET1 Capital	-	-
___ Additional deductions of CET1 Capital due to Article 3 CRR	-	-

__ CET1 capital elements or deductions — other	-	-
ADDITIONAL TIER 1 CAPITAL (AT1 CAPITAL)	-	-
__ Capital instruments eligible as AT1 Capital	-	-
__ Paid up capital instruments	-	-
___ Memorandum item: Capital instruments not eligible	-	-
___ Share premium	-	-
__ (-) Own AT1 instruments	-	-
___ (-) Direct holdings of AT1 instruments	-	-
___ (-) Indirect holdings of AT1 instruments	-	-
___ (-) Synthetic holdings of AT1 instruments	-	-
__ (-) Actual or contingent obligations to purchase own AT1 instruments	-	-
__ Transitional adjustments due to grandfathered AT1 Capital instruments	-	-
__ Instruments issued by subsidiaries that are given recognition in AT1 Capital	-	-
__ Transitional adjustments due to additional recognition in AT1 Capital of instruments issued by subsidiaries	-	-
__ (-) Reciprocal cross holdings in AT1 Capital	-	-
__ (-) AT1 instruments of financial sector entities where the institution does not have a significant investment	-	-
__ (-) AT1 instruments of financial sector entities where the institution has a significant investment	-	-
__ (-) Excess of deduction from T2 items over T2 Capital	-	-
__ Other transitional adjustments to AT1 Capital	-	-
__ Excess of deduction from AT1 items over AT1 Capital (deducted in CET1)	-	-
__ Additional deductions of AT1 Capital due to Article 3 CRR	-	-
__ AT1 capital elements or deductions — other	-	-
_ TIER 2 CAPITAL (T2 CAPITAL)	39 694	39 694
__ Capital instruments and subordinated loans eligible as T2 Capital	39 694	39 694
__ Paid up capital instruments and subordinated loans	39 694	39 694
___ Memorandum item: Capital instruments and subordinated loans not eligible	- 25	- 25
___ Share premium	-	-
___ (-) Own T2 instruments	-	-
___ (-) Direct holdings of T2 instruments	-	-
___ (-) Indirect holdings of T2 instruments	-	-
___ (-) Synthetic holdings of T2 instruments	-	-
__ (-) Actual or contingent obligations to purchase own T2 instruments	-	-
__ Transitional adjustments due to grandfathered T2 Capital instruments and subordinated loans	-	-
__ Instruments issued by subsidiaries that are given recognition in T2 Capital	-	-
__ Transitional adjustments due to additional recognition in T2 Capital of instruments issued by subsidiaries	-	-
__ IRB Excess of provisions over expected losses eligible	-	-
__ SA General credit risk adjustments	-	-
__ (-) Reciprocal cross holdings in T2 Capital	-	-
__ (-) T2 instruments of financial sector entities where the institution does not have a significant investment	-	-
__ (-) T2 instruments of financial sector entities where the institution has a significant investment	-	-
__ Other transitional adjustments to T2 Capital	-	-
__ Excess of deduction from T2 items over T2 Capital (deducted in AT1)	-	-
__ (-) Additional deductions of T2 Capital due to Article 3 CRR	-	-
__ T2 capital elements or deductions — other	-	-

Table 5: Leverage ratio (K&H Group, values in HUF million)

Leverage ratio	2018.03.31
SFT exposure according to CRR 222	18 662
Derivatives	99 272
Undrawn credit facilities, which may be cancelled unconditionally at any time without notice	109 139
Medium/ low risk trade related off-balance sheet items	19 136
Medium risk trade related off-balance sheet items and officially supported export finance related off-balance sheet items	402 067
Other off-balance sheet items	383 681
Other assets	3 085 835
Tier 1 capital	226 069
Regulatory adjustments	-18 925
Leverage ratio	5,52%

Table 6: Leverage ratio (K&H Bank, values in HUF million)

Leverage ratio	2018.03.31
SFT exposure according to CRR 222	18 662
Derivatives	99 277
Undrawn credit facilities, which may be cancelled unconditionally at any time without notice	94 940
Medium/ low risk trade related off-balance sheet items	57 527
Medium risk trade related off-balance sheet items and officially supported export finance related off-balance sheet items	265 930
Other off-balance sheet items	475 888
Other assets	3 105 829
Tier 1 capital	224 936
Regulatory adjustments	-18 937
Leverage ratio	5,49%

Table 7: EU CR8 RWA flow statements of credit risk exposures under the IRB approach (K&H Group, values in million HUF)

Values in HUF Million	RWA amounts	Capital requirements
RWAs as at the end of the previous reporting period	1 276 607	102 129
Asset size	-43 848	-3 508
Asset quality	-75 103	-6 008
Model updates	80 000	6 400
Methodology and policy	0	0
Acquisitions and disposals	0	0
Foreign exchange movements	1 518	121
Other	0	0
RWAs as at the end of the reporting period	1 239 174	99 134

Table 8: EU CR8 RWA flow statements of credit risk exposures under the IRB approach (K&H Bank, values in million HUF)

Values in HUF million	RWA amounts	Capital requirements
RWAs as at the end of the previous reporting period	1 321 725	105 738
Asset size	-40 197	-3 216
Asset quality	-75 564	-6 045
Model updates	80 000	6 400
Methodology and policy	0	0
Acquisitions and disposals	0	0
Foreign exchange movements	1 543	123
Other	0	0
RWAs as at the end of the reporting period	1 287 507	103 001