Disclosure according to Pillar 3

Risk Report

K&H Banking Group and
K&H Bank Zrt.

For the Second Quarter of 2023 Financial Year

Tartalomjegyzék

Disclosure requirements

K&H Banking Group and K&H Bank Zrt. 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 7/2022. (IV.22.)[2] recommendation of the Hungarian National Bank. K&H prepares this "Risk Report" for such purposes, containing the information required by law.

K&H did not take the opportunity to mitigate the impact on own funds during the adoption of IFRS 9 International Financial Reporting Standard by (EU) 2017/2395 Regulation of the European Parliament and of the Council and Recommendation 6/2022 (IV.22.) of the Hungarian National Bank and the own funds, capital adequacy and leverage ratios of the bank already reflect the amount of unrealised gains or losses on government securities measured at fair value through other comprehensive income and also the full impact of IFRS 9 or similar bookings based on an expected credit loss model as required.

The K&H corresponds with the requirements of the Article 449a of the CRR Disclosure of environmental, social and governance risks (ESG risks) and the relevant recommendations of the Hungarian National Bank 10/2022. (VIII.2.).

As the K&H Bank Zrt is a systematically important institution on the Hungarian market, the bank also publishes half yearly reports in a simplified form.

Overview of key risk indicators as of 30th of June 2023:

[1] Act CCXXXVII of 2013 on "credit institutions and financial enterprises" (Hpt.)
[2] Note:The recommendation reduced the midyear publishing requirements compared to previous year.

1. EU KM1 - Key metrics

1. Table Template EU KM1 - Key metrics template (K&H Group)

		30.06.2023	31.12.2022	30.06.2022
Available own funds (amounts)				
1	Common Equity Tier 1 (CET1) capital	404 361	410 836	358 920
2	Tier 1 capital	404 361	410 836	358 920
3	Total capital	446 204	459 869	402 119
Risk-weighted exposure amounts				
4	Total risk-weighted exposure amount	2 722 388	2 692 856	2 397 588
Capital ratios (as a percentage of risk-weighted exposure amount)				
5	Common Equity Tier 1 ratio (%)	14,85%	15,26%	14,97%
6	Tier 1 ratio (%)	14,85%	15,26%	14,97%
7	Total capital ratio (%)	16,39%	17,08%	16,77%
Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)				
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	3,21%	3,55%	3,55%
EU 7b	of which: to be made up of CET1 capital (percentage points)	1,81%	2,00%	2,00%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	2,41%	2,66%	2,66%
EU 7d	Total SREP own funds requirements (%)	11,21%	11,55%	11,55%
Combined buffer requirement (as a percentage of risk-weighted exposure amount)				
8	Capital conservation buffer (%)	2,50%	2,50%	2,50%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0,00%	0,00%	0,00%
9	Institution specific countercyclical capital buffer (%)	0,00%	0,00%	0,00%
EU 9a	Systemic risk buffer (%)	0,00%	0,00%	0,00%
10	Global Systemically Important Institution buffer (%)	0,00%	0,00%	0,00%
EU 10a	Other Systemically Important Institution buffer	0,50%	0,25%	0,25%
11	Combined buffer requirement (%)	3,00%	2,75%	2,75%
EU 11a	Overall capital requirements (%)	14,21%	14,31%	14,31%
12	CET1 available after meeting the total SREP own funds requirements (%)	8,39%	9,08%	8,77%
Leverage ratio				
13	Leverage ratio total exposure measure	4 384 411	4 197 993	3 939 722
14	Leverage ratio %	9,22%	9,79%	9,11%
Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)				
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	0,00%	0,00%	0,00%
EU 14b	of which: to be made up of CET1 capital (percentage points)	0,00%	0,00%	0,00%
EU 14c	Total SREP leverage ratio requirements (%)	3,00%	3,00%	3,00%
Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)				
EU 14d	Leverage ratio buffer requirement (%)	0,00%	0,00%	0,00%
EU 14e	Overall leverage ratio requirements (%)	3,00%	3,00%	3,00%
Liquidity Coverage Ratio				
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	1 587 325	1 808 474	602 986
EU 16a	Cash outflows - Total weighted value	1 124 637	1 318 464	1 154 487
EU 16b	Cash inflows - Total weighted value	90 049	234 506	1 490 417
16	Total net cash outflows (adjusted value)	1 034 587	1 083 958	288 622
17	Liquidity coverage ratio (%)	153%	167%	209%
Net Stable Funding Ratio				
18	Total available stable funding	3 622 967	3 783 029	3 867 866
19	Total required stable funding	2 512 320	2 172 567	2 294 996
20	NSFR ratio (%)	144%	174%	169%

2. Table: Template EU KM1 - Key metrics template (values in HUF million, K&H Bank)

		30.06.2023	31.12.2022	30.06.2022
Available own funds (amounts)				
1	Common Equity Tier 1 (CET1) capital	396 075	406 477	355 267
2	Tier 1 capital	396 075	406 477	355 267
3	Total capital	437 889	455 463	398 446
Risk-weighted exposure amounts				
4	Total risk-weighted exposure amount	2 756 684	2 728 817	2 425 232
Capital ratios (as a percentage of risk-weighted exposure amount)				
5	Common Equity Tier 1 ratio (%)	14,37%	14,90%	14,65%
6	Tier 1 ratio (%)	14,37%	14,90%	14,65%
7	Total capital ratio (%)	15,88%	16,69%	16,43%
Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)				
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	0,00%	0,00%	0,00%
EU 7b	of which: to be made up of CET1 capital (percentage points)	0,00%	0,00%	0,00%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	0,00%	0,00%	0,00%
EU 7d	Total SREP own funds requirements (%)	8,00%	8,00%	8,00%
Combined buffer requirement (as a percentage of risk-weighted exposure amount)				
8	Capital conservation buffer (%)	2,50%	2,50%	2,50%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0,00%	0,00%	0,00%
9	Institution specific countercyclical capital buffer (%)	0,00%	0,00%	0,00%
EU 9a	Systemic risk buffer (%)	0,00%	0,00%	0,00%
10	Global Systemically Important Institution buffer (%)	0,00%	0,00%	0,00%
EU 10a	Other Systemically Important Institution buffer	0,00%	0,00%	0,00%
11	Combined buffer requirement (%)	2,50%	2,50%	2,50%
EU 11a	Overall capital requirements (%)	10,50%	10,50%	10,50%
12	CET1 available after meeting the total SREP own funds requirements (%)	7,88%	8,69%	8,43%
Leverage ratio				
13	Leverage ratio total exposure measure	4 457 350	4 240 447	4 886 931
14	Leverage ratio %	8,89%	9,59%	7,27%
Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)				
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	0,00%	0,00%	0,00%
EU 14b	of which: to be made up of CET1 capital (percentage points)	0,00%	0,00%	0,00%
EU 14c	Total SREP leverage ratio requirements (%)	3,00%	3,00%	3,00%
Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)				
EU 14d	Leverage ratio buffer requirement (%)	0,00%	0,00%	0,00%
EU 14e	Overall leverage ratio requirements (%)	3,00%	3,00%	3,00%
Liquidity Coverage Ratio				
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	1 585 606	1 806 435	604 490
EU 16a	Cash outflows - Total weighted value	1 147 944	1 348 701	1 166 656
EU 16b	Cash inflows - Total weighted value	79 158	234 500	1 490 411
16	Total net cash outflows (adjusted value)	1 068 786	1 114 200	291 664
1700%	Liquidity coverage ratio (%)	148%	162%	207%
Net Stable Funding Ratio				
18	Total available stable funding	3 557 547	3 766 717	3 834 414
19	Total required stable funding	2 538 467	2 216 383	2 360 159
20	NSFR ratio (%)	140%	170%	162%

3. Environmental, social and governance risks (Article 449a CRR)

2.1. Qualitative information on Environmental risk

2.1.1. Business strategy and processes

K&H has a well-developed Risk Appetite Statement and process, which supports the banking group in the successful implementation of its strategy and is fully embedded into KBC's financial planning process. It evolves in sync with changes in the internal and external context and the strategic ambitions. The risk appetite covers all material risks that K&H is exposed to with particular attention for risks which dominate the external environment not only today but also in the future. Given the increased importance K&H assigns to climate risk, a specific risk appetite objective is included to the Risk Appetite Statement, covering both angles of the 'double materiality': The Group is committed to embed climate and environmental impacts into its decision making, products and processes with the aim of contributing positively to society and safeguarding long-term sustainability.

To be less vulnerable to changes in the external environment – including climate change – we pursue diversity and flexibility in our business mix, client segments, distribution channels and geographies, where we refrain from focusing on short-term gains at the expense of long-term stability. We manage volatility of net results by defining a solid risk management framework and risk appetite to ensure financial and operational resilience in the short, medium and long term.

By signing the Collective Commitment to Climate Action (CCCA) in 2019, KBC group stated publicly that it wants to play a leading role and be a significant lever in the process of transitioning to a more sustainable society and a low-carbon economy, including by committing to aligning its portfolios and business strategy with the Paris Agreement to keep global warming below 2°C while striving for a target of 1.5°C.

In 2022, we calculated the financed emissions of a selection of our portfolios using the methodology put forward by the Partnership for Carbon Accounting Financials (PCAF).

Following the changes in client behaviour and expectations means that we are not just focusing on digital transformation, but also sustainability and green financing are becoming very important factors in daily business activities: in both Retail and Business Banking, K&H will become the leading advisor of clients when it comes to green financing. In Retail, K&H have already introduced a green mortgage product which is available for both sustainable home purchase and renovation to increase energy efficiency. On the investment side, we provide a wide variety of responsible mutual funds fitting every client's risk profile. In Business Banking, K&H also provides green financing for sustainability-related purposes, green leasing for fully electric cars and aim at developing segment specific advisory in numerous areas of the economic spectrum based on group white papers.

Client dialogue is an essential part of bank's approach to better understanding how business clients already deal or plan to deal with sustainability challenges and to supporting them in this transition. We also use this dialogue to collect our clients' environmentally relevant data and steer business clients towards additional disclosures that might become necessary (e.g. related to the Corporate Sustainability Reporting Directive (CSRD), or the EU Taxonomy).

2.1.2. Governance

On group level the Internal Sustainability Board (ISB), chaired by the group CEO, is the primary forum for the discussion of all sustainability-related (thus sustainability related governance) topics (including our approach to climate change) and the main platform for driving sustainability at group level (with representation of senior managers from all business units and core countries. It debates and takes strategic and commercial decisions on all sustainability-related matters. On local K&H level sustainability related governance is managed through K&H Sustainability Programme.

With regards to the first and second line of defence, a hybrid organisational structure and governance, with strong central management and clear accountability in each of our business lines, are in place to ensure that sustainability topics receive the necessary attention and resources in our business operations and strategies going forward.

Main local decision body in sustainability questions is the K&H Sustainability Streering Commmittee (SSC) chaired by the CEO. CRO represents risk function in the committee. The K&H Sustainability Programme reports to the bank executive committee quarterly and to the Board of Directors annually.

All K&H senior managers have an explicit sustainability objective to increase sustainability awareness and to encourage management to take concrete action in the domain of sustainability (including climate policy). At least 10% of the variable remuneration received by senior management depends on the achievement of individual targets related to the implementation of the group's sustainability strategy.

2.1.3. Risk management

The KBC Enterprise Risk Management Framework defines the group overall approach to risk management and sets group-wide standards for risk management. It covers all risks to which the group is exposed, including ESG risks, which are gradually being embedded in the risk management processes.

ESG risks are identified in our risk taxonomy as key risks related to the business environment. ESG risks are considered as important risk drivers of the external environment and manifest themselves through all other traditional risk areas, such as credit risk, technical insurance risk, market risk, operational and reputational risk. As such, we do not consider ESG as standalone risk types.

When assessing potential impacts of ESG-risks, we consider three angles, ranging from direct to indirect impacts:

• direct impacts through our own operations, e.g., our own environmental footprint, workforce considerations, diversity, corporate governance & code of conduct,

• impacts through our outsourced activities and suppliers (related to the ESG profile of these third parties), and,

• indirect impacts through our core activities (lending and investing) and clients/exposures.

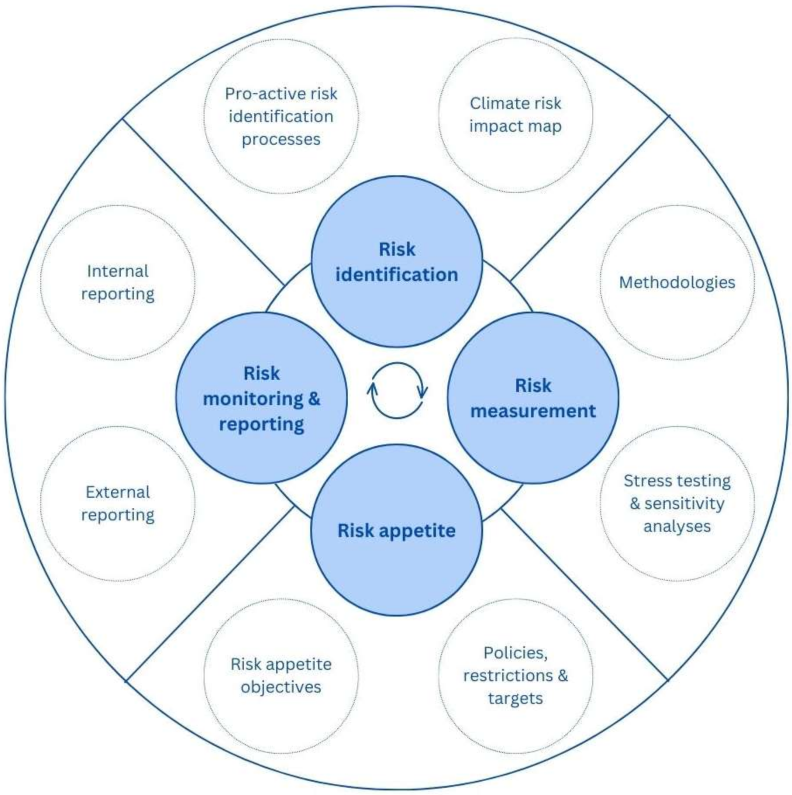
K&H uses a variety of approaches and processes to identify new, emerging and changing risks, including climate and other ESG risks. We continuously scan the internal and external environment for new and emerging risks we are exposed to in the short term (1-to-3-year horizon), in the medium term (4-to-10-year horizon) and in the long term (beyond 10-year horizon). By doing so, we also incorporate a forward-looking perspective.

The KBC group makes use of a series of tools and methodologies to strengthen our ability to identify, measure and analyse transition risks for our lending and investment activities. These tools provide further insights into the impact of climate change on our business model, as well as that of our activities on the environment:

The Paris Agreement Capital Transition Assessment (PACTA) methodology measures the alignment of KBC Group corporate industrial loan portfolio with decarbonisation pathways and helps to determine whether the companies in the loan portfolio are following a transition path in line with targets set by various climate transition scenarios. The scope of the PACTA tool in 2022 covers carbon-intensive activities within the steel, automotive, aviation, power, oil and gas, coal and cement sectors.

In 2022 the group rolled out the UNEP FI transition risk assessment methodology to highly climate-relevant sectors and their relevant subsegments, covering a similar scope as the White Paper exercises. After selecting six different climate scenarios, KBC Group assessed the impact of a transition to a low-carbon economy by estimating how the portfolios' Expected Loss (EL) could potentially change if these scenarios were to materialise.

In 2022, we calculated the financed emissions of a selection of our portfolios using the methodology put forward by the Partnership for Carbon Accounting Financials (PCAF).



1. Figure - Processes to identify, measure and monitor activities and exposures (and collateral where applicable) sensitive to environmental risks

For climate and other environmental risks, we differentiate between transition and physical risks:

• Transition risks: risks arising from disruptions and shifts associated with the transition to a low-carbon, climate-resilient or environmentally sustainable economy which include policy changes (e.g., imposition of carbon-pricing mechanisms, energy efficiency requirements or encouragement of sustainable use of environmental resources), technological changes/progress (e.g., old technology replaced by cleaner technology) or behavioural changes (e.g., where consumers or investors shift towards more sustainable products and services or difficulties to attract and retain customers, employees, investors or business partners for companies with a reputation of harming the environment).

• Physical risks: risks arising from physical phenomena associated with both climate or environmental trends such as (chronic) changing weather patterns, rising sea levels, increasing temperatures, biodiversity loss, resource scarcity, reduced water availability, changes in water and soil productivity, etc. and extreme weather events (acute), including storms, floods, fires, heatwaves or droughts that may disrupt operations or value chains or damage property.

K&H approaches climate risk from a double materiality perspective, concentrating on both:

• Financial materiality (outside-in view), looking at the impact of climate change on our business. Transition risks, for example, can lead to sudden repricing of assets, market volatility, credit losses and climate-related litigation resulting from financing obsolete (brown) technology or infrastructure, impacting lending and investment portfolios, whereas physical risk can increase the level of claims under the insurance policies we provide as well as the value of our assets or collateral; and

• Environmental and social materiality (inside-out view), looking at our business' impact on the environment.

In 2023, additional risk identification exercises for the other environmental risks will be performed (a.o. including other environmental considerations into the 2023 update of the White Papers and working towards an extension of the Climate Risk Impact Map to other environmental risks).

Other environmental risks can translate into financial risk through physical and transition risk drivers (similar to the ones for climate risk: policy & regulation, technological change & consumer preference). Aligned with the environmental objectives described by the EU Taxonomy, we consider the following environmental risk types: biodiversity loss, water stress, pollution, waste risk.

In our policies for sustainable and responsible lending we identify controversial activities with respect to the environment (including climate and biodiversity), human rights, business ethics and sensitive/controversial societal issues (e.g. intoxicating crops, gambling, fur, mining operations, land acquisition and the involuntary resettlement of indigenous people and prostitution). These specify the economic activities we are not willing to finance (such as activities related to thermal coal) or only under strict conditions (such as biomass technologies, production of palm oil, etc.).

Since 2020, strategic sectoral projects (so-called White Papers) have been set up, with a focus on our credit business, for eight carbon-intensive industrial sectors (energy, commercial real estate, agriculture, food production, building and construction, chemicals, transportation and metals) and three product lines (mortgages, car loans and car leasing). The selected sectors and business lines are material for K&H loan portfolio both from a Greenhouse Gas (GHG) perspective and from an exposure perspective. The White Papers make a clear analysis of the challenges and technological developments in each of these sectors and business lines, including the relevant European and local regulations and action plans, their impact on K&H portfolios in terms of climate-related risks and opportunities, which reporting metrics can be used to steer these portfolios. They also provide an initial outline of possible risk-mitigating measures, commercial policy adjustments and how we can steer the portfolio in line with the Paris Agreement. The White Papers are updated regularly (annually/biannually) to monitor the changing business environment, to evaluate long-term resilience towards climate and other environmental risks and to seek opportunities.

In 2021, the group initiated the development of a Climate Risk Impact Map. This yearly executed risk identification process aims to identify the most material climate risk drivers for group's businesses and portfolios. It reflects the impact of transition risk (policy and regulation, technology and consumer preference) and physical risk (split according to different climate perils) drivers on the traditional risk types by (1) distinguishing between different drivers of transition and physical risk, (2) considering three distinct climate scenarios, (3) for three different time horizons.

The timing and severity of transition risks and physical risks (i.e., the “climate pathway”) depend mainly on government and policy action. Given the uncertainty on the climate pathway that will eventually materialize, climate risks impacts are estimated for three distinct climate scenarios. These are made available by the Network for Greening of the Financial System (NGFS) and encompass a global, harmonised set of transition pathways, physical climate change impacts and economic indicators. Importantly, macroeconomic insights provided by these scenarios facilitate an assessment of the impact of these scenarios on the financial sector as a whole and K&H in particular. Aligning with NGFS scenarios ensures assumptions are aligned with the industry standards and facilitate comparability between the impact map and other internal and external climate risk related exercises. The relevance of these scenarios has already been demonstrated as these were also selected by the ECB for its 2022 climate stress test. Each scenario contains different assumptions regarding the timing and impact of different physical and transition risk drivers:

• Net Zero 2050 (Orderly scenario): in this scenario, there is early and decisive action to reduce global emissions in a gradual way, with clearly signposted government policies implemented relatively smoothly. There is a structural reallocation but no other macroeconomic shock. Transition risk is present, but remains rather limited. The actions are sufficient to limit global average temperature increases to below 1.5°C. However, even this moderate increase in global temperatures leads to higher physical risks.

• Delayed transition (Disorderly scenario): under this scenario, action to address climate change is delayed by ten years. To compensate for the delayed start, a more far-reaching adjustment is required. Companies and consumers change their behavior in response to these dramatic shifts, and asset prices see a sharp repricing as a result, leading to a macroeconomic shock. The climate target is still met, and global average temperature increases are limited to below 2°C. Under this scenario, physical risks increase more than in the Net Zero 2050 scenario and transition risks are severe.

• Current policies (Hot house world): this scenario assumes no limit on the global temperature by 2100, assuming no accelerated economic transition and a continuation of current policy trends. Physical climate change is high under this scenario, with climate impacts for these emissions reflecting the riskier (high) end of current estimates.

As the impacts of climate risk will materialise over different time horizons, impacts are assessed for three different time frames: short (1-3 years), medium (4-10 years) and long term (>10 years).

In the climate risk impact map, impacts are assessed in an expert-based way, supported by already available quantitative insights. With every (yearly) review of the Impact Map, additional insights, data and quantification will be added to the underpinning of the assessments in order for KBC to evaluate climate risk in a progressively data-driven way.

Currently there are no indications that a material impact is to be expected within the short term for any of the risk types. Looking forward to the medium and long term, we expect upward pressure from climate change on credit risk, legal risk and reputation risk (under the conservative assumption that K&H’s portfolio would remain unchanged and no additional mitigating actions would be taken). These impacts stem both from transition risk and physical risk drivers.

Since 2022, the conclusions from the climate risk impact map are incorporated into our risk management processes. In particular, the impact map's insights are gradually enabling us to incorporate the most material climate risk drivers and the time horizons over which these are expected to materialize in the different scenarios into our stress testing, to address the most material climate risks within risk appetite, e.g. by adjusting policies and setting targets and to follow-up on the associated metrics and targets within our reporting processes. As such, the Climate Risk Impact Map is crucial input to ICAAP/ILAAP and the assessment of the impact of climate change.

There is currently still a lack of data and standardised methods to properly assess and measure ESG risks with the same level of accuracy and quality as is usual for the more traditional risk types. In order to enable a more data-driven approach towards managing ESG risk, we keep on increasing our efforts to identify ESG-related data needs, define ESG metrics, adjust data architecture and ensure the implementation in our reporting processes. Since 2021 ESG data delivery project is running at K&H. Main task of the project is to identify data requirement and organise the collection and storage of the data.

K&H Sustainability Program adopted quantified long term targets for certain priority sectors: energy, real estate and transport.

Target setting prioritization of sectors are based on the observation that these sectors are frontloaded in the whole climate transition and/ or have the necessary clean technology availability to achieve relatively rapid carbon emission reductions. The absence of any of these features explains the rationale for not setting already quantified targets for the remaining sectors for the time being.gove

Business decisions have to consider the impact on the path towards the long term targets. Realisation should be annually monitored and reviewed.

Transmission channels

	Transition risk	**Physical risk**
Corporates	Depending on each individual company's transition plans, impacts can be different across and within sectors: Companies can be directly affected (e.g., loss of clients, increased costs and lower profitability, increased litigation costs, etc.), but also indirectly as their supply chain might be impacted by transition risk. • Failure to make a transition or making a transition at too slow pace can lead to a loss of business. Additional investments might be necessary and increasing costs can occur.	Corporates can be impacted by physical risk through direct damage caused by extreme weather events: • Critical assets can be damaged/destroyed or infrastructure can become unavailable. • Physical risks can cause supply-side shocks via impacts on transportation or primary resources.
Households	• Households can face increased costs re. utility and/or food. • As energy efficiency considerations become more factored into house prices, energy inefficient houses may decrease in value or increase more slowly.	• Extreme weather events can damage real estate or others assets (such as vehicles). Even though these damages are mostly covered by insurance, these insurance prices can also be expected to go up. • Costs can increase, e.g., due to more costs for cooling/heating, increased food costs, …
Sovereigns	The impact on sovereigns follow the impact of the underlying economy. In extreme circumstances, sovereigns which are most vulnerable to transition and physical risks can for example run the risk of downgrades.	

Financial institutions	The extent to which financial institutions will be impacted by transition and physical risks is dependent on their business and portfolio characteristics.

2.2. Qualitative information on Social risk

2.2.1. Business strategy and processes

The corporate strategy of KBC group is built around four pillars where one of them is that KBC group takes its responsibility towards society and local economies very seriously and aims to reflect that in its everyday activities.

KBC Group has defined risk appetite objectives, which guide and support the Group in defining and realising its strategic goals. Amongst others the group champions a strong corporate culture which encourages responsible behavior and is supported by a promotion and remuneration policy with a sustainable and long-term view.

The group's Risk Appetite Statement applies to all entities of KBC Group. The Group Risk Appetite Statement specifies how the risk appetite should be 'cascaded' to the local entities including K&H.

KBC is a signatory of the UN Global Compact Principles, which it implements in its policies to make sure they are applied in all its operations. The UN Global Compact asks companies to embrace, support and, within their sphere of influence, enact a set of core values in the areas of human rights, labour standards, the environment and combating corruption.

Companies involved in controversial weapon systems (e.g., nuclear weapons, cluster bombs and biological or chemical weapons) and UN Global Compact Worst Offenders enter the 'KBC Blacklist' and are excluded from all our activities, including the actively managed non-RI funds of KBC Asset Management. A group-wide zero-tolerance policy is in place for 'new business with a company on the KBC Blacklist'. This policy is fully embedded in the organisation as part of the operational risk management framework.

2.2.2. Governance

On group level the ISB, chaired by the CEO, is the primary forum for the discussion of all sustainability-related topics (including our approach to social risk) and the main platform for driving sustainability at group level (with representation of senior managers from all business units and core countries, the Group Corporate Sustainability Senior General Manager, and the Group CFO as vice-chairman). It debates and takes strategic and commercial decisions on all sustainability-related matters. On local K&H level sustainability related governance is managed through K&H Sustainability Programme. Main local decision body in sustainability questions is the K&H Sustainability Streering Commmittee chaired by the CEO.

Social aspects w.r.t. our own operations are handled within several K&H departments, such as Sustainability Streering Commmittee (SSC), HR (e.g. employee growth and development, diversity and inclusion), Facilities (workplace safety), Compliance (compliance risks), Risk (cyber and other operational risks), Marketing & Communication (responsible marketing), Complaints handling, etc.

2.2.3. Risk management

KBC is a signatory of the UN Global Compact Principles, which it implements in its policies to make sure they are applied in all its operations.

The ‘New and Active Products Process’ (NAPP) is set up to identify and mitigate all risks related to new and existing products and services, which may negatively impact the customer and/or K&H. To ensure responsible product development within K&H, no product/process/service can be created, purchased, changed or sold without an approval in line with the NAPP governance.

Policies are in place for credit risk, corporate social responsibility (CSR)/sustainable & responsible lending as well as restricted delegations prevail and KBC black list is applicable.

As member of KBC group, the focus of K&H Bank’s corporate lending activity is on borrowers · that are intrinsically well-managed financial institutions or corporates,· with whom the Bank keeps or wants to establish a broad long term relationship, · and that are located in a recognised and respected legal environment.

2.3. Qualitative information on Governance risk

2.3.1. Governance

On group level the ISB is the primary forum for the discussion of all sustainability-related topics. On local K&H level sustainability related governance is managed through K&H Sustainability Programme. Main local decision body in sustainability questions is the K&H Sustainability Streering Commmittee (SSC).

Governance risk defined in KBC Group is the risk arising from changing expectations concerning corporate governance (corporate policies & code of conducts, e.g., responsibilities of senior staff members, remuneration, internal controls, shareholder rights), anti-corruption & anti-bribery and transparency (e.g., in tax planning, external disclosures, …). The group Compliance Charter, several Compliance domains closely link with social and governance risks, e.g. Corporate Governance, Conduct, Embargo, Investor protection, Data protection, Ethics & Fraud, Consumer protection and anti-money laundering).

In the area of operational and reputational risk, KBC group screens its outsourced entities and suppliers by using the Sustainability Code of Conduct. The Code of Conduct is in line with the UN Global Compact Principles and applies to all entities of the KBC Group. As input to any outsourcing decision, a risk, compliance and legal assessment is always being prepared according to due diligence guidance also covering ESG risks.

As input to any outsourcing decision, a risk, compliance and legal assessment is always being prepared according to due diligence guidance also covering ESG risks.

2.3.2. Risk management

KBC group has implemented the ESG Assessment Guide in the loan origination/review process (including several credit acceptance criteria). An ESG assessment is mandatory for high-risk sectors above certain materiality thresholds (which we are gradually lowering), as also specified in KBC’s Credit Risk Standards on Loan Origination for Corporate, SME and Micro SME. Next to the environmental risks governance risk factors (incl. ethical considerations, strategy and risk management, inclusiveness and transparency) are considered in this ESG assessment. For the full Corporate and SME segment, the client’s governance aspects (e.g., organizational structure, ethical considerations, past controversies, …) are also part of this due diligence process.

2.4. ESG risks templates

In the first iteration of this regulatory reporting exercise, required data inputs are based on information that is collected on a best-effort basis and hence is also reliant on proxy estimations. Consequently, the templates must be interpreted with care and regarded as work in progress as, going forward, more and better data sources will become available (e.g., as a result of the further implementation of the Corporate Sustainability Reporting Directive (CSRD) and the European Reporting Standards (ESRS)). This should allow a better assessment of K&H’s exposure to transition and physical risk based on the reported templates.

A one-on-one comparison between this and other externally published reports is not always possible to the full extent.

2.4.1. ESG - Template 1: Banking book- Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity

3. Table: ESG - Template 1 – values in HUF million

	Sector/subsector	Gross carrying amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			GHG financed emissions (scope 1, scope 2 and scope 3 emissions of the counterparty) (in tons of CO2 equivalent)		GHG emissions (column i): gross carrying amount percentage of the portfolio derived from company-specific reporting	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
			Of which exposures towards companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and in accordance with Article 12.2 of Climate Benchmark Standards Regulation	Of which environmentally sustainable (CCM)	Of which stage 2 exposures	Of which non-performing exposures		Of which Stage 2 exposures	Of which non-performing exposures		Of which Scope 3 financed emissions						
1	**Exposures towards sectors that highly contribute to climate change***																
2	A - Agriculture, forestry and fishing	154 495,97			71 017,88	1 433,37	- 933,87	- 663,72	- 240,25	159 900 073,04		7,44	95 950,13	45 959,51	7 150,40	5 435,93	1 712,95
3	B - Mining and quarrying	179,59			15 044,67	0,44	- 0,36	- 0,00		390 327,87			179,52	0,07		0,00	607,32
4	*B.05 - Mining of coal and lignite*																
5	*B.06 - Extraction of crude petroleum and natural gas*																
6	*B.07 - Mining of metal ores*	0,00				0,00	- 0,00									0,00	7 439,72
7	*B.08 - Other mining and quarrying*	0,13			15 044,67	0,00	- 0,00	- 0,00		67,44			0,06	0,07		0,00	1 687,39
8	*B.09 - Mining support service activities*	179,47				0,44	- 0,36	-		390 260,43			179,47			0,00	606,57
9	C - Manufacturing	367 042,60	3758,65		238 619,02	11 578,58	- 12 186,77	- 4 344,14	- 6 333,69	65 251 760,75		48,72	236 235,12	58 156,14	1 824,84	70 826,50	1 918,05
10	*C.10 - Manufacture of food products*	111 753,52			75 354,27	3 744,41	- 3 744,46	- 2 672,72	- 62,15	14 785 652,33		43,89	78 379,03	17 754,99	1 824,84	13 794,65	1 788,18
11	*C.11 - Manufacture of beverages*	13 004,01			1 150,01	333,65	- 337,73	- 47,32	- 15,21	964 061,26		275,60	9 052,56	649,85		3 301,60	1 137,57
12	*C.12 - Manufacture of tobacco products*																
13	*C.13 - Manufacture of textiles*	4 144,28			250,24	132,29	- 132,59	- 8,68		448 982,89			1 736,46	1 719,01		688,81	2 212,49
14	*C.14 - Manufacture of wearing apparel*	800,09			122,91	27,10	- 27,08	- 6,86	- 11,09	99 669,79			558,84	85,52		155,73	2 206,81
15	*C.15 - Manufacture of leather and related products*	1 589,87			829,14	53,84	- 53,82	- 5,48	- 38,01	178 008,06			544,49	714,58		330,79	3 063,06
16	*C.16 - Manufacture of wood and of products of wood and cork, except furnit*	6 298,71			5 484,59	213,31	- 213,22	- 146,50	- 39,94	1 693 324,88			1 082,37	832,30		4 384,03	5 615,05
17	*C.17 - Manufacture of pulp, paper and paperboard*	4 981,53			4 527,52	168,71	- 168,63	- 152,48		1 141 832,36			2 411,90	1 600,33		969,30	2 755,73
18	*C.18 - Printing and service activities related to printing*	2 694,77			1 040,32	91,26	- 91,22	- 39,62		378 117,06			1 870,99	562,88		260,91	1 550,79
19	*C.19 - Manufacture of coke oven products*	3 758,65	3758,65		3 758,65	-	- 36,77	- 36,77		2 036 921,76		371,93				3 758,65	
20	*C.20 - Production of chemicals*	39 202,32			37 376,80	1 257,99	- 1 260,11	- 1 190,04	- 4,11	16 733 216,10			22 329,75	14 177,39		2 695,18	1 459,32
21	*C.21 - Manufacture of pharmaceutical preparations*	11 885,88			11 673,29	184,58	- 264,16	- 248,39	- 4,18	1 976 142,18		242,13	4 142,73	275,61		7 467,54	2 275,77
22	*C.22 - Manufacture of rubber products*	32 886,55			26 026,94	1 048,77	- 1 050,95	- 937,00	- 5,56	2 175 361,48		129,80	21 551,93	2 423,09	0,00	8 911,52	2 395,63
23	*C.23 - Manufacture of other non-metallic mineral products*	11 988,80			10 688,92	406,01	- 405,84	- 344,94	-	12 050 253,22			5 086,81	5 754,48		1 147,51	2 596,55
24	*C.24 - Manufacture of basic metals*	2 953,02			2 811,77	100,01	- 99,96	- 72,08	- 7,35	1 321 239,24			2 563,64	105,20		284,18	1 310,62
25	*C.25 - Manufacture of fabricated metal products, except machinery and equi*	28 785,88			17 951,40	974,87	- 974,45	- 206,64	- 671,89	2 687 969,20			21 253,05	4 973,65		2 559,18	1 637,09
26	*C.26 - Manufacture of computer, electronic and optical products*	9 013,01			6 861,14	88,42	- 573,58	- 499,39		464 414,72			1 328,72	112,65		7 571,63	3 865,92
27	*C.27 - Manufacture of electrical equipment*	8 926,29			979,49	302,30	- 302,17	- 55,43	- 95,08	519 507,07			6 654,71	1 306,82		964,75	1 481,73
28	*C.28 - Manufacture of machinery and equipment n.e.c.*	9 807,38			5 343,92	332,14	- 332,00	- 31,99	- 284,90	601 214,36			6 900,77	530,77		2 375,83	2 352,95
29	*C.29 - Manufacture of motor vehicles, trailers and semi-trailers*	45 966,29			22 561,49	1 556,70	- 1 556,03	- 203,95	- 1 230,03	177 586 114,35		20,83	40 904,78	3 067,35		1 994,17	1 011,09
30	*C.30 - Manufacture of other transport equipment*	6 553,17			1 003,73	221,93	- 221,84	- 35,51	-	699 542,06			834,56			5 718,61	6 543,78
31	*C.31 - Manufacture of furniture*	1 184,16			180,01	40,10	- 40,09	- 7,09	- 1,30	180 618,88			830,45	10,89		342,82	2 899,79
32	*C.32 - Other manufacturing*	7 315,74			2 281,36	247,76	- 247,65	- 3,40	- 240,37	608 819,54			5 356,30	979,49		979,95	1 757,24
33	*C.33 - Repair and installation of machinery and equipment*	1 548,69			361,11	52,45	- 52,43	- 8,36	- 19,02	97 247,48			860,26	519,28		169,15	2 148,83
34	D - Electricity, gas, steam and air conditioning supply	89 774,46	153,91		136 436,87	1,12	- 1 246,72	- 1 138,26		26 114 155,01		135,01	26 165,57	14 181,16	40 279,91	9 147,82	3 380,92
35	*D35.1 - Electric power generation, transmission and distribution*	83 076,77	0,28		118 439,84	1,03	- 1 149,90	- 1 057,30		21 293 864,80		130,92	23 848,55	13 907,16	36 458,43	8 862,63	3 339,10
36	*D35.11 - Production of electricity*	78 108,49	0,28		118 439,83	0,97	- 1 078,07	- 997,53		15 748 648,25		139,47	23 848,55	13 907,16	36 458,43	3 894,35	3 064,59
37	*D35.2 - Manufacture of gas; distribution of gaseous fuels through mains*	153,63	153,63		316,53	0,00	- 2,22	- 0,06		299 649,34			152,99			0,64	303,40
38	*D35.3 - Steam and air conditioning supply*	6 544,06			17 680,50	0,09	- 94,60	- 94,04		4 520 640,86		189,31	2 164,02	274,00	3 821,48	284,55	3 959,25
39	E - Water supply; sewerage, waste management and remediation activities	7 561,55			5 393,08	0,93	- 56,47	- 45,76		6 562 727,63		-	6 267,73	981,44	13,99	298,39	1 172,47
40	F - Construction	34 633,00			30 597,21	166,25	- 624,66	- 243,78	- 31,96	2 806 529,27		84,43	15 752,85	10 320,95		8 559,20	3 261,78
41	*F.41 - Construction of buildings*	22 677,99			17 325,81	108,86	- 409,03	- 132,33	- 4,93	1 721 147,32		129,06	7 271,72	8 433,24		6 973,03	3 925,67
42	*F.42 - Civil engineering*	5 267,46			4 721,94	25,29	- 95,01	- 40,09	- 3,84	478 460,72			4 219,31	442,16		605,99	1 652,87
43	*F.43 - Specialised construction activities*	6 687,55			8 549,45	32,10	- 120,62	- 67,86	- 20,41	606 921,22			4 261,82	1 445,55		980,18	2 277,75
44	G - Wholesale and retail trade; repair of motor vehicles and motorcycles	206 686,44	76,65		118 427,80	771,93	- 2 647,51	- 1 738,79	- 438,08	12 585 526,90			137 519,34	25 597,08		43 570,02	2 217,05
45	H - Transportation and storage	72 892,73			32 073,76	177,07	- 806,41	- 205,60	- 45,55	1 688 079,79			42 811,46	11 039,97	7 664,61	11 376,69	2 396,27
46	*H.49 - Land transport and transport via pipelines*	50 409,47			25 856,89	122,15	- 556,48	- 191,76	- 53,79	816 936,14			22 477,04	9 651,46	7 322,52	10 958,45	3 121,41
47	*H.50 - Water transport*	26,22			2,99	0,06	- 0,29	- 0,00		15 840,66						26,22	7 439,72
48	*H.51 - Air transport*	0,37			0,12	0,00	- 0,00	- 0,00		286,83			0,32			0,06	1 176,42
49	*H.52 - Warehousing and support activities for transportation*	21 727,21			5 571,71	53,07	- 241,53	- 29,81	- 0,10	849 419,92			19 662,99	1 339,05	342,09	383,09	754,62
50	*H.53 - Postal and courier activities*	729,45			642,04	1,78	- 8,11	- 5,74		5 596,24			671,11	49,47		8,87	1 397,22
51	I - Accommodation and food service activities	20 300,15			13 663,10	2 364,54	- 457,16	- 101,94	- 329,23	1 596 198,76			9 501,46	5 078,41	5 085,66	634,61	2 613,79
52	L - Real estate activities	152 110,02			13 344,51	132,74	- 2 162,72	- 180,36	- 50,53	3 586 161,30		50,95	46 466,54	97 996,81	7 433,36	213,31	2 389,28
53	**climate change***																
54	K - Financial and insurance activities	72 444,76			32,17	20,95	- 607,59	- 84,44		2 670 727,27			64 197,44	7 706,49		540,83	4 365,10
55	Exposures to other sectors (NACE codes J, M - U)	82 893,94			11 505,69	679,64	- 2 513,26	- 370,57	- 220,58	7 926 422,14			61 500,04	13 930,59		7 463,32	1 806,89
56	**TOTAL**	**1 261 015,21**	**3989,22**		**678 406,69**	**17 327,54**	**- 24 243,51**	**- 9 117,35**	**- 2 818,22**	**465 255 159,25**		**35,71**	**742 547,20**	**290 948,62**	**69 452,77**	**158 066,61**	**2 313,87**

Template 1 contains information on those exposures more susceptible to potential risks related to the transition towards a low-carbon and climate resilient economy. It includes exposures of non-financial corporates operating in climate-sensitive sectors, incl. non-performance status, stage 2 classification and related provisions as well as maturity buckets and information on financed GHG emission data (scope 1 and scope 2). Scope 3 data will be added to the template at a later stage, once more data is available or by applying the PCAF methodology (EBA deadline: June 2024).

The financed GHG emissions (expressed in tonnes of CO2 equivalent) are calculated based on the guidelines created by the Partnership for Carbon Accounting Financials (PCAF) in the 'The Global GHG Accounting & Reporting Standard for the Financial Industry'. In case data could not be obtained directly from the counterparty, the scope 1 and 2 financed emissions were calculated based on the PCAF asset-based emission factor (based on the counterparty's NACE rev2 code and country).

2.4.2. ESG - Template 2: Banking book - Climate change transition risk: Loans collateralised by immovable property - Energy efficiency of the collateral

4. Table: ESG - Template 2 – values in HUF million

	Counterparty sector	Total gross carrying amount amount														
			Level of energy efficiency (EP score in kWh/m² of collateral)						Level of energy efficiency (EPC label of collateral)							Without EPC label of collateral	
			0; <= 100	> 100; <= 200	> 200; <= 300	> 300; <= 400	> 400; <= 500	> 500	A	B	C	D	E	F	G		Of which level of energy efficiency (EP score in kWh/m² of collateral) estimated
1	Total EU area	1 335 299,9	225 043	431 949	274 588	86 680	25 293	23 789	31 377	86 631	156 306	71 290	93 421	57 629	141 854	696 792	444 814
2	Of which Loans collateralised by commercial immovable property	638 516,1	144 843	81 975	137 412	8 764	808	17 919	12 705	25 719	58 799	11 008	34 387	3 636	19 817	472 445	234 069
3	Of which Loans collateralised by residential immovable property	696 783,8	80 200	349 974	137 176	77 916	24 484	5 870	18 672	60 912	97 507	60 282	59 034	53 994	122 037	224 347	210 744
4	Of which Collateral obtained by taking possession: residential and commercial immovable properties	-															
5	Of which Level of energy efficiency (EP score in kWh/m² of collateral) estimated	1 027 587,8	216 874	421 216	269 904	83 549	25 246	10 798								570 534	1 027 588
6	Total non-EU area																
7	Of which Loans collateralised by commercial immovable property																
8	Of which Loans collateralised by residential immovable property																
9	Of which Collateral obtained by taking possession: residential and commercial immovable properties																
10	Of which Level of energy efficiency (EP score in kWh/m² of collateral) estimated																

Template 2 includes information on the loans collateralized with commercial and residential immovable property, including information on the level of energy efficiency of the collaterals measured or estimated in terms of kWh/m2 energy consumption, and in terms of the label of the energy performance certificate (EPC).

When energy efficiency scores were not available but details of the underlying asset were available, internal estimates were used to complete columns b-g of the template.. The allocation to the EPC labels of the report is text-based, i.e. if the label contains A, in whichever form, it will be allocated to the A label and likewise for labels B-G. Loans of which the collateral was obtained by taking possession are not reported due to the low materiality of the portfolio. The collection of EP scores or labels is an ongoing process and both the share of certified scores as well as the share of estimated scores will continuously improve going forward.

2.4.3. ESG - Template 4: Banking book - Climate change transition risk: Exposures to top 20 carbon-intensive firms

Not applicable for K&H.

2.4.4. ESG - Template 5: Banking book - Climate change physical risk: Exposures subject to physical risk

5. Table: ESG - Template 5 – values in HUF million

	Variable: Geographical area subject to climate change physical risk - acute and chronic events	Gross carrying amount													
			of which exposures sensitive to impact from climate change physical events												
			Breakdown by maturity bucket					of which exposures sensitive to impact from chronic	of which exposures sensitive to impact from acute	of which exposures sensitive to impact both from	Of which Stage 2 exposures	Of which non-performing exposures	Accumulated impairment,		
			<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity							of which Stage 2 exposures	Of which non-performing exposures
1	A - Agriculture, forestry and fishing	154 495,97	14 047,10	6 728,47	1 046,82	795,82	1 712,95		22 618,21		10 397,02	209,84	-136,72	-97,17	-35,17
2	B - Mining and quarrying	179,59					607,32								
3	C - Manufacturing	367 042,60	12 425,97	3 059,01	95,99	3 725,47	1 918,05		19 306,44		12 551,36	609,03	-641,02	-228,50	-333,15
4	D - Electricity, gas, steam and air conditioning supply	89 774,46	2 179,59	1 181,29	3 355,32	762,01	3 380,92		7 478,21		11 365,19	0,09	-103,85	-94,82	
5	E - Water supply; sewerage, waste management and remediation activities	7 561,55	626,77	98,14	1,40	29,84	1 172,47		756,15		539,31	0,09	-5,65	-4,58	
6	F - Construction	34 633,00	102,39	67,09		55,63	3 261,78		225,11		198,88	1,08	-4,06	-1,58	-0,21
7	G - Wholesale and retail trade; repair of motor vehicles and motorcycles	206 686,44	5 184,48	965,01		1 642,59	2 217,05		7 792,08		4 464,73	29,10	-99,81	-65,55	-16,52
8	H - Transportation and storage	72 892,73	10 043,57	2 589,98	1 798,12	2 668,97	2 396,27		17 100,63		7 524,51	41,54	-189,18	-48,23	-10,69
9	L - Real estate activities	152 110,02	250,92	529,18	40,14	1,15	2 389,28		821,39		72,06	0,72	-11,68	-0,97	-0,27
10	Loans collateralised by residential immovable property	696 838,07	2 070,50	5 380,43	21 263,04	8 912,26	5 870,58	9 546,68	35 608,43	139,37	12 799,71	1 462,03			
11	Loans collateralised by commercial immovable property	638 461,78	15 693,25	12 525,03	2 835,15	5 211,81	2 292,68	57 844,64	32 944,63		34 384,36	1 600,84	-3 140,75	-732,46	-1 388,84
12	Repossessed colalterals														
13	Other relevant sectors (breakdown below where relevant)														

Template 5 includes information on exposures in the banking book towards non-financial corporates, on loans collateralized with immovable property and on repossessed real estate collaterals, exposed to chronic and acute climate-related hazards, with a breakdown by sector of economic activity and by geography of location of the activity of the counterparty or of the collateral, for those sectors and geographical areas subject to climate change acute and chronic events. We refer to chapter 20.1.3 for an overview of the sources of information and the applied methodologies to identify the exposures subject to climate-change physical risk.

2.4.5. ESG - Template 10 - Other climate change mitigating actions that are not covered in the EU Taxonomy

6. Table: ESG - Template 10 – values in HUF million

	Type of financial instrument	Type of counterparty	Gross carrying amount	Type of risk mitigated (Climate change transition risk)	Type of risk mitigated (Climate change physical risk)	Qualitative information on the nature of the mitigating actions
1	Bonds (e.g. green, sustainable, sustainability-linked under standards other than the EU standards)	Financial corporations				
2		Non-financial corporations	3 272,97	3 272,97		ICMA GBP (The Green Bond Principles)
3		Of which Loans collateralised by commercial immovable property				
4		Households				
5		Of which Loans collateralised by residential immovable property				
6		Of which building renovation loans				
7		Other counterparties				
8	Loans (e.g. green, sustainable, sustainability-linked under standards other than the EU standards)	Financial corporations				
9		Non-financial corporations	145,83	145,83		Green Loan Framework of the Hungarian Eximbank
10		Of which Loans collateralised by commercial immovable property				
11		Households				
12		Of which Loans collateralised by residential immovable property				
13		Of which building renovation loans	71,91	71,91		Green Capital Relief Program of the Hungarian National Bank
14		Other counterparties				