

Disclosure according to Pillar 3

Risk Report

K&H Banking Group and
K&H Bank Zrt

For the First Quarter of 2019 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 quarterly reports in a simplified form.

Overview of RWAs and capital requirements as of 31th of March, 2019:

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

Risk Weighted Assets (RWA)	K&H Group	K&H Bank
Total RWA	1 979 300	2 008 274
Credit Risk (incl. CVA)	1 710 014	1 739 949
Market Risk	8 844	8 844
Operational Risk	260 442	259 481
Capital Adequacy Ratio	15,9%	15,6%

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

2. Table: EU- OV1 Overview of RWAs (values in HUF mln, K&H Group)

	RWA		Minimum capital
	T	T-1 quarter	T
Credit risk (excluding CCR)	1 678 647	1 540 705	134 292
Of which the standardised approach	100 860	95 774	8 069
Of which the foundation IRB (FIRB) approach			
Of which the advanced IRB (AIRB) approach	1 528 157	1 400 760	122 253
Of which MRA	49 629	44 171	3 970
Of which equity IRB under the simple risk-weighted approach or the IMA			
CCR	31 367	26 994	2 509
Of which mark to market	30 602	26 457	2 448
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	765	538	61
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	8 844	14 040	708
Of which the standardised approach	8 844	14 040	708
Of which IMA			
Large exposures			
Operational risk	260 442	257 642	20 835
Of which basic indicator approach			
Of which standardised approach	260 442	257 642	20 835
Of which advanced measurement approach			
Amounts below the thresholds for deduction (subject to 250% risk weight)			
Floor adjustment			
Total	1 979 300	1 839 381	158 344

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

	RWA		Minimum capital
	T	T-1 quarter	T
Credit risk (excluding CCR)	1 708 419	1 574 381	136 673
Of which the standardised approach	85 814	86 962	6 865
Of which the foundation IRB (FIRB) approach			
Of which the advanced IRB (AIRB) approach	1 572 975	1 443 248	125 838
Of which MRA	49 629	44 171	3 970
Of which equity IRB under the simple risk-weighted approach or the IMA			
CCR	31 531	27 082	2 522
Of which mark to market	30 766	26 545	2 461
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	765	538	61
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	8 844	14 040	708
Of which the standardised approach	8 844	14 040	708
Of which IMA			
Large exposures			
Operational risk	259 481	258 207	20 758
Of which basic indicator approach			
Of which standardised approach	259 481	258 207	20 758
Of which advanced measurement approach			
Amounts below the thresholds for deduction (subject to 250% risk weight)			
Floor adjustment			
Total	2 008 274	1 873 710	160 662

Own funds and leverage ratio:

4. Table: Component of own funds

		K&H Csoport	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		
2	Retained earnings	85 974	83 572
3	Accumulated other comprehensive income (and other reserves)	9 261	9 268
3a	Funds for general banking risk	23 359	23 335
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1		
5	Minority interests (amount allowed in consolidated CET1)		
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-3 000	-3 000
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	305 347	302 928

Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)		
8	Intangible assets (net of related tax liability) (negative amount)	-20 029	-20 037
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	-5 030	-5 030
12	Negative amounts resulting from the calculation of expected loss amounts	-5 827	-5 567
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)	-30 894	-30 642
29	Common Equity Tier 1 (CET1) capital	274 453	272 286

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)	274 453	272 286
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	40 740	40 740

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	40 740	40 740
59	Total capital (TC = T1 + T2)	315 193	313 026
60	Total risk weighted assets	1 979 300	2 008 274
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	13,87%	13,56%
62	Tier 1 (as a percentage of total risk exposure amount)	13,87%	13,56%
63	Total capital (as a percentage of total risk exposure amount)	15,92%	15,59%
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)	64 364	50 245
65	of which: capital conservation buffer requirement	49 482	50 207
66	of which: countercyclical buffer requirement	37	38
67	of which: systemic risk buffer requirement		
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	14 845	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	3,25%	2,50%
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)		

Leverage ratio

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

	Applicable Amount	
	K&H Group	K&H Bank
Total assets as per published financial statements	3 922 959	3 957 228
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	3 922 959	3 957 228

6. 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
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	3 342 514	3 363 949
2	(Asset amounts deducted in determining Tier 1 capital)	- 25 368	- 25 376
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	3 317 146	3 338 573
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	58 606	58 615
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 balance sheet assets pursuant to the applicable accounting framework		
7	(Deductions of receivables assets for cash variation margin provided in derivatives 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)	58 606	58 615
SFT exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	1 848	26 702
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)	1 848	26 702
Other off-balance sheet exposures			
17	Off-balance sheet exposures at gross notional amount		-
18	(Adjustments for conversion to credit equivalent amounts)	545 360	533 339
19	Other off-balance sheet exposures (sum of lines 17 and 18)	545 360	533 339
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 measure			
20	Tier 1 capital	274 453	272 286
21	Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	3 922 960	3 957 229
Leverage ratio			
22	Leverage ratio	7,00%	6,88%
Choice on transitional arrangements and amount of derecognised fiduciary items			
EU-23	Choice on transitional arrangements for the definition of the capital measure		
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013		

7. 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)

		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:	3 342 513	3 363 949
EU-2	Trading book exposures		
EU-3	Banking book exposures, of which:	3 342 513	3 363 949
EU-4	Covered bonds		
EU-5	Exposures treated as sovereigns	945 590	945 452
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns		
EU-7	Institutions	668 505	668 746
EU-8	Secured by mortgages of immovable properties	492 400	492 400
EU-9	Retail exposures	64 100	64 129
EU-10	Corporate	841 258	862 575
EU-11	Exposures in default	89 865	89 865
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	240 795	240 782

Credit Risk RWA Flow under IRB approach

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

	RWA amounts	Capital requirements
RWAs as of 31.12.2018	1 400 760	112 061
Asset size	98 177	7 854
Asset quality	29 240	2 339
Model updates		
Methodology and policy		
Acquisitions and disposals		
Foreign exchange movements	-20	-2
Other		
RWAs as of 31.03.2019	1 528 157	122 253

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

	RWA amounts	Capital requirements
RWAs as of 31.12.2018	1 443 248	115 460
Asset size	99 336	7 947
Asset quality	30 403	2 432
Model updates		
Methodology and policy		
Acquisitions and disposals		
Foreign exchange movements	-12	-1
Other		
RWAs as of 31.03.2019	1 572 975	125 838