Disclosure according to Pillar 3

Risk Report

K&H Banking Group and
K&H Bank Zrt

For the 2020 Financial Year

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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 including the last quarter of the year), simultaneously with the disclosure of the “Annual Report” and makes it also accessible in Hungarian (and in English) on the K&H corporate website (www.kh.hu).

As the K&H Banking Group is a systematically important institution on the Hungarian market, the bank also publishes half-yearly and quarterly 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 2020 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.

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

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 2020)	Title	Committee Membership
Luc Popelier	CEO, International Markets, KBC Bank&Insurance	Chairman
Christine Van Rijsseghem	KBC Group CRO, KBC Group NV.	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

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, Diego Du Monceau, Katalin Bóna) and met 3 times in in 2020. (March 11, 2020; April 1, 2020; November 25, 2020)

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 appropriate for their actual role. The Nomination Committee met once in 2020 (25 November 2020).

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. This committee also approves the new limits. The CROC can rely on support from one or more Risk Councils that act as advisory forums for specific risk areas. The Chief Risk Officer chairs the committee. 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 Chief Risk Officer chairs the committee.

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. Senior line managers chair the councils.

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, 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 2020 proved 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 obligator 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 obligator'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, and 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 31.12.2020): 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 cannot 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, based on 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 behavioural 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 that 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. Therefore, 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 on 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 that 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 influence 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 back testing 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 (e.g. approved limits, loans disbursed) and credit quality (e.g. 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 (e.g. accumulation loans, settled loans that 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 2020

It is important to note that the blanket moratorium initiated by the Government shifts the possible effects of the COVID crisis. Deterioration expected after end of said moratorium, see details in chapter 9.3

Main credit risk changes in 2020 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.

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.

Closeout 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 that 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 Analytics 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.

From 2020 Q2, K&H Bank reports its trading risk capital requirement applying CRR. Art.94 – Derogation of Small Trading Book (STB), as a result of compliance with regulatory requirements. National Bank of Hungary (MNB) accepted that K&H Bank was going to use STB. Position risk' capital requirement is henceforth calculated under the credit risk framework, thus the trading risk capital requirement decreased significantly. There is continues daily monitoring and strong control environment in place which was accepted by MNB to provide STB compliance and regulatory requirements. From this point of time, total VaR equals with the foreign exchange VaR figures and interest rate VaR is no longer considered within trading risk.

No exposure to equity risk in order to meet STB rules.

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 and EBA parallel shifts in the yield curve. An internal limit was implemented to put a cap on the BVP of the banking book.

	Yieldcurve increase	Yieldcurve decrease
200 bp parallel shift	-33 372	34 889
EBA parallel shift	-41 356	22 601
whereof HUF 200 bp parallel shift	-34 108	36 715
whereof HUF EBA parallel shift	-41 914	22 595
whereof EUR 200 bp parallel shift	773	-102
whereof EUR EBA parallel shift	594	0

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.

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 that, 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 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 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	2020.03.31	2020.06.30	2020.09.30	2020.12.31	2020.03.31	2020.06.30	2020.09.30	2020.12.31
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)					**1 058 939**	**1 081 004**	**1 097 575**	**1 147 650**
KIÁRAMLÁSOK								
Retail deposits and deposits from small business customers, of which:	**1 499 169**	**1 580 326**	**1 632 914**	**1 741 896**	**107 824**	**111 668**	**115 175**	**123 669**
Stable deposits	988 734	1 049 431	1 095 914	1 163 136	49 437	52 472	54 796	58 157
Less stable deposits	510 435	530 895	537 000	578 760	58 387	59 197	60 380	65 512
Unsecured wholesale funding	**1 021 910**	**1 119 630**	**1 153 450**	**1 270 650**	**520 845**	**556 757**	**555 491**	**619 092**
Operational deposits (all counterparties) and deposits in networks of cooperative banks	0	0	0	0	0	0	0	0
Non-operational deposits (all counterparties)	1 021 883	1 119 588	1 152 716	1 270 650	520 818	556 715	554 757	619 092
Unsecured debt	27	42	734	0	27	42	734	0
Secured wholesale funding					**0**	**0**	**0**	**0**
Additional requirements	**424 566**	**463 694**	**527 122**	**520 977**	**153 704**	**172 757**	**200 870**	**209 714**
Outflows related to derivative exposures and other collateral requirements	125 475	139 150	122 414	134 665	125 475	139 150	122 414	134 665
Outflows related to loss of funding on debt products	0	0	0	0	0	0	0	0
Credit and liquidity facilities	299 091	324 543	404 708	386 312	28 229	33 606	78 456	75 049
Other contractual funding obligations	**8 899**	**146 414**	**216 355**	**221 615**	**2 399**	**9 317**	**6 691**	**11 013**
Other contingent funding obligations	**555 747**	**423 550**	**349 503**	**354 604**	**85 436**	**80 932**	**78 554**	**80 621**
TOTAL CASH OUTFLOWS					**870 206**	**931 432**	**956 782**	**1 044 109**
CASH-INFLOWS								
Secured lending (eg reverse repos)	**21 723**	**8 317**	**4 460**	**12 000**	**35**	**0**	**0**	**0**
Inflows from fully performing exposures	**102 544**	**391 320**	**517 713**	**519 529**	**97 455**	**386 186**	**510 879**	**513 039**
Other cash inflows	**16 025**	**34 713**	**9 106**	**11 820**	**16 025**	**34 713**	**9 106**	**11 820**
(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	**140 291**	**434 350**	**531 279**	**543 349**	**113 515**	**420 899**	**519 985**	**524 858**
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	***140 291***	***434 350***	***531 279***	***543 349***	***113 515***	***420 899***	***519 985***	***524 858***
TOTAL ADJUSTED VALUE								
LIQUIDITY BUFFER					**1 058 939**	**1 081 004**	**1 097 575**	**1 147 650**
TOTAL NET CASH OUTFLOWS					**756 692**	**510 533**	**436 797**	**519 250**
LIQUIDITY COVERAGE RATIO (%)					**141%**	**215%**	**253%**	**222%**

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	2020.03.31	2020.06.30	2020.09.30	2020.12.31	2020.03.31	2020.06.30	2020.09.30	2020.12.31
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)					**1 055 894**	**1 077 876**	**1 094 236**	**1 144 255**
KIÁRAMLÁSOK								
Retail deposits and deposits from small business customers, of which:	**1 499 167**	**1 580 325**	**1 632 914**	**1 741 896**	**107 823**	**111 668**	**115 175**	**123 669**
Stable deposits	988 734	1 049 431	1 095 914	1 163 136	49 437	52 472	54 796	58 157
Less stable deposits	510 433	530 894	537 000	578 760	58 387	59 197	60 380	65 512
Unsecured wholesale funding	**1 025 149**	**1 122 852**	**1 154 590**	**1 272 666**	**523 478**	**559 393**	**556 116**	**620 588**
Operational deposits (all counterparties) and deposits in networks of cooperative banks	0	0	0	0	0	0	0	0
Non-operational deposits (all counterparties)	1 025 149	1 122 852	1 154 590	1 272 666	523 478	559 393	556 116	620 588
Unsecured debt	0	0	0	0	0	0	0	0
Secured wholesale funding					**0**	**0**	**0**	**0**
Additional requirements	**424 566**	**463 694**	**527 122**	**520 977**	**153 704**	**172 757**	**200 870**	**209 714**
Outflows related to derivative exposures and other collateral requirements	125 475	139 150	122 414	134 665	125 475	139 150	122 414	134 665
Outflows related to loss of funding on debt products	0	0	0	0	0	0	0	0
Credit and liquidity facilities	299 091	324 543	404 708	386 312	28 229	33 606	78 456	75 049
Other contractual funding obligations	**8 782**	**146 264**	**217 922**	**221 515**	**2 399**	**9 317**	**6 691**	**11 013**
Other contingent funding obligations	**559 907**	**428 312**	**354 546**	**359 756**	**87 442**	**83 135**	**80 871**	**82 985**
TOTAL CASH OUTFLOWS					**874 847**	**936 271**	**959 723**	**1 047 969**
CASH-INFLOWS								
Secured lending (eg reverse repos)	**21 723**	**8 317**	**4 460**	**12 000**	**35**	**0**	**0**	**0**
Inflows from fully performing exposures	**102 518**	**391 297**	**517 683**	**519 502**	**97 443**	**386 174**	**510 864**	**513 025**
Other cash inflows	**16 025**	**34 713**	**9 107**	**11 820**	**16 025**	**34 713**	**9 107**	**11 820**
(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	**140 266**	**434 327**	**531 250**	**543 321**	**113 502**	**420 888**	**519 971**	**524 845**
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	***140 266***	***434 327***	***531 250***	***543 321***	***113 502***	***420 888***	***519 971***	***524 845***
TOTAL ADJUSTED VALUE								
LIQUIDITY BUFFER					**1 055 894**	**1 077 876**	**1 094 236**	**1 144 255**
TOTAL NET CASH OUTFLOWS					**761 344**	**515 383**	**439 752**	**523 124**
LIQUIDITY COVERAGE RATIO (%)					**139%**	**212%**	**250%**	**220%**

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

3.3. Operational risk (CRR Article 446.)

Operational risk is considered as a ‘non-financial risk’ and is defined as the risk resulting from inadequate or failed internal processes, people and systems or from sudden man-made or natural external events. It is divided into 9 subtypes: IT risk, information security risk, business continuity risk, process risk, outsourcing & 3rd party risk, model risk, legal risk, fraud risk, and personal & physical security risk. K&H also takes into consideration reputation risk to a certain level: when assessing the vulnerability to operational risk events, the impact of various incidents on the reputation is also taken into account.

The ”KBC Group Operational Risk Management Framework” covers the management of operational risks from their identification up to their reporting. KBC Group implemented a uniform set of tools that apply for the identification, measurement, and management/mitigation 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 applied for operational risk management were designed to cover the entire spectrum of expected, unexpected and even catastrophic operational risk events.

Amongst others, the following tools are used for the recognition and identification of the operational risks:

Risk Scan: a yearly KBC Group-wide exercise to identify and assess financial & non-financial top risks, including operational risks, that can significantly impact the business model. The outcome of this exercise is a list of top risks for KBC Group and its main subsidiaries which are used as input for several other risk management exercises (e.g. risk appetite setting, stress testing, financial and risk planning, etc.).

New and Active Products Process: a process 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. All material risks, including all relevant operational risks have to be identified, analyzed and discussed as part of the respective approval process.

Business Continuity Management (BCM): An essential part of the operational risk management framework. The BCM process aims to plan for and respond to serious (business) disruptions, crises or disasters in order to continue business operations at an acceptable, pre-defined level. It identifies potential threats and the consequent impact to K&H business operations that those threats, if realised, might cause. The ultimate goal of business continuity management is to build organizational resilience with the capability for an effective response that safeguards the interests of K&H key stakeholders, reputation, brand and value-creating activities.

Risk Self-Assessment (RSA): These detailed, bottom-up assessments focus on the main (residual) operational risks represented by errors, weaknesses, gaps related to key products, processes and systems, which may not yet have been properly mitigated.

RSAs are forward-looking and allow the Bank to take into account future developments and events. Accountable managers and the operational risk managers (LORM) appointed for end-to-end processes are obliged to regularly plan RSAs, using the process definitions of the relevant business area and their own professional experience.

Scenario Analysis:

Although operational risk capital requirement is calculated with the standardized approach under both Pillars, in Pillar 2 the Bank applies – amongst others – some elements of the advanced AMA methodology, including scenario analysis, in order to benchmark the adequacy of the standardized capital requirement.

Scenario analyses are reviewed on a 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 (GKC)

Top down basic control objectives defined at KBC Group level, to mitigate key inherent risks of the underlying processes and activities of the Group. GKCs ensure that significant operational risks are managed in a uniform manner throughout the Group.

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

Loss Event Database: Since 2004 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 a structured manner, in line with the group standards. . Since 2020 near miss events, i.e. operational risk events with no financial impact, are registered as well. **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 in case alerts are observed.

At present a Loss Tolerance Limit and a corresponding Early Warning Limit is in place for operational losses, while warning and alert level risk limits have been set in respect of the Key Risk Indicators.

Operational risk capital requirement: In 2008 KBC decided to measure its operational risk capital requirement 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 already discussed above – KBC applies the stringent standards as required under the *Advanced Measurement Approach (*AMA).

In line with the Group decision, K&H has applied the *Standardised approach* since 1 January 2008, the methodology of which is described by the relevant articles of the Capital Requirement Directive.

K&H follows up the regulatory developments with regard to the new OPR capital calculation method, the Standard Measurement Approach, and is prepared to switch to the new methodology.

The result of the *Standardized approach* is subject to yearly underpinning to test whether re-using the Pillar 1 capital charge for ICAAP purposes is adequate. The underpinning approach for operational risk required capital is based on a combination of qualitative methodologies and quantitative models.

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 followings:

- 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 that occurred at K&H.

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

3.3.2. External risk reporting

The Bank 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 K&H Group.

The (consolidated) capital requirement for operational risks is approved by the CROC, typically in the second quarter each year. In the scope of the statutory reports to the Supervisor, K&H regularly informs 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.

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 2020.

Risk Weighted Assets (RWA)	K&H Group	K&H Bank
Total RWA	2 176 767	2 204 178
Credit Risk (incl. CVA)	1 861 893	1 892 322
Market Risk	1 131	1 131
Operational Risk	313 742	310 724
Capital Adequacy Ratio	19,18%	18,38%

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 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	183 364	2 126 890					125 770			125 770	0,994	
AT		3 068					218			218	0,002	
BE		329					8			8	0,000	
BG		4									0,000	0,005
CH		177					7			7	0,000	
CY	3										0,000	
FR	1										0,000	
LU	3	4 412					331			331	0,003	0,0025
RO		748					12			12	0,000	
RU											0,000	
SK		2 162					240			240	0,002	0,01
US		89					1			1	0,000	
ZA											0,000	
Total	**183 371**	**2 137 879**					**126 587**			**126 587**	**1,000**	**0,00255%**

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	178 305	2 173 400					128 242			128 242	0,994	
AT		3 068					218			218	0,002	
BE		329					8			8	0,000	
BG		4									0,000	0,005
CH		177					7			7	0,000	
CY	3										0,000	
FR	1										0,000	
LU	3	4 412					331			331	0,003	0,0025
RO		748					12			12	0,000	
SK		2 162					240			240	0,002	0,01
US		89					1			1	0,000	
Total	**178 312**	**2 184 389**					**129 059**			**129 059**	**1,000**	**0,00255%**

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	2 176 767
Institution specific countercyclical buffer rate	0,0026%
Institution specific countercyclical buffer requirement	56

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

Total risk exposure amount	2 204 178
Institution specific countercyclical buffer rate	0,0026%
Institution specific countercyclical buffer requirement	56

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 2020.

Overview of RWAs:

Values in HUF million	RWA		Minimum capital
	T	T-1 year	T
Credit risk (excluding CCR)	**1 815 849**	**1 618 556**	**145 268**
Of which the standardised approach	114 973	104 157	9 198
Of which the foundation IRB (FIRB) approach			
Of which the advanced IRB (AIRB) approach	1 587 894	1 489 067	127 032
Of which MRA	112 981	25 332	9 039
Of which equity IRB under the simple risk-weighted approach or the IMA			
CCR	**46 045**	**34 966**	**3 684**
Of which mark to market	45 680	34 384	3 654
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	364	583	29
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	**1 131**	**7 809**	**90**
Of which the standardised approach	1 131	7 809	90
Of which IMA			
Large exposures			
Operational risk	**313 742**	**295 436**	**25 099**
Of which basic indicator approach			
Of which standardised approach	313 742	295 436	25 099
Of which advanced measurement approach			
Amounts below the thresholds for deduction (subject to 250% risk weight)			
Floor adjustment			
Total	**2 176 767**	**1 956 768**	**174 141**

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

Values in HUF million	RWA		Minimum capital
	T	T-1 year	T
Credit risk (excluding CCR)	**1 845 632**	**1 640 919**	**147 651**
Of which the standardised approach	108 552	89 228	8 684
Of which the foundation IRB (FIRB) approach			
Of which the advanced IRB (AIRB) approach	1 624 099	1 526 359	129 928
Of which MRA	112 981	25 332	9 039
Of which equity IRB under the simple risk-weighted approach or the IMA			
CCR	**46 690**	**35 036**	**3 735**
Of which mark to market	46 326	34 453	3 706
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	364	583	29
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	1 131	**7 809**	**90**
Of which the standardised approach	1 131	7 809	90
Of which IMA			
Large exposures			
Operational risk	**310 724**	**291 531**	**24 858**
Of which basic indicator approach			
Of which standardised approach	310 724	291 531	24 858
Of which advanced measurement approach			
Amounts below the thresholds for deduction (subject to 250% risk weight)			
Floor adjustment			
Total	**2 204 178**	**1 975 295**	**176 334**

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

Values in HUF million	RWA		Minimum capital
	T	T-1 quarter	T
Credit risk (excluding CCR)	**1 815 849**	**1 845 474**	**145 268**
Of which the standardised approach	114 973	105 122	9 198
Of which the foundation IRB (FIRB) approach			
Of which the advanced IRB (AIRB) approach	1 587 894	1 625 005	127 032
Of which MRA	112 981	115 346	9 039
Of which equity IRB under the simple risk-weighted approach or the IMA			
CCR	**46 045**	**50 823**	**3 684**
Of which mark to market	45 680	50 297	3 654
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	364	526	29
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	**1 131**	**913**	**90**
Of which the standardised approach	1 131	913	90
Of which IMA			
Large exposures			
Operational risk	**313 742**	**295 436**	**25 099**
Of which basic indicator approach			
Of which standardised approach	313 742	295 436	25 099
Of which advanced measurement approach			
Amounts below the thresholds for deduction (subject to 250% risk weight)			
Floor adjustment			
Total	**2 176 767**	**2 192 646**	**174 141**

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

Values in HUF million	RWA		Minimum capital
	T	T-1 quarter	T
Credit risk (excluding CCR)	**1 845 632**	**1 870 328**	**147 651**
Of which the standardised approach	108 552	89 492	8 684
Of which the foundation IRB (FIRB) approach			
Of which the advanced IRB (AIRB) approach	1 624 099	1 665 490	129 928
Of which MRA	112 981	115 346	9 039
Of which equity IRB under the simple risk-weighted approach or the IMA			
CCR	**46 690**	**51 355**	**3 735**
Of which mark to market	46 326	50 830	3 706
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	364	526	29
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	**1 131**	**913**	**90**
Of which the standardised approach	1 131	913	90
Of which IMA			
Large exposures			
Operational risk	**310 724**	**291 531**	**24 858**
Of which basic indicator approach			
Of which standardised approach	310 724	291 531	24 858
Of which advanced measurement approach			
Amounts below the thresholds for deduction (subject to 250% risk weight)			
Floor adjustment			
Total	**2 204 178**	**2 214 127**	**176 334**

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 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	130 001	127 155
3	Accumulated other comprehensive income (and other reserves)	10 348	10 354
3a	Funds for general banking risk	28 423	28 376
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	42 144	32 454
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**400 669**	**388 092**
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)		
8	Intangible assets (net of related tax liability) (negative amount)	- 32 478	- 32 478
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	- 4 530	- 4 530
12	Negative amounts resulting from the calculation of expected loss amounts	- 313	- 312
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		
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)**	**- 37 321**	**- 37 320**
29	**Common Equity Tier 1 (CET1) capital**	**363 348**	**350 772**

	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)**	**363 348**	**350 772**
	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**	**54 079**	**54 300**
	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**	**54 079**	**54 300**
59	**Total capital (TC = T1 + T2)**	**417 427**	**405 072**
60	**Total risk weighted assets**	**2 176 767**	**2 204 178**

	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	16,69%	15,91%
62	Tier 1 (as a percentage of total risk exposure amount)	16,69%	15,91%
63	Total capital (as a percentage of total risk exposure amount)	19,18%	18,38%
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)	54 475	55 161
65	of which: capital conservation buffer requirement	54 419	55 104
66	of which: countercyclical buffer requirement	56	56
67	of which: systemic risk buffer requirement		
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer		
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	2,50%	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)		

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	4 806 320	4 851 499
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	**4 806 320**	**4 851 499**

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)	4 322 156	4 356 535
2	(Asset amounts deducted in determining Tier 1 capital)	- 37 320	- 37 320
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fidu- ciary assets) (sum of lines 1 and 2)**	**4 284 836**	**4 319 215**
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligi- ble cash variation margin)	59 863	59 869
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)**	**59 863**	**59 869**

SFT exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sales ac- counting transactions	37 498	40 829
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)**	**37 498**	**40 829**
Other off-balance sheet exposures			
17	Off-balance sheet exposures at gross notional amount		
18	(Adjustments for conversion to credit equivalent amounts)	424 123	431 586
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**424 123**	**431 586**
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**	**363 348**	**350 772**
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**4 806 320**	**4 851 499**
Leverage ratio			
22	**Leverage ratio**	**7,56%**	**7,23%**
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:	4 322 156	4 356 535
EU-2	Trading book exposures		
EU-3	Banking book exposures, of which:	4 322 156	4 356 535
EU-4	Covered bonds		
EU-5	Exposures treated as sovereigns	1 848 663	1 848 665
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns		
EU-7	Institutions	511 803	512 199
EU-8	Secured by mortgages of immovable properties	585 914	585 914
EU-9	Retail exposures	100 680	100 680
EU-10	Corporate	1 059 263	1 080 163
EU-11	Exposures in default	51 801	51 799
EU-12	Other exposures (eg equity, securitisations, and other non-credit obliga- tion assets)	164 032	177 115

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 that 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 calibrate our operational limits and early warning triggers and their measurement and management methods based on our actual risk appetite. The first 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 RCC of K&H approved the K&H Banking Group Risk Appetite Statement 2020 - 2022 document as of 11th of March, 2020.

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 committee 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

[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.

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

	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	**334 224**				**3 607 875**			
Equity instruments					3 537			
Debt securities	154 085		164 111		930 008		975 395	
of which: covered bonds								
of which: asset-backed securities								
of which: issued by general governments	154 085		164 111		920 398		965 785	
of which: issued by financial corporations								
of which: issued by non-financial corporations					9 596		9 596	
Other assets	174 561				2 664 233			
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 and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
Assets of the reporting institution	**348 201**				**3 623 982**			
Equity instruments					3 537			
Debt securities	153 107		163 133		931 292		976 679	
of which: covered bonds								
of which: asset-backed securities								
of which: issued by general governments	152 703		162 729		921 403		966 790	
of which: issued by financial corporations	306		306					
of which: issued by non-financial corporations					9 884		9 885	
Other assets	189 631				2 680 033			
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			**5 013**	
Loans on demand				
Equity instruments				
Debt securities			5 013	
of which: covered bonds				
of which: asset-backed securities				
of which: issued by general governments			5 013	
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	**334 224**			

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			**5 013**	
Loans on demand				
Equity instruments				
Debt securities			5 013	
of which: covered bonds				
of which: asset-backed securities				
of which: issued by general governments			5 013	
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	**348 201**			

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	**335 747**	**334 224**
Derivatives	25	1 076
Deposits	138 247	140 134
Debt securities issued	144 000	174 561

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	**190 945**	**333 246**
Derivatives	25	1 076
Deposits	138 247	314 695
Debt securities issued	0	0

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., K&H Mortgage Bank Plc. (K&H Csoportszolgáltató Kft., K&H Befektetési Alapkezelő Zrt., K&H Faktor Zrt. and K&H Jelzálogbank Zrt) on its web site (www.kh.hu).

A detailed description of the decision making process used to define the remuneration policy can be found in Chapter 5.2.3 of the referenced regulation. The most important features of the remuneration system (including information on the requirements related to performance measurement and identification of the relevant risk, on the deferral policy and remuneration eligibilities), the information about the relation between performance and performance remuneration, and the performance-related criteria which are the basis of the eligibility for phantom shares, the variable part of remuneration and options, these 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 4.

The following tables show all quantitative information about 2020 remunerations.

Division	Gross wages, cafeteria, bonus (HUF mln)
Retail Banking Division	1 871
Retail Banking Division - network	9 559
Business Banking Division	2 283
Business Banking Division - network	2 324
Chief Executive Officer	1 213
CRO Services Division	672
Change Management Division	
Finance Division	2 183
Operation, Technologies and Retail Credit Management Division	7 552
Other	
K&H Bank Zrt. Total	**27 657**
K&H Service Center	923
K&H Factor	100
K&H Asset management	146
K&H Bank Group Total	**28 826**

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

Remuneration of persons in management position and key identified staff in 2020	
Number of persons receiving remuneration	54 persons
Fixed remuneration (HUF mln)	1 360
Performance based remuneration (HUF mln)	321
Of which cash (HUF mln)	286
Of which phantom stock (HUF mln)	35
Severance payment made to number of people, amount (0 item, HUF mln)	0 item, 0
Payments related to new employment contracts (0 item, HUF mln)	0 item, 0

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 2020 (HUF mln)	
Deferred, already entitled (phantom stock):	21
Deferred, not yet entitled:	81
Deferred remuneration granted in 2020 paid out and performance-adjusted:	219

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

	Committee with governing rights (Board of	Committee with supervising rights (Supervisory Board)
Number of persons receiving remuneration	3	3
Fixed remuneration (HUF mln)	207	27
Performance based remuneration (HUF mln)	43	2
Of which cash (HUF mln)	21	2
Of which phantom stock (HUF mln)	21	-
Severance payment made to number of people, amount (0 item, HUF mln)	0 item, 0	0 item, 0
Payments related to new employment contracts (0 item, HUF mln)	0 item, 0	0 item, 0

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

Values in mln HUF	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 deduction from capital
Assets							
Cash and cash balances at central banks	255 253	255 253	255 253				
Other demand deposit with credit institutions	135 792	135 792	135 792				
Securities held-for-trading	564	564				564	
Derivative financial instruments	92 100	92 100		92 100		66 634	
Loans and advances to banks	395 177	395 177	395 177				
Loans and advances to customers	3 088 639	3 088 639	3 088 639				
Reverse repurchase agreements and other similar secured lending	25 373	25 373		25 373			
Fair value through other comprehensive income	111 896	111 896	111 896				
Mandatory fair value through profit or loss	139 570	139 570	139 570				
Other assets	139 888	139 888	107 410				32 478
...							
Total assets	**4 384 252**	**4 384 252**	**4 233 737**	**117 473**	**0**	**67 198**	**32 478**
Liabilities							
Measured at amortised cost-Deposits from banks	- 120 420	- 120 420					- 120 420
Measured at amortised cost - Customer accounts	- 3 670 890	- 3 670 890					- 3 670 890
Repurchase agreements and other similar secured borrowings	- 12 063	- 12 063					- 12 063
Held-for-trading (excluding derivatives)							
Financial liabilities designated at fair value	- 33 051	- 33 051					- 33 051
Derivative financial instruments	- 88 533	- 88 533		- 88 533		- 64 168	
Other liabilities	- 58 625	- 58 625					- 58 625
...							
Total liabilities	**- 3 983 583**	**- 3 983 583**		**- 88 533**		**- 64 168**	**- 3 895 050**

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)

Values in mln HUF	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 deduction from capital
Assets							
Cash and cash balances at central banks	255 253	255 253	255 253				
Other demand deposit with credit institutions	135 792	135 792	135 792				
Securities held-for-trading	564	564				564	
Derivative financial instruments	92 103	92 103		92 103		66 638	
Loans and advances to banks	395 038	395 038	395 038				
Loans and advances to customers	3 107 770	3 107 770	3 107 770				
Reverse repurchase agreements and other similar secured lending	25 373	25 373		25 373			
Fair value through other comprehensive income	112 299	112 299	112 299				
Mandatory fair value through profit or loss	139 570	139 570	139 570				
Other assets	152 964	152 964	120 486				32 478
...							
Total assets	**4 416 727**	**4 416 727**	**4 266 208**	**117 477**	**0**	**67 202**	**32 478**
Liabilities							
Measured at amortised cost- Deposits from banks	- 270 841	- 270 841					- 270 841
Measured at amortised cost - Customer accounts	- 3 541 972	- 3 541 972					- 3 541 972
Repurchase agreements and other similar secured borrowings	- 15 458	- 15 458					- 15 458
Held-for-trading (excluding derivatives)							
Financial liabilities designated at fair value	- 33 051	- 33 051					- 33 051
Derivative financial instruments	- 88 533	- 88 533		- 88 533		- 64 168	
Other liabilities	- 78 780	- 78 780					- 78 780
...							
Total liabilities	**- 4 028 634**	**- 4 028 634**		**- 88 533**		**- 64 168**	**- 3 940 101**

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 framework	CCR framework	Securitisation framework	Market risk framework
Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	4 384 252	4 233 737	117 473		67 198
Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	- 3 983 583		- 88 533		- 64 168
Total net amount under the regulatory scope of consolidation	400 669	4 233 737	28 940		3 030
Off-balance-sheet amounts	956 885	956 885			
Differences in valuations					
Differences due to different netting rules, other than those already included in row 2	16 877		16 877		
Differences due to consideration or provisions	- 11 591	- 11 591			
Differences due to prudential filters					
Collateral placded at the institution	- 1 800		- 1 800		
Potential future exposure	53 344		53 344		
Effect of Advanced IRB method	- 431 425	- 431 425			
Other	- 2 261				- 2 261
Exposure amounts considered for regulatory purposes	4 845 737	4 747 606	97 361		770

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)	4 416 727	4 266 208	117 477		67 202
Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	- 4 028 634		- 88 533		- 64 168
Total net amount under the regulatory scope of consolidation	388 093	4 266 208	28 944		3 034
Off-balance-sheet amounts	968 409	968 409			
Differences in valuations					
Differences due to different netting rules, other than those already included in row 2	20 210		20 210		
Differences due to consideration or provisions	- 1 081	- 1 081			
Differences due to prudential filters					
Collateral placded at the institution	- 1 800		- 1 800		
Potential future exposure	53 344		53 344		
Effect of Advanced IRB method	- 445 415	- 445 415			
Other	- 2 264				- 2 264
Exposure amounts considered for regulatory purposes	4 889 589	4 788 121	100 698		770

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 Faktor Pénzügyi Szolgáltató Zrt.	Full consilidation	x				Financial corporation / Factoring
K&H Csoportszolgáltató Kft.	Full consilidation	x				Financial corporation/ Accounting; tax consultancy
K&H Tanácsadó Zrt	Full consilidation	x				Non financial corporation
K&H Equities Zrt.	Full consilidation	x				Non financial corporation
K&H Értékpapír Zrt.	Full consilidation	x				Financial corporation / Investment company

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 demonstrate the credit portfolio of the K&H Group. We demonstrate the off balance and on balance items as well divided 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	40 862	8 008	50%	45 687	11 666	110
	Equal to or more than 2.5 years	36 109	367	70%	36 458	22 418	181
Category 2	Less than 2.5 years	589	30	70%	622	355	2
	Equal to or more than 2.5 years	76 859	12 223	90%	85 345	67 799	466
Category 3	Less than 2.5 years	3 531	45	115%	3 702	4 171	58
	Equal to or more than 2.5 years	33 971	461	115%	35 119	37 311	214
Category 4	Less than 2.5 years	4 244	10 222	250%	14 559	28 688	841
	Equal to or more than 2.5 years	61 974	2 516	250%	66 483	107 748	1 025
Category 5	Less than 2.5 years						
	Equal to or more than 2.5 years						
Total	Less than 2.5 years	**49 226**	**18 305**		**64 570**	**44 881**	**1 011**
	Equal to or more than 2.5 years	**208 913**	**15 567**		**223 405**	**235 276**	**1 886**
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	40 862	8 008	50%	45 687	11 666	110
	Equal to or more than 2.5 years	36 109	367	70%	36 458	22 418	181
Category 2	Less than 2.5 years	588	30	70%	621	355	2
	Equal to or more than 2.5 years	76 859	12 223	90%	85 345	67 799	466
Category 3	Less than 2.5 years	3 531	45	115%	3 702	4 171	58
	Equal to or more than 2.5 years	33 971	461	115%	35 119	37 311	214
Category 4	Less than 2.5 years	4 293	10 222	250%	14 607	28 790	842
	Equal to or more than 2.5 years	61 974	2 516	250%	66 483	107 748	1 025
Category 5	Less than 2.5 years						
	Equal to or more than 2.5 years						
Total	Less than 2.5 years	**49 274**	**18 305**		**64 618**	**44 982**	**1 012**
	Equal to or more than 2.5 years	**208 913**	**15 567**		**223 405**	**235 276**	**1 886**
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	68 749	67 730
Institutions	818 937	761 778
Corporates	1 574 551	1 809 058
Of which: Specialised lending	281 734	287 514
Of which: SMEs	720 398	692 040
Retail	714 106	646 873
Secured by real estate property	586 621	557 520
SMEs		
Non-SMEs		
Qualifying revolving		
Other retail	127 485	89 353
SMEs		
Non-SMEs		
Equity		
Total IRB approach	**3 176 343**	**3 285 439**
Central governments or central banks	1 694 529	1 433 448
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	68 748	67 730
Institutions	819 333	762 075
Corporates	1 635 341	1 870 076
Of which: Specialised lending	281 781	287 526
Of which: SMEs	720 387	692 038
Retail	714 106	646 873
Secured by real estate property	586 621	557 520
SMEs		
Non-SMEs		
Qualifying revolving		
Other retail	127 485	89 353
SMEs		
Non-SMEs		
Equity		
Total IRB approach	**3 237 528**	**3 346 754**
Central governments or central banks	1 694 532	1 433 449
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	68 727	68 727		22		22								68 749
Institutions	56 272	44 796	11 476	718 897	49 983	32 259	15 000	621 655		42 696	420	344	309	818 937
Corporates	1 553 291	1 550 805	2 486	21 178				21 178		82				1 574 551
Retail	714 106	714 106												714 106
Equity														
Total IRB approach	2 392 395	2 378 433	13 962	740 097	49 983	32 281	15 000	642 833		42 778	420	344	309	3 176 343
Central governments or central banks	1 694 529	1 694 529												1 694 529
Regional governments or local authorities														
Public sector entities														
Multilateral development banks														
International organisations														
Institutions	0	0												0
Corporates	28 681	28 681												28 681
Retail	99 266	99 266												99 266
Secured by mortgages on immovable property														
Exposures in default	1 234	1 233	1	7	1	0		7	0	0	0			1 241
Items associated with particularly high risk														
Covered bonds														
Claims on institutions and corporates with a short-term credit assessment														
Collective investments undertakings														
Equity exposures	3 878	3 878												3 878
Other exposures	161 481	161 481												161 481
Total standardised approach	1 989 069	1 989 068	1	7	1	0		7	0	0	0			1 989 076
Total	4 381 464	4 367 501	13 963	740 104	49 984	32 281	15 000	642 839	0	42 778	420	344	309	5 165 419

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

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	68 726	68 726		22										68 748
Institutions	56 668	45 192	11 476	718 897	49 983	32 259	15 000	621 655		42 696	420	344	309	819 333
Corporates	1 614 081	1 611 595	2 486	21 178				21 178		82				1 635 341
Retail	714 106	714 106												714 106
Equity														
Total IRB approach	2 453 581	2 439 618	13 962	740 097	49 983	32 259	15 000	642 833		42 778	420	344	309	3 237 528
Central governments or central banks	1 694 532	1 694 532												1 694 532
Regional governments or local authorities														
Public sector entities														
Multilateral development banks														
International organisations														
Institutions	0	0												0
Corporates														
Retail	99 266	99 266												99 266
Secured by mortgages on immovable property														
Exposures in default	1 232	1 232	1	7	1	0		7	0	0	0			1 240
Items associated with particularly high risk														
Covered bonds														
Claims on institutions and corporates with a short-term credit assessment														
Collective investments undertakings														
Equity exposures	16 288	16 288												16 288
Other exposures	160 827	160 827												160 827
Total standardised approach	1 972 145	1 972 144	1	7	1	0		7	0	0	0			1 972 152
Total	4 425 725	4 411 763	13 963	740 104	49 984	32 259	15 000	642 839	0	42 778	420	344	309	5 209 680

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

Exposure class	Automotive	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		55				68 672						22							68 749
Institutions		23 924										795 013							818 937
Corporates	100 885	6 770	115 931	63 092	228 131	4	36 236	184 375		8 389	254 887	63 646	33 616	21 622	111 730	28 653	92 503	224 080	1 574 551
Retail									714 106										714 106
Equity																			
Total IRB approach	100 885	30 749	115 931	63 092	228 131	68 675	36 236	184 375	714 106	8 389	254 887	858 682	33 616	21 622	111 730	28 653	92 503	224 080	3 176 343
Central governments or central banks		0				1 694 528													1 694 529
Regional governments or local authorities																			
Public sector entities																			
Multilateral development banks																			
International organisations																			
Institutions						0													0
Corporates	72		92	29	613	0	68						27 695		24		88		28 681
Retail									99 266										99 266
Secured by mortgages on immovable property																			
Exposures in default	7	955	27	2	66	1	1	22	0	1	9	8	1	6	133	2	1	1	1 241
Items associated with particularly high risk																			
Covered bonds																			
Claims on institutions and corporates with a short-term credit assessment																			
Collective investments undertakings																			
Equity exposures		3 877										0							3 878
Other exposures		161 481																	161 481
Total standardised approach	79	166 313	120	31	679	1 694 529	70	22	99 266	1	9	8	27 696	6	157	2	88	1	1 989 076
Total	100 964	197 063	116 050	63 122	228 809	1 763 204	36 306	184 397	813 372	8 390	254 896	858 689	61 312	21 628	111 887	28 656	92 592	224 081	5 165 419

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				68 672						22							68 748
Institutions		23 928										795 405							819 333
Corporates	100 885	6 744	115 931	63 092	228 131	4	36 236	184 375		8 389	254 887	119 034	33 616	21 622	117 158	28 653	92 503	224 080	1 635 341
Retail									714 106										714 106
Equity																			
Total IRB approach	100 885	30 727	115 931	63 092	228 131	68 675	36 236	184 375	714 106	8 389	254 887	914 461	33 616	21 622	117 158	28 653	92 503	224 080	3 237 528
Central governments or central banks						1 694 532													1 694 532
Regional governments or local authorities																			
Public sector entities																			
Multilateral development banks																			
International organisations																			
Institutions						0													0
Corporates																			
Retail		99 266																	99 266
Secured by mortgages on immovable property																			
Exposures in default	7	953	27	2	66	1	1	22	0	1	9	8	1	6	133	2	1	1	1 240
Items associated with particularly high risk																			
Covered bonds																			
Claims on institutions and corporates with a short-term credit assessment																			
Collective investments undertakings																			
Equity exposures		16 288										0							16 288
Other exposures		160 827																	160 827
Total standardised approach	7	277 334	27	2	66	1 694 532	1	22	0	1	9	8	1	6	133	2	1	1	1 972 153
Total	100 892	308 061	115 958	63 094	228 197	1 763 208	36 238	184 397	714 106	8 390	254 896	914 469	33 617	21 628	117 291	28 656	92 504	224 081	5 209 680

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		2 088	34 047	32 614		68 749
Institutions		584 099	191 044	43 794		818 937
Corporates		415 696	506 787	652 068		1 574 551
Retail		34 955	72 749	606 402		714 106
Equity						
Total IRB approach		1 036 838	804 627	1 334 878		3 176 343
Central governments or central banks		624 746	319 009	750 774		1 694 529
Regional governments or local authorities						
Public sector entities						
Multilateral development banks						
International organisations						
Institutions			0			0
Corporates		27 860	821	0		28 681
Retail		1	12	99 253		99 266
Secured by mortgages on immovable property						
Exposures in default		118		1 124		1 241
Items associated with particularly high risk						
Covered bonds						
Claims on institutions and corporates with a short-term credit assessment						
Collective investments undertakings						
Equity exposures				3 878		3 878
Other exposures				161 481		161 481
Total standardised approach		652 725	319 842	1 016 509		1 989 076
Total		1 689 563	1 124 469	2 351 387		5 165 419

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		2 087	34 047	32 614		68 748
Institutions		584 104	191 435	43 794		819 333
Corporates		430 274	507 290	697 777		1 635 341
Retail		34 955	72 749	606 402		714 106
Equity						
Total IRB approach		1 051 419	805 522	1 380 587		3 237 528
Central governments or central banks		624 749	319 009	750 774		1 694 532
Regional governments or local authorities						
Public sector entities						
Multilateral development banks						
International organisations						
Institutions			0			0
Corporates						
Retail		1	12	99 253		99 266
Secured by mortgages on immovable property						
Exposures in default		116		1 124		1 240
Items associated with particularly high risk						
Covered bonds						
Claims on institutions and corporates with a short-term credit assessment						
Collective investments undertakings						
Equity exposures				16 288		16 288
Other exposures				160 827		160 827
Total standardised approach		624 865	319 021	1 028 266		1 972 152
Total		1 676 285	1 124 542	2 408 853		5 209 680

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-e)
Central governments or central banks		68 788		39	NA	-16	68 749
Institutions		818 983		46	NA	-15	818 937
Corporates	19 805	1 583 972	9 433	19 794	NA	-15 187	1 574 550
Of which: Specialised lending	1 654	290 358	731	9 547	NA	-6 855	281 734
Of which: SMEs	10 264	725 395	5 907	9 355	NA	-8 967	720 398
Retail	22 759	713 269	11 459	10 463	NA	-6 353	714 105
Secured by real estate property	21 092	584 315	10 748	8 039	NA	-5 478	586 620
SMEs					NA		
Non-SMEs					NA		
Qualifying revolving					NA		
Other retail	1 667	128 953	711	2 424	NA	-875	127 485
SMEs					NA		
Non-SMEs					NA		
Equity					NA		
Total IRB approach	**42 564**	**3 185 012**	**20 892**	**30 341**		**-21 570**	**3 176 342**
Central governments or central banks		1 694 529		1	NA	-6	1 694 528
Regional governments or local authorities					NA		
Public sector entities					NA		
Multilateral development banks					NA		
International organisations					NA		
Institutions					NA		
Corporates		28 690		9	NA	-20	28 681
Of which: SMEs		191		9	NA	-20	182
Retail		99 345		79	NA		99 266
Of which: SMEs					NA		
Secured by mortgages on immovable property					NA		
Of which: SMEs					NA		
Exposures in default	1 970		242	486	NA	-251	1 242
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		3 878			NA		3 878
Other exposures		161 715		234	NA		161 481
Total standardised approach	**1 970**	**1 988 157**	**242**	**809**		**-277**	**1 989 076**
Total	**44 534**	**5 173 169**	**21 134**	**31 150**		**-21 847**	**5 165 419**
Of which: Loans	42 986	3 114 316	20 896	30 131	NA	-21 295	3 106 275
Of which: Debt securities		1 103 522			NA		1 103 522
Of which: Off-balance-sheet exposures	1 548	955 331	237	1 019	NA	-552	955 622

*including interbank deposit, other assets…etc

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 period	Net values
	Defaulted exposures	Non-defaulted exposures					(a+b-c-d-e)
Central governments or central banks		68 787		39	NA	-16	68 748
Institutions		819 379		46	NA	-15	819 333
Corporates	19 805	1 644 782	9 433	19 814	NA	-15 512	1 635 341
Of which: Specialised lending	1 654	290 405	731	9 547	NA	-6 856	281 781
Of which: SMEs	10 264	725 385	5 907	9 355	NA	-9 153	720 387
Retail	22 759	713 269	11 459	10 463	NA	-7 617	714 105
Secured by real estate property	21 092	584 315	10 748	8 039	NA	-6 742	586 620
SMEs					NA		
Non-SMEs					NA		
Qualifying revolving					NA		
Other retail	1 667	128 953	711	2 424	NA	-875	127 485
SMEs					NA		
Non-SMEs					NA		
Equity					NA		
Total IRB approach	**42 564**	**3 246 218**	**20 892**	**30 362**		**-23 158**	**3 237 528**
Central governments or central banks		1 694 532		1	NA	-6	1 694 531
Regional governments or local authorities					NA		
Public sector entities					NA		
Multilateral development banks					NA		
International organisations					NA		
Institutions					NA		
Corporates		8		8	NA	-20	
Of which: SMEs		8		8	NA	-20	
Retail		99 345		79	NA		99 266
Of which: SMEs					NA		
Secured by mortgages on immovable property					NA		
Of which: SMEs					NA		
Exposures in default	1 968		232	496	NA	-251	1 240
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		16 319		31	NA		16 288
Other exposures		161 061		234	NA		160 827
Total standardised approach	**1 968**	**1 971 265**	**232**	**849**		**-277**	**1 972 153**
Total	**44 532**	**5 217 483**	**21 124**	**31 210**		**-23 435**	**5 209 681**
Of which: Loans	42 984	3 146 710	20 886	30 186	NA	-22 888	3 138 622
Of which: Debt securities		1 103 913			NA		1 103 913
Of which: Off-balance-sheet exposures	1 548	966 860	237	1 025	NA	-547	967 146

*including interbank deposit, other assets…etc

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-e)
Authorities	379	1 773 876	375	63	NA	- 21	1 773 817
unknown	1 514	185 949	487	1 235	NA	- 0	185 741
Private Persons	22 759	812 614	11 459	9 273	NA	- 6 353	814 641
Agriculture Farming Fishing & Food	1 140	256 034	519	1 909	NA	- 1 687	254 747
Distribution & Traders	5 603	227 471	1 880	2 160	NA	- 1 749	229 034
Finance & Insurance	10	858 754	1	81	NA	- 15	858 682
Commertial Real estate	1 979	190 871	946	7 522	NA	- 4 628	184 382
Energy Electricity & Water	2	224 810	0	735	NA	- 659	224 076
Building & Construction	508	116 176	220	431	NA	- 376	116 033
Services	510	112 910	167	1 417	NA	- 840	111 836
Metals Machinery & Heavy Equipment	2 122	62 753	943	861	NA	- 544	63 070
Automotive	4 096	100 042	1 038	2 547	NA	- 2 149	100 552
Shipping & Aviation	194	61 484	155	225	NA	- 186	61 297
Chemicals	965	92 281	324	350	NA	- 140	92 572
IT & Electronics	2 443	36 669	2 423	402	NA	- 443	36 287
Textile Timber & Paper	170	28 738	91	176	NA	- 145	28 641
HORECA	19	23 227	7	1 617	NA	- 1 769	21 622
Media & Telecom	123	8 508	98	145	NA	- 142	8 388
Total	**44 534**	**5 173 169**	**21 134**	**31 150**	**-**	**- 21 847**	**5 165 419**

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	379	1 773 876	375	63	NA	- 21	1 773 817
Unknown	1 512	198 191	477	479	NA	- 0	198 747
Private Persons	22 759	812 140	11 459	10 068	NA	- 6 352	813 371
Agriculture Farming Fishing & Food	1 140	256 034	519	1 909	NA	- 1 887	254 747
Distribution & Traders	5 603	226 858	1 880	2 160	NA	- 2 143	228 421
Finance & Insurance	10	914 547	1	95	NA	- 15	914 461
Commertial Real estate	1 979	190 871	946	7 522	NA	- 4 628	184 382
Energy Electricity & Water	2	224 810	0	735	NA	- 659	224 076
Building & Construction	508	116 084	220	431	NA	- 376	115 941
Services	510	118 321	167	1 424	NA	- 1 335	117 240
Metals Machinery & Heavy Equipment	2 122	62 725	943	861	NA	- 544	63 042
Automotive	4 096	99 970	1 038	2 547	NA	- 2 649	100 480
Shipping & Aviation	194	33 789	155	225	NA	- 186	33 602
Chemicals	965	92 193	324	350	NA	- 140	92 484
IT & Electronics	2 443	36 601	2 423	402	NA	- 443	36 218
Textile Timber & Paper	170	28 738	91	176	NA	- 145	28 641
HORECA	19	23 227	7	1 617	NA	- 1 769	21 622
Media & Telecom	123	8 508	98	145	NA	- 142	8 388
Total	44 532	5 217 483	21 124	31 210		- 23 435	5 209 681

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-e)
Central Eastern Europe	44 525	4 389 184	21 133	31 103	NA	- 21 830	4 381 473
HUNGARY	44 522	4 374 976	21 132	30 855	NA	- 21 575	4 367 510
Other	4	14 208	1	248	NA	- 256	13 963
Western Europe	9	740 133	0	46	NA	- 16	740 096
BELGIUM	0	315 197		18	NA	- 7	315 179
IRELAND	0	281 150		8	NA	- 8	281 142
FRANCE	1	50 001	0	18	NA	- 0	49 984
Other	8	93 785	0	2	NA	- 0	93 791
Africa	0	42 778	0	0	NA	- 0	42 778
North America	0	420		0	NA	- 0	420
Asia		344		0	NA	- 0	344
Middle East		309			NA		309
Australia and Oceania	0				NA		0
Total	44 534	5 173 169	21 134	31 150		- 21 847	5 165 419

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-e)
Central Eastern Europe	44 523	4 433 498	21 123	31 164	NA	- 23 419	4 425 734
HUNGARY	44 520	4 419 290	21 122	30 916	NA	- 23 164	4 411 771
Other	4	14 208	2	248	NA	- 256	13 963
Western Europe	9	740 133	0	46	NA	- 16	740 096
BELGIUM	0	315 197		18	NA	- 7	315 179
IRELAND	0	281 150		8	NA	- 0	281 142
FRANCE	1	50 001	0	18	NA	- 0	49 984
Other	8	93 785	0	2	NA	- 8	93 791
Africa	0				NA		0
North America	0	42 778	0	0	NA	- 0	42 778
Asia	0	420		0	NA	- 0	420
Middle East		344		0	NA	- 0	344
Australia and Oceania		309			NA		309
Total	44 532	5 217 483	21 124	31 211		- 23 435	5 209 680

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

		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne	Of which defaulted	Of which impaired	On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
1	Loans and advances	1 878	10 751	10 751	10 751	-157	-6 130	15 555	14 943
2	*Central banks*							5 710	
3	*General governments*		379	379	379		-375		379
4	*Credit institutions*								
5	*Other financial corporations*								
6	*Non-financial corporations*	523	3 949	3 949	3 949	-85	-2 887	1 828	4 726
7	*Households*	1 355	6 423	6 423	6 423	-72	-2 868	8 017	9 838
8	Debt securities								
9	Loan commitments given	862							
10	**Total**	**2 740**	**10 751**	**10 751**	**10 751**	**-157**	**-6 130**	**15 555**	**14 943**

50. Table: NPE1 - Credit quality of forborne exposures (values in HUF million, K&H Group)

		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne	Of which defaulted	Of which impaired	On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
1	Loans and advances	1 928	10 755	10 755		-207	-6 130	1 576	4 197
2	*Central banks*								
3	*General governments*		379	379			-375		
4	*Credit institutions*								
5	*Other financial corporations*								
6	*Non-financial corporations*	523	3 949	3 949		-85	-2 887	390	777
7	*Households*	1 405	6 427	6 427		-122	-2 868	1 186	3 420
8	Debt securities								
9	Loan commitments given								
10	**Total**	**1 928**	**10 755**	**10 755**		**-207**	**-6 130**	**1 576**	**4 197**

51. Table: NPE1 - Credit quality of forborne exposures (values in HUF million, K&H Bank)

		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
1	**Loans and advances**	**2 670 054**	**2 666 025**	**4 029**	**41 775**	**16 710**	**2 257**	**1 224**	**1 532**	**5 489**	**6 135**	**8 428**	**41 775**
2	*Central banks*	440 018	440 018										
3	*General governments*	82 590	82 590		380	1			379				380
4	*Credit institutions*	402 811	402 811										
5	*Other financial corporations*	29 771	29 771		341							341	341
6	*Non-financial corporations*	906 138	905 490	648	18 269	12 218	1 256	214	537	2 794	383	867	18 269
7	*Of which SMEs*	536 130	535 539	591	8 128	4 711	1 243	171	527	400	363	713	8 128
8	*Households*	808 726	805 345	3 381	22 785	4 491	1 001	1 010	616	2 695	5 752	7 220	22 785
9	**Debt securities**												
10	*Central banks*												
11	*General governments*												
12	*Credit institutions*												
13	*Other financial corporations*												
14	*Non-financial corporations*												
15	**Off-balance-sheet exposures**	**955 230**			**1 655**								**1 655**
16	*Central banks*												
17	*General governments*	18 818											
18	*Credit institutions*	306 284											
19	*Other financial corporations*	83 878											
20	*Non-financial corporations*	502 675			1 142								1 142
21	*Households*	43 575			513								513
22	**Total**	**2 670 054**	2 666 025	4 029	**43 430**	16 710	2 257	1 224	1 532	5 489	6 135	8 428	43 430

52. Table: NPE3 - Credit quality of performing and non-performing exposures by past due days (values in HUF million, K&H Group)

		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
1	**Loans and advances**	**1 967 270**	**1 963 217**	**4 053**	**41 680**	**16 576**	**2 256**	**1 224**	**1 532**	**5 485**	**6 135**	**8 472**	**41 680**
2	*Central banks*												
3	*General governments*	81 658	81 658		380	1			379				380
4	*Credit institutions*	120 819	120 819										
5	*Other financial corporations*	67 720	67 720		341							341	341
6	*Non-financial corporations*	888 444	887 839	605	18 174	12 128	1 255	214	537	2 790	383	867	18 174
7	*Of which SMEs*	528 351	527 761	590	8 031	4 618	1 243	171	527	396	363	713	8 031
8	*Households*	808 629	805 181	3 448	22 785	4 447	1 001	1 010	616	2 695	5 752	7 264	22 785
9	**Debt securities**	**1 096 205**	**1 096 205**										
10	*Central banks*												
11	*General governments*	1 083 360	1 083 360										
12	*Credit institutions*	403	403										
13	*Other financial corporations*												
14	*Non-financial corporations*	12 442	12 442										
15	**Off-balance-sheet exposures**	**966 864**			**1 545**								**1 545**
16	*Central banks*												
17	*General governments*	18 818											
18	*Credit institutions*	306 284											
19	*Other financial corporations*	101 449											
20	*Non-financial corporations*	496 738			1 032								1 032
21	*Households*	43 575			513								513
22	**Total**	**4 030 339**			**43 225**								43 225

53. Table: NPE3 - Credit quality of performing and non-performing exposures by past due days (values in HUF million, K&H Bank)

		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
1	**Loans and advances**	**1 967 270**	**1 777 634**	**189 636**	**41 770**		**41 770**	**-29 353**	**-5 010**	**-24 343**	-20 711		-20 711		**1 169 602**	**18 165**
2	*Central banks*															
3	*General governments*	81 658	81 658		379		379	-30	-30		-375		-375		42 180	
4	*Credit institutions*	120 819	120 819					-26	-26						39 963	
5	*Other financial corporations*	67 720	67 719	1	341		341	-415	-415		-339		-339		17 018	
6	*Non-financial corporations*	888 444	776 833	111 611	18 264		18 264	-18 000	-3 221	-14 779	-8 543		-8 543		386 014	8 139
7	*Of which SMEs*	528 351	472 726	55 625	8 121		8 121	-9 143	-2 001	-7 142	-3 987		-3 987		269 442	3 051
8	*Households*	808 629	730 605	78 024	22 786		22 786	-10 882	-1 318	-9 564	-11 454		-11 454		684 427	10 026
9	**Debt securities**	**1 096 205**	**1 096 205**					**-663**	**-663**							
10	*Central banks*	1 083 360	1 083 360													
11	*General governments*	403	403					-631	-631							
12	*Credit institutions*															
13	*Other financial corporations*	12 442	12 442													
14	*Non-financial corporations*															
15	**Off-balance-sheet exposures**	**955 229**	**875 990**	**79 239**	**1 655**		**1 655**	**-1 023**	**-803**	**-220**	**-237**		**-237**		**165 038**	**397**
16	*Central banks*															
17	*General governments*	18 818	18 818					-10	-10						790	
18	*Credit institutions*	306 284	281 132	25 152				-20	-20						36 410	
19	*Other financial corporations*	83 878	81 752	2 126				-312	-312						16 974	
20	*Non-financial corporations*	502 675	454 591	48 084	1 142		1 142	-564	-410	-154	-237		-237		109 210	397
21	*Households*	43 574	39 697	3 877	513		513	-117	-51	-66					1 654	
22	**Total**	**4 018 704**	**3 749 829**	**268 875**	**43 425**		**43 425**	**-31 039**	**-6 476**	**-24 563**	**-20 948**		**-20 948**		**1 334 640**	**18 562**

54. Table: NPE4 - Performing and non-performing exposures and related provisions (values in HUF million, K&H Group)

		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
1	**Loans and advances**	**1 967 270**	**1 777 634**	**189 636**	**41 680**		**41 680**	**-29 353**	**-5 010**	**-24 343**	-20 710		-20 710		**1 169 602**	**18 165**
2	*Central banks*															
3	*General governments*	81 658	81 658		379		379	-30	-30		-375		-375		42 180	
4	*Credit institutions*	120 819	120 819					-26	-26						39 963	
5	*Other financial corporations*	67 720	67 719	1	341		341	-415	-415		-339		-339		17 018	
6	*Non-financial corporations*	888 444	776 833	111 611	18 174		18 174	-18 000	-3 221	-14 779	-8 542		-8 542		386 014	8 139
7	*Of which SMEs*	528 351	472 726	55 625	8 031		8 031	-9 143	-2 001	-7 142	-3 986		-3 986		269 442	3 051
8	*Households*	808 629	730 605	78 024	22 786		22 786	-10 882	-1 318	-9 564	-11 454		-11 454		684 427	10 026
9	**Debt securities**	**1 096 205**	**1 096 205**					**-663**	**-663**							
10	*Central banks*	1 083 360	1 083 360													
11	*General governments*	403	403					-631	-631							
12	*Credit institutions*															
13	*Other financial corporations*	12 442	12 442													
14	*Non-financial corporations*							-32	-32							
15	**Off-balance-sheet exposures**	**966 864**	**893 561**	**73 303**	**1 545**		**1 545**	**-1 023**	**-803**	**-220**	**-237**		**-237**		**165 038**	**397**
16	*Central banks*															
17	*General governments*	18 818	18 818					-10	-10						790	
18	*Credit institutions*	306 284	281 132	25 152				-20	-20						36 410	
19	*Other financial corporations*	101 449	99 323	2 126				-312	-312						16 974	
20	*Non-financial corporations*	496 739	454 591	42 148	1 032		1 032	-564	-410	-154	-237		-237		109 210	397
21	*Households*	43 574	39 697	3 877	513		513	-117	-51	-66					1 654	
22	**Total**	**4 030 339**	**3 767 400**	**262 939**	**43 225**		**43 225**	**-31 039**	**-6 476**	**-24 563**	**-20 947**		**-20 947**		**1 334 640**	**18 562**

55. Table: NPE4 - Performing and non-performing exposures and related provisions (values in HUF million, K&H Bank)

		Collateral obtained by taking possession	
		Value at initial recognition	Accumulated negative changes
1	Property, plant and equipment (PP&E)		
2	Other than PP&E	1 645	-109
3	*Residential immovable property*	1 645	-109
4	*Commercial Immovable property*		
5	*Movable property (auto, shipping, etc.)*		
6	*Equity and debt instruments*		
7	*Other*		
8	Total	**1 645**	**-109**

56. Table: NPE9 - Collaterals obtained by taking possession and execution processes (K&H Group and K&H Bank, values in HUF million)

	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
Opening balance	28 457	7 992
Increases due to amounts set aside for estimated loan losses during the period	1 107	24 218
Decreases due to amounts reversed for estimated loan losses during the period	-410	-1 759
Decreases due to amounts taken against accumulated credit risk adjustments	-9 393	-56
Transfers between credit risk adjustments		
Impact of exchange rate differences	441	971
Business combinations, including acquisitions and disposals of subsidiaries		
Other adjustments	752	-1 004
Closing balance	20 955	30 361
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		

57. 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	28 439	7 824
Increases due to amounts set aside for estimated loan losses during the period	8 539	1 920
Decreases due to amounts reversed for estimated loan losses during the period	-410	-1 759
Decreases due to amounts taken against accumulated credit risk adjustments	-9 393	-56
Transfers between credit risk adjustments		
Impact of exchange rate differences	441	971
Business combinations, including acquisitions and disposals of subsidiaries		
Other adjustments	822	-1 076
Closing balance	28 439	7 824
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		

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

Changes in the stock of defaulted and impaired loans and debt securities	Gross carrying value defaulted exposures
Opening balance	50 838
Loans and debt securities that have defaulted or impaired since the last reporting period	10 858
Returned to non-defaulted status	-2 745
Amounts written off	-9 449
Other changes	-7 967
Closing balance	41 535

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

Changes in the stock of defaulted and impaired loans and debt securities	Gross carrying value defaulted exposures
Opening balance	50 170
Loans and debt securities that have defaulted or impaired since the last reporting period	10 858
Returned to non-defaulted status	-2 745
Amounts written off	-9 449
Other changes	-7 393
Closing balance	41 441

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

Values in HUF million	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	3 237		3 237			3 237
Foreign insurance company						
Other foreign company						
Total	3 877		3 877			3 877

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

Values in HUF million	Direct at net value	Indirect	PIBB	Regulatory Capital adjustment due to PIBB	Net value of all investments	Total net value
Credit institution	5 500		5 500			5 500
Financial company	2 369		2 369			2 369
Insurance cmpany						
Other domestic company	5 181					5 181
Foreign financial company	3 237		3 237			3 237
Foreign insurance company						
Other foreign company						
Total	16 288		11 106			16 288

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

9.1.2. Qualitative information 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. Quantitative information 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*	3 041 863	1 072 318	883 361	188 957	
Total debt securities	1 103 261	260		260	
Total exposures	4 145 125	1 072 578	883 361	189 217	
Of which defaulted	20 875	23 659	22 821	839	
including interbank deposit, other assets, off-balance sheet exposures…etc					

63. 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*	3 085 784	1 072 318	883 361	188 957	
Total debt securities	1 103 653	260		260	
Total exposures	4 189 437	1 072 578	883 361	189 217	
Of which defaulted	20 873	20 873	22 821	839	
*including interbank deposit, other assets, off-balance sheet exposures…etc					

64. 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	1 684 529	10 000	1 684 529	10 000		
Regional government or local authorities						
Public sector entities						
Multilateral development banks						
International organisations						
Institutions	0	0	0	0		
Corporates	18 150	10 540	18 141	0	18 099	100%
Retail	99 345	0	99 266	0	1	0%
Secured by mortgages on immovable property						
Exposures in default	1 970		1 241		1 798	145%
Higher-risk categories						
Covered bonds						
Institutions and corporates with a short-term credit assessment						
Collective investment undertakings						
Equity	3 877	0	3 877	0	3 878	100%
Other Items	161 715		161 481		91 198	56%
Total	**1 969 587**	**20 540**	**1 968 536**	**10 000**	**114 973**	**6%**

65. 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	1 684 532	10 000	1 684 532	10 000		
Regional government or local authorities						
Public sector entities						
Multilateral development banks						
International organisations						
Institutions	0	0	0	0		
Corporates	8		0		0	56%
Retail	99 345	0	99 266	0	1	0%
Secured by mortgages on immovable property						
Exposures in default	1 968		1 240		1 796	145%
Higher-risk categories						
Covered bonds						
Institutions and corporates with a short-term credit assessment						
Collective investment undertakings						
Equity	16 319	0	16 288	0	16 288	100%
Other Items	161 061		160 827		90 467	56%
Total	**1 963 233**	**10 000**	**1 962 152**	**10 000**	**108 552**	**6%**

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

Exposure classes	Risk weight																Total	Of which: not qualified
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Other	Deductions		
Central governments or central banks	1 694 529																1 694 529	
Regional government or local authorities																		
Public sector entities																		
Multilateral development banks																		
International organisations																		
Institutions																		
Corporates										28 690							28 690	
Retail									99 345								99 345	
Secured by mortgages on immovable property																		
Exposures in default										9	1 961						1 970	
Higher-risk categories																		
Covered bonds																		
Institutions and corporates with a short-term credit assessment																		
Collective investment undertakings																		
Equity										3 878							3 878	
Other Items	67 135				4 018					90 517		45					161 715	
Total	1 761 664				4 018				99 345	123 093	1 961	45					1 990 127	

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

Exposure classes	Risk weight																Total	Of which: not qualified
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Other	Deductions		
Central governments or central banks	1 694 532																1 694 532	
Regional government or local authorities																		
Public sector entities																		
Multilateral development banks																		
International organisations																		
Institutions																		
Corporates										8							8	
Retail									99 345								99 345	
Secured by mortgages on immovable property																		
Exposures in default										9	1 959						1 968	
Higher-risk categories																		
Covered bonds																		
Institutions and corporates with a short-term credit assessment																		
Collective investment undertakings																		
Equity										16 319							16 319	
Other Items	67 145				4 018					89 898							161 061	
Total	1 761 677				4 018				99 345	106 234	1 959						1 973 233	

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

9.1.4. IRB Approach (CRR Article 452)

The Bank back-tests and reviews its internal rating systems on an annual basis. The processes of developing, testing and authorising new models are governed by KBC group-level guidelines and methodologies. After the back test, 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%]	22		101%	22	0,03%	2	64,99%	1,00	3	12%	0	0
	02 [0,10% - 0,20%]	43 584	5	98%	42 808	0,14%	9	18,05%	3,48	9 963	23%	11	13
	03 [0,20% - 0,40%]	12 509	1 961	98%	13 259	0,36%	136	7,34%	4,70	1 624	12%	3	3
	04 [0,40% - 0,80%]	6 804	982	100%	7 268	0,63%	745	35,17%	3,43	5 318	73%	16	13
	05 [0,80% - 1,60%]	2 107	552	96%	2 282	0,99%	249	40,48%	4,20	2 500	110%	9	9
	06 [1,60% - 3,20%]												
	07 [3,20% - 6,40%]	260		100%	260	4,53%	921	45,00%	3,42	431	165%	5	1
	08 [6,40% - 12,80%]	2	0	100%	2	11,40%	2	71,55%	1,00	6	312%	0	0
	09 [12,80% - 99,99%]		0									0	
	10 [100,00%] (default)												
	Subtotal	65 288	3 500	96%	65 901	0,29%	2 064	18,69%	3,75	19 846	30%	46	39
Institutions	01 [0,00% - 0,10%]	487 299	262 034	91%	558 767	0,04%	287	57,28%	1,53	128 359	23%	132	36
	02 [0,10% - 0,20%]	24 395	43 640	77%	37 703	0,15%	66	30,39%	2,62	8 154	22%	14	9
	03 [0,20% - 0,40%]	57	595	81%	337	0,33%	29	38,21%	1,70	193	57%	0	0
	04 [0,40% - 0,80%]	455		103%	468	0,45%	6	64,99%	1,00	463	99%	1	
	05 [0,80% - 1,60%]		14	34%	5	1,13%	6	59,03%	1,75	7	133%	0	0
	06 [1,60% - 3,20%]	293		101%	297	2,26%	8	60,44%	1,00	476	160%	4	
	07 [3,20% - 6,40%]	200		100%	200	4,53%	63	55,98%	1,00	404	202%	5	
	08 [6,40% - 12,80%]						4						
	09 [12,80% - 99,99%]												
	10 [100,00%] (default)												
	Subtotal	512 699	306 284	73%	597 776	0,05%	469	55,58%	1,59	138 056	23%	157	46
Corporates	01 [0,00% - 0,10%]	9 417	52 409	67%	27 948	0,08%	2 081	58,95%	1,63	7 214	26%	13	1
	02 [0,10% - 0,20%]	52 507	61 416	76%	86 028	0,14%	5 572	58,79%	1,47	28 197	33%	72	11
	03 [0,20% - 0,40%]	106 594	101 507	97%	170 537	0,29%	10 326	53,93%	2,35	96 547	57%	271	166
	04 [0,40% - 0,80%]	166 640	131 517	98%	236 404	0,56%	14 231	51,37%	2,23	160 832	68%	675	570
	05 [0,80% - 1,60%]	306 654	119 895	100%	379 232	1,14%	16 828	46,88%	2,76	333 752	88%	2 018	2 185
	06 [1,60% - 3,20%]	225 768	88 891	100%	283 232	2,21%	10 893	41,80%	3,09	271 374	96%	2 646	6 664
	07 [3,20% - 6,40%]	76 431	23 985	101%	92 043	4,57%	16 785	42,69%	3,02	108 086	117%	1 796	3 842
	08 [6,40% - 12,80%]	37 239	9 291	104%	44 715	8,99%	2 758	43,42%	1,97	62 703	140%	1 753	4 064
	09 [12,80% - 99,99%]	11 368	2 444	104%	13 580	18,61%	2 243	54,96%	1,57	25 775	190%	1 391	2 357
	10 [100,00%] (default)	18 770	1 035	99%	18 731	100,00%	1 415	71,75%	1,59	65 645	350%	9 368	9 368
	Subtotal	1 011 389	592 388	84%	1 352 449	1,75%	83 132	48,52%	2,54	1 160 125	86%	20 003	29 226
Of which: Specialised lending	01 [0,00% - 0,10%]												
	02 [0,10% - 0,20%]	8	100	90%	97	0,17%	4	64,72%	1,00	25	26%	0	0
	03 [0,20% - 0,40%]	7 222	1 864	103%	9 373	0,27%	81	8,63%	2,21	913	10%	3	1
	04 [0,40% - 0,80%]	6 465	333	101%	6 775	0,46%	105	26,16%	2,68	2 525	37%	8	8
	05 [0,80% - 1,60%]	92 792	5 388	101%	98 519	1,20%	617	34,36%	4,24	88 735	90%	410	765
	06 [1,60% - 3,20%]	112 328	23 618	99%	131 065	2,10%	680	38,23%	4,23	143 751	110%	1 070	4 953
	07 [3,20% - 6,40%]	24 462	677	101%	25 330	4,53%	367	29,67%	3,93	24 306	96%	342	2 287
	08 [6,40% - 12,80%]	12 762	1 892	108%	14 710	9,05%	94	22,48%	2,92	14 912	101%	299	1 487
	09 [12,80% - 99,99%]	447		102%	454	18,10%	4	41,72%	1,00	776	171%	34	47
	10 [100,00%] (default)	1 654		100%	1 654	100,00%	12	64,59%	1,95	4 214	255%	731	731
	Subtotal	258 140	33 872	99%	287 975	2,29%	1 964	34,27%	4,02	280 157	97%	2 897	10 278
Of which: SMEs	01 [0,00% - 0,10%]	8 919	7 966	97%	13 797	0,07%	1 658	54,38%	2,21	2 449	18%	5	1
	02 [0,10% - 0,20%]	17 092	25 342	95%	33 609	0,15%	4 779	53,63%	1,79	8 333	25%	26	3
	03 [0,20% - 0,40%]	45 838	31 550	99%	67 212	0,30%	8 848	52,60%	2,24	26 614	40%	107	133
	04 [0,40% - 0,80%]	96 205	59 812	99%	130 946	0,57%	11 059	49,79%	2,32	70 664	54%	374	471
	05 [0,80% - 1,60%]	143 645	69 446	100%	187 993	1,11%	12 655	49,73%	2,16	130 717	70%	1 036	1 154
	06 [1,60% - 3,20%]	90 417	44 215	102%	116 497	2,30%	8 800	43,80%	2,27	85 285	73%	1 177	1 438
	07 [3,20% - 6,40%]	36 517	11 091	101%	44 311	4,58%	9 817	47,31%	2,09	43 037	97%	957	1 284
	08 [6,40% - 12,80%]	20 049	4 425	104%	24 002	8,67%	2 376	52,59%	1,62	33 327	139%	1 102	2 320
	09 [12,80% - 99,99%]	10 544	2 323	104%	12 632	18,65%	2 139	55,27%	1,62	23 505	186%	1 304	2 211
	10 [100,00%] (default)	9 229	1 035	100%	9 310	100,00%	1 047	68,79%	1,52	16 271	175%	6 246	6 246
	Subtotal	478 455	257 204	87%	640 310	1,94%	63 178	49,60%	2,16	440 202	69%	12 334	15 261
Retail	01 [0,00% - 0,10%]	3		101%	3	0,09%	4	24,55%	5,00	0	6%	0	0
	02 [0,10% - 0,20%]	18 804	24	101%	19 053	0,15%	8 664	26,04%	4,87	1 660	9%	7	1
	03 [0,20% - 0,40%]	287 827	8 695	102%	300 889	0,27%	204 848	27,81%	4,81	44 981	15%	231	1 723
	04 [0,40% - 0,80%]	125 688	11 215	101%	137 978	0,54%	249 426	38,22%	4,39	43 208	31%	280	1 196
	05 [0,80% - 1,60%]	146 662	6 893	101%	154 477	1,10%	117 181	32,21%	4,82	67 711	44%	553	941
	06 [1,60% - 3,20%]	36 957	5 553	101%	42 654	2,34%	75 034	37,20%	4,57	30 161	71%	379	851
	07 [3,20% - 6,40%]	36 809	999	102%	38 357	4,76%	46 866	39,27%	4,39	32 766	85%	734	1 312
	08 [6,40% - 12,80%]	10 373	62	108%	10 703	9,30%	10 965	35,77%	4,72	15 344	143%	362	781
	09 [12,80% - 99,99%]	16 493	211	103%	17 109	42,20%	20 421	36,34%	4,68	31 122	182%	2 583	3 658
	10 [100,00%] (default)	22 246	513	139%	31 719	100,00%	1 208 635	56,87%	1,95	2 915	9%	21 119	21 119
	Subtotal	701 861	34 166	102%	752 943	1,99%	1 942 044	33,22%	4,58	269 868	36%	26 248	31 581
Secured by real estate property	01 [0,00% - 0,10%]												
	02 [0,10% - 0,20%]	18 757	24	101%	19 006	0,15%	8 638	26,04%	4,87	1 654	9%	7	1
	03 [0,20% - 0,40%]	287 651	651	101%	290 735	0,27%	86 847	27,50%	4,94	42 547	15%	217	1 701
	04 [0,40% - 0,80%]	73 367	403	101%	74 669	0,55%	32 500	28,72%	4,88	18 998	25%	119	952
	05 [0,80% - 1,60%]	133 600	2 364	101%	136 860	1,08%	35 949	30,08%	4,96	57 601	42%	445	813
	06 [1,60% - 3,20%]	28 562	513	102%	29 579	2,22%	12 516	31,95%	4,90	20 906	71%	211	617
	07 [3,20% - 6,40%]	15 720	331	102%	16 400	4,41%	7 356	32,70%	4,91	17 551	107%	237	686
	08 [6,40% - 12,80%]	8 722	13	108%	8 966	8,99%	4 109	33,41%	4,91	13 811	154%	270	615
	09 [12,80% - 99,99%]	13 629	7	103%	14 006	43,01%	6 081	33,80%	4,92	27 293	195%	2 017	2 653
	10 [100,00%] (default)	21 092	- 0	146%	30 712	100,00%	9 094	56,66%	1,91	2 591	8%	20 408	20 408
	Subtotal	601 100	4 307	103%	620 933	1,85%	203 090	30,19%	4,78	202 952	33%	23 930	28 446
Other retail	01 [0,00% - 0,10%]	3		101%	3	0,09%	4	24,55%	5,00	0	6%	0	0
	02 [0,10% - 0,20%]	47		101%	48	0,18%	26	27,94%	4,91	5	11%	0	0
	03 [0,20% - 0,40%]	176	8 044	124%	10 153	0,38%	118 001	36,88%	1,01	2 434	24%	14	23
	04 [0,40% - 0,80%]	52 321	10 812	102%	63 309	0,52%	216 926	49,43%	3,82	24 210	38%	162	244
	05 [0,80% - 1,60%]	13 062	4 529	102%	17 618	1,24%	81 232	48,74%	3,76	10 110	57%	107	128
	06 [1,60% - 3,20%]	8 395	5 040	100%	13 075	2,62%	62 518	49,08%	3,83	9 255	71%	168	233
	07 [3,20% - 6,40%]	21 089	669	101%	21 958	5,03%	39 510	44,18%	4,00	15 215	69%	497	626
	08 [6,40% - 12,80%]	1 651	49	104%	1 736	10,91%	6 856	47,94%	3,73	1 533	88%	92	165
	09 [12,80% - 99,99%]	2 864	204	103%	3 103	38,58%	14 340	47,80%	3,61	3 830	123%	566	1 005
	10 [100,00%] (default)	1 154	513	109%	1 008	100,00%	1 199 541	63,50%	3,26	325	32%	711	711
	Subtotal	100 761	29 859	101%	132 010	2,61%	1 738 954	47,51%	3,62	66 916	51%	2 318	3 135
Total (all portfolios)		**2 291 237**	**936 338**	**86%**	**2 769 069**	**1,39%**	**2 027 709**	**45,18%**	**2,92**	**1 587 894**	**57%**	**46 454**	**60 893**

69. 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%]	22		101%	22	0,03%	2	64,99%	1,00	3	12%	0	0
	02 [0,10% - 0,20%]	43 584	5	98%	42 808	0,14%	9	18,05%	3,48	9 963	23%	11	13
	03 [0,20% - 0,40%]	12 508	1 961	98%	13 259	0,36%	134	7,34%	4,70	1 624	12%	3	3
	04 [0,40% - 0,80%]	6 803	982	100%	7 267	0,63%	730	35,17%	3,43	5 318	73%	16	13
	05 [0,80% - 1,60%]	2 107	552	96%	2 282	0,99%	246	40,48%	4,20	2 500	110%	9	9
	06 [1,60% - 3,20%]												
	07 [3,20% - 6,40%]	260		100%	260	4,53%	920	45,00%	3,42	431	165%	5	1
	08 [6,40% - 12,80%]	2	0	100%	2	11,40%	2	71,55%	1,00	6	312%	0	0
	09 [12,80% - 99,99%]												
	10 [100,00%] (default)												
	Subtotal	65 287	3 500	96%	65 900	0,29%	2 043	18,69%	3,75	19 845	30%	45	39
Institutions	01 [0,00% - 0,10%]	487 695	262 034	91%	559 163	0,04%	304	57,28%	1,53	128 578	23%	132	36
	02 [0,10% - 0,20%]	24 395	43 640	77%	37 703	0,15%	66	30,39%	2,62	8 154	22%	14	9
	03 [0,20% - 0,40%]	57	595	81%	337	0,33%	29	38,21%	1,70	193	57%	0	0
	04 [0,40% - 0,80%]	455		103%	468	0,45%	6	64,99%	1,00	463	99%	1	
	05 [0,80% - 1,60%]		14	34%	5	1,13%	6	59,03%	1,75	7	133%	0	0
	06 [1,60% - 3,20%]	293		101%	297	2,26%	8	60,44%	1,00	476	160%	4	
	07 [3,20% - 6,40%]	200		100%	200	4,53%	63	55,98%	1,00	404	202%	5	
	08 [6,40% - 12,80%]						4						
	09 [12,80% - 99,99%]												
	10 [100,00%] (default)												
	Subtotal	513 095	306 284	73%	598 173	0,05%	486	55,58%	1,59	138 274	23%	157	46
Corporates	01 [0,00% - 0,10%]	9 417	52 409	67%	27 948	0,08%	1 976	58,95%	1,63	7 214	26%	13	1
	02 [0,10% - 0,20%]	90 457	78 987	77%	129 639	0,13%	5 648	59,81%	2,06	60 576	47%	102	24
	03 [0,20% - 0,40%]	106 594	101 507	97%	170 537	0,29%	9 664	53,93%	2,35	96 547	57%	271	166
	04 [0,40% - 0,80%]	166 640	131 517	98%	236 404	0,56%	13 216	51,37%	2,23	160 832	68%	675	570
	05 [0,80% - 1,60%]	307 477	124 393	100%	382 157	1,14%	15 763	47,00%	2,75	337 385	88%	2 039	2 192
	06 [1,60% - 3,20%]	225 737	88 891	100%	283 200	2,21%	10 152	41,80%	3,09	271 351	96%	2 646	6 664
	07 [3,20% - 6,40%]	76 431	23 985	101%	92 043	4,57%	16 277	42,69%	3,02	108 086	117%	1 796	3 842
	08 [6,40% - 12,80%]	37 239	9 291	104%	44 715	8,99%	2 613	43,42%	1,97	62 703	140%	1 753	4 064
	09 [12,80% - 99,99%]	11 368	2 444	104%	13 580	18,61%	2 181	54,96%	1,57	25 774	190%	1 391	2 357
	10 [100,00%] (default)	18 770	1 035	99%	18 731	100,00%	1 308	71,75%	1,59	65 645	350%	9 368	9 368
	Subtotal	1 050 130	614 457	84%	1 398 953	1,69%	78 798	48,97%	2,56	1 196 112	86%	20 054	29 247
Of which: Specialised lending	01 [0,00% - 0,10%]												
	02 [0,10% - 0,20%]	8	100	90%	97	0,17%	4	64,72%	1,00	25	26%	0	0
	03 [0,20% - 0,40%]	7 222	1 864	103%	9 373	0,27%	62	8,63%	2,21	913	10%	3	1
	04 [0,40% - 0,80%]	6 465	333	101%	6 775	0,46%	88	26,16%	2,68	2 525	37%	8	8
	05 [0,80% - 1,60%]	92 793	5 388	101%	98 520	1,20%	525	34,36%	4,24	88 739	90%	410	765
	06 [1,60% - 3,20%]	112 375	23 618	99%	131 111	2,10%	620	38,24%	4,23	143 849	110%	1 071	4 953
	07 [3,20% - 6,40%]	24 461	677	101%	25 329	4,53%	332	29,67%	3,93	24 305	96%	342	2 287
	08 [6,40% - 12,80%]	12 762	1 892	108%	14 710	9,05%	92	22,48%	2,92	14 912	101%	299	1 487
	09 [12,80% - 99,99%]	447		102%	454	18,10%	4	41,72%	1,00	776	171%	34	47
	10 [100,00%] (default)	1 654		100%	1 654	100,00%	12	64,59%	1,95	4 214	255%	731	731
	Subtotal	258 187	33 872	99%	288 023	2,29%	1 739	34,27%	4,02	280 258	97%	2 898	10 278
Of which: SMEs	01 [0,00% - 0,10%]	8 919	7 966	97%	13 797	0,07%	1 555	54,38%	2,21	2 449	18%	5	1
	02 [0,10% - 0,20%]	17 092	25 342	95%	33 609	0,15%	4 527	53,63%	1,79	8 333	25%	26	3
	03 [0,20% - 0,40%]	45 838	31 550	99%	67 212	0,30%	8 306	52,60%	2,24	26 614	40%	107	133
	04 [0,40% - 0,80%]	96 205	59 812	99%	130 946	0,57%	10 457	49,79%	2,32	70 664	54%	374	471
	05 [0,80% - 1,60%]	143 644	69 446	100%	187 992	1,11%	11 863	49,73%	2,16	130 714	70%	1 036	1 154
	06 [1,60% - 3,20%]	90 407	44 215	102%	116 488	2,30%	8 193	43,80%	2,27	85 276	73%	1 177	1 438
	07 [3,20% - 6,40%]	36 517	11 091	101%	44 312	4,58%	9 466	47,31%	2,09	43 037	97%	957	1 284
	08 [6,40% - 12,80%]	20 049	4 425	104%	24 002	8,67%	2 271	52,59%	1,62	33 327	139%	1 102	2 320
	09 [12,80% - 99,99%]	10 544	2 323	104%	12 632	18,65%	2 079	55,27%	1,62	23 504	186%	1 304	2 211
	10 [100,00%] (default)	9 229	1 035	100%	9 310	100,00%	1 038	68,79%	1,52	16 271	175%	6 246	6 246
	Subtotal	478 445	257 204	87%	640 300	1,94%	59 755	49,60%	2,16	440 189	69%	12 334	15 261
Retail	01 [0,00% - 0,10%]	3		101%	3	0,09%	4	24,55%	5,00	0	6%	0	0
	02 [0,10% - 0,20%]	18 804	24	101%	19 053	0,15%	8 664	26,04%	4,87	1 660	9%	7	1
	03 [0,20% - 0,40%]	287 827	8 695	102%	300 889	0,27%	204 848	27,81%	4,81	44 981	15%	231	1 723
	04 [0,40% - 0,80%]	125 688	11 215	101%	137 978	0,54%	249 426	38,22%	4,39	43 208	31%	280	1 196
	05 [0,80% - 1,60%]	146 662	6 893	101%	154 477	1,10%	117 181	32,21%	4,82	67 711	44%	553	941
	06 [1,60% - 3,20%]	36 957	5 553	101%	42 654	2,34%	75 034	37,20%	4,57	30 161	71%	379	851
	07 [3,20% - 6,40%]	36 809	999	102%	38 357	4,76%	46 866	39,27%	4,39	32 766	85%	734	1 312
	08 [6,40% - 12,80%]	10 373	62	108%	10 703	9,30%	10 965	35,77%	4,72	15 344	143%	362	781
	09 [12,80% - 99,99%]	16 493	211	103%	17 109	42,20%	20 421	36,34%	4,68	31 122	182%	2 583	3 658
	10 [100,00%] (default)	22 246	513	139%	31 719	100,00%	1 208 635	56,87%	1,95	2 915	9%	21 119	21 119
	Subtotal	701 861	34 166	102%	752 943	1,99%	1 942 044	33,22%	4,58	269 868	36%	26 248	31 581
Secured by real estate property	01 [0,00% - 0,10%]												
	02 [0,10% - 0,20%]	18 757	24	101%	19 006	0,15%	8 638	26,04%	4,87	1 654	9%	7	1
	03 [0,20% - 0,40%]	287 651	651	101%	290 735	0,27%	86 847	27,50%	4,94	42 547	15%	217	1 701
	04 [0,40% - 0,80%]	73 367	403	101%	74 669	0,55%	32 500	28,72%	4,88	18 998	25%	119	952
	05 [0,80% - 1,60%]	133 600	2 364	101%	136 860	1,08%	35 949	30,08%	4,96	57 601	42%	445	813
	06 [1,60% - 3,20%]	28 562	513	102%	29 579	2,22%	12 516	31,95%	4,90	20 906	71%	211	617
	07 [3,20% - 6,40%]	15 720	331	102%	16 400	4,41%	7 356	32,70%	4,91	17 551	107%	237	686
	08 [6,40% - 12,80%]	8 722	13	108%	8 966	8,99%	4 109	33,41%	4,91	13 811	154%	270	615
	09 [12,80% - 99,99%]	13 629	7	103%	14 006	43,01%	6 081	33,80%	4,92	27 293	195%	2 017	2 653
	10 [100,00%] (default)	21 092	- 0	69%	30 712	100,00%	9 094	56,66%	1,91	2 591	8%	20 408	20 408
	Subtotal	601 100	4 307	103%	620 933	1,85%	203 090	30,19%	4,78	202 952	33%	23 930	28 446
Other retail	01 [0,00% - 0,10%]	3		101%	3	0,09%	4	24,55%	5,00	0	6%	0	0
	02 [0,10% - 0,20%]	47		101%	48	0,18%	26	27,94%	4,91	5	11%	0	0
	03 [0,20% - 0,40%]	176	8 044	124%	10 153	0,38%	118 001	36,88%	1,01	2 434	24%	14	23
	04 [0,40% - 0,80%]	52 321	10 812	102%	63 309	0,52%	216 926	49,43%	3,82	24 210	38%	162	244
	05 [0,80% - 1,60%]	13 062	4 529	102%	17 618	1,24%	81 232	48,74%	3,76	10 110	57%	107	128
	06 [1,60% - 3,20%]	8 395	5 040	100%	13 075	2,62%	62 518	49,08%	3,83	9 255	71%	168	233
	07 [3,20% - 6,40%]	21 089	669	101%	21 958	5,03%	39 510	44,18%	4,00	15 215	69%	497	626
	08 [6,40% - 12,80%]	1 651	49	104%	1 736	10,91%	6 856	47,94%	3,73	1 533	88%	92	165
	09 [12,80% - 99,99%]	2 864	204	103%	3 103	38,58%	14 340	47,80%	3,61	3 830	123%	566	1 005
	10 [100,00%] (default)	1 154	513	109%	1 008	100,00%	1 199 541	63,50%	3,26	325	32%	711	711
	Subtotal	100 761	29 859	101%	132 010	2,61%	1 738 954	47,51%	3,62	66 916	51%	2 318	3 135
Total (all portfolios)		**2 330 374**	**958 407**	**86%**	**2 815 969**	**1,37%**	**2 023 371**	**45,45%**	**2,92**	**1 624 099**	**58%**	**46 504**	**60 913**

70. 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	19 846	19 846
Institutions	138 056	138 056
Corporates – SMEs	440 202	440 202
Corporates – Specialised lending	280 157	280 157
Corporates – Other	439 766	439 766
Retail – Secured by real estate SMEs		
Retail – Secured by real estate non-SMEs	202 952	202 952
Retail – Qualifying revolving		
Retail – Other SMEs		
Retail – Other non-SMEs	66 916	66 916
Equity IRB		
Other non credit obligation assets		
Total	**1 587 894**	**1 587 894**

71. 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	19 845	19 845
Institutions	138 274	138 274
Corporates – SMEs	440 189	440 189
Corporates – Specialised lending	280 258	280 258
Corporates – Other	475 665	475 665
Retail – Secured by real estate SMEs		
Retail – Secured by real estate non-SMEs	202 952	202 952
Retail – Qualifying revolving		
Retail – Other SMEs		
Retail – Other non-SMEs	66 916	66 916
Equity IRB		
Other non credit obligation assets		
Total	**1 624 099**	**1 624 099**

72. 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 31.12.2019	1 468 077	117 446
Asset size	162 199	12 976
Asset quality	-14 823	-1 186
Model updates		
Methodology and policy	-84 361	-6 749
Acquisitions and disposals		
Foreign exchange movements	35 812	2 865
Other		
RWAs on 31.12.2020	1 587 894	127 032

73. 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 30.09.2020	1 625 005	130 000
Asset size	-33 694	-2 696
Asset quality	-16 887	-1 351
Model updates		
Methodology and policy	13 964	1 117
Acquisitions and disposals		
Foreign exchange movements	-493	-39
Other		
RWAs on 31.12.2020	1 587 894	127 032

74. 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 31.12.2019	1 526 359	122 109
Asset size	197 265	15 781
Asset quality	-52 799	-4 224
Model updates		
Methodology and policy	-83 498	-6 680
Acquisitions and disposals		
Foreign exchange movements	36 772	2 942
Other		
RWAs on 31.12.2020	1 624 099	129 928

75. 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 30.09.2020	1 665 490	133 239
Asset size	-33 518	-2 681
Asset quality	-21 329	-1 706
Model updates		
Methodology and policy	13 964	1 117
Acquisitions and disposals		
Foreign exchange movements	-507	-41
Other		
RWAs on 31.12.2020	1 624 099	129 928

76. 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 2019	End of 2020			
Central governments or central banks	01 [0,00% - 0,10%]	A	0,0003	0,0003	1	1			0,00%
	02 [0,10% - 0,20%]	BBB	0,0000	0,0014	409	8			0,00%
	03 [0,20% - 0,40%]	BBB-	0,0034	0,0034	220	131			0,00%
	04 [0,40% - 0,80%]	BB+	0,0061	0,0059	687	735			0,95%
	05 [0,80% - 1,60%]	BB	0,0101	0,0093	147	248			0,00%
	06 [1,60% - 3,20%]	BB-	0,0000	0,0000	0	0			1,10%
	07 [3,20% - 6,40%]	B	0,0453	0,0453	967	920			1,61%
	08 [6,40% - 12,80%]	B-	0,1140	0,1140	1	1			0,00%
	09 [12,80% - 99,99%]	CCC	0,1919	0,0000	2	0			0,00%
Institutions	01 [0,00% - 0,10%]	A	0,0005	0,0005	288	286			0,00%
	02 [0,10% - 0,20%]	BBB	0,0013	0,0014	103	66			0,00%
	03 [0,20% - 0,40%]	BBB-	0,0029	0,0029	23	28			0,00%
	04 [0,40% - 0,80%]	BB+	0,0049	0,0062	5	6			0,00%
	05 [0,80% - 1,60%]	BB	0,0113	0,0113	3	6			0,00%
	06 [1,60% - 3,20%]	BB-	0,0226	0,0226	3	8			0,00%
	07 [3,20% - 6,40%]	B	0,0453	0,0453	67	63			0,00%
	08 [6,40% - 12,80%]	B-	0,0000	0,0718	3	4			0,00%
	09 [12,80% - 99,99%]	CCC	0,0000	0,0000	0	0			0,00%
Corporates	01 [0,00% - 0,10%]	A	0,0008	0,0008	1341	1567			3,97%
	02 [0,10% - 0,20%]	BBB	0,0014	0,0015	4862	3872	1	1	0,01%
	03 [0,20% - 0,40%]	BBB-	0,0030	0,0029	6782	7142			0,43%
	04 [0,40% - 0,80%]	BB+	0,0057	0,0058	9667	9868	2	2	0,12%
	05 [0,80% - 1,60%]	BB	0,0113	0,0114	11979	12166			0,19%
	06 [1,60% - 3,20%]	BB-	0,0222	0,0226	8180	8096	3	3	0,26%
	07 [3,20% - 6,40%]	B	0,0454	0,0455	13389	14844	9	8	0,28%
	08 [6,40% - 12,80%]	B-	0,0913	0,0900	2257	1984	14	9	9,62%
	09 [12,80% - 99,99%]	CCC	0,2255	0,1952	1683	1595	50	39	10,68%
of which specialised lending	01 [0,00% - 0,10%]	A	0,0000	0,0000	0	0			1,59%
	02 [0,10% - 0,20%]	BBB	0,0017	0,0014	2	2			0,00%
	03 [0,20% - 0,40%]	BBB-	0,0030	0,0030	110	58			0,00%
	04 [0,40% - 0,80%]	BB+	0,0055	0,0049	136	82			0,00%
	05 [0,80% - 1,60%]	BB	0,0115	0,0119	754	514			0,00%
	06 [1,60% - 3,20%]	BB-	0,0211	0,0226	520	619			0,00%
	07 [3,20% - 6,40%]	B	0,0453	0,0447	145	325			0,23%
	08 [6,40% - 12,80%]	B-	0,0905	0,0903	8	88			0,00%
	09 [12,80% - 99,99%]	CCC	0,1885	0,1810	6	4			15,30%
of which SMEs	01 [0,00% - 0,10%]	A	0,0007	0,0008	1195	1157			4,56%
	02 [0,10% - 0,20%]	BBB	0,0015	0,0015	3544	3086	1	1	0,03%
	03 [0,20% - 0,40%]	BBB-	0,0030	0,0029	5421	5904			0,14%
	04 [0,40% - 0,80%]	BB+	0,0058	0,0057	7485	7485	2	2	0,11%
	05 [0,80% - 1,60%]	BB	0,0112	0,0113	8122	8812			0,19%
	06 [1,60% - 3,20%]	BB-	0,0228	0,0227	6408	6203	3	3	0,34%
	07 [3,20% - 6,40%]	B	0,0451	0,0455	8438	8183	8	7	0,60%
	08 [6,40% - 12,80%]	B-	0,0882	0,0900	1889	1691	13	8	1,46%
	09 [12,80% - 99,99%]	CCC	0,2282	0,1958	1598	1499	49	38	9,03%
Retail	01 [0,00% - 0,10%]	A	0,0000	0,0009	1	2			0,43%
	02 [0,10% - 0,20%]	BBB	0,0015	0,0016	3684	4337	20	11	0,09%
	03 [0,20% - 0,40%]	BBB-	0,0028	0,0033	89010	102606	252	189	0,25%
	04 [0,40% - 0,80%]	BB+	0,0054	0,0056	102882	127618	1 351	1 311	0,59%
	05 [0,80% - 1,60%]	BB	0,0110	0,0116	57169	59090	798	771	0,88%
	06 [1,60% - 3,20%]	BB-	0,0234	0,0244	43521	38106	564	514	1,20%
	07 [3,20% - 6,40%]	B	0,0483	0,0495	35759	25811	463	387	1,90%
	08 [6,40% - 12,80%]	B-	0,0923	0,0953	8165	5506	372	236	3,12%
	09 [12,80% - 99,99%]	CCC	0,4191	0,4157	11768	10261	1 761	867	25,04%
Mortgage	01 [0,00% - 0,10%]	A	0,0000	0,0000	0	0			0,04%
	02 [0,10% - 0,20%]	BBB	0,0015	0,0016	3668	4324	20	11	0,15%
	03 [0,20% - 0,40%]	BBB-	0,0027	0,0027	38060	43549	106	98	0,24%
	04 [0,40% - 0,80%]	BB+	0,0055	0,0058	16547	16392	117	115	0,77%
	05 [0,80% - 1,60%]	BB	0,0109	0,0110	18181	18223	395	383	1,13%
	06 [1,60% - 3,20%]	BB-	0,0222	0,0224	7029	6326	180	146	1,53%
	07 [3,20% - 6,40%]	B	0,0441	0,0444	4917	3756	231	172	3,50%
	08 [6,40% - 12,80%]	B-	0,0899	0,0897	2871	2060	254	137	4,26%
	09 [12,80% - 99,99%]	CCC	0,4271	0,4243	3824	3052	908	375	14,34%
Retail - Qualifying revolving									
Other Retail	01 [0,00% - 0,10%]	A	0,0000	0,0009	1	2			0,95%
	02 [0,10% - 0,20%]	BBB	0,0018	0,0018	16	13			0,09%
	03 [0,20% - 0,40%]	BBB-	0,0038	0,0038	50950	59057	146	91	0,39%
	04 [0,40% - 0,80%]	BB+	0,0052	0,0056	86335	111226	1 234	1 196	1,00%
	05 [0,80% - 1,60%]	BB	0,0123	0,0119	38988	40867	403	388	1,51%
	06 [1,60% - 3,20%]	BB-	0,0263	0,0248	36492	31780	384	368	2,42%
	07 [3,20% - 6,40%]	B	0,0500	0,0503	30842	22055	232	215	2,14%
	08 [6,40% - 12,80%]	B-	0,1065	0,0987	5294	3446	118	99	4,37%
	09 [12,80% - 99,99%]	CCC	0,3792	0,4121	7944	7209	853	492	39,06%
Equity IRB									

77. 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 2019	Number of obligors End of 2020	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	0,0003	0,0003	1	1			0,00%
	02 [0,10% - 0,20%]	BBB	0,0000	0,0014	21	8			0,00%
	03 [0,20% - 0,40%]	BBB-	0,0036	0,0034	220	130			0,00%
	04 [0,40% - 0,80%]	BB+	0,0062	0,0059	683	728			0,95%
	05 [0,80% - 1,60%]	BB	0,0098	0,0093	145	246			0,00%
	06 [1,60% - 3,20%]	BB-	0,0000	0,0000	0	0			1,10%
	07 [3,20% - 6,40%]	B	0,0453	0,0453	963	920			1,61%
	08 [6,40% - 12,80%]	B-	0,0000	0,1140	1	1			0,00%
	09 [12,80% - 99,99%]	CCC	0,1901	0,0000	2	0			0,00%
Institutions	01 [0,00% - 0,10%]	A	0,0004	0,0005	281	303			0,00%
	02 [0,10% - 0,20%]	BBB	0,0014	0,0014	103	66			0,00%
	03 [0,20% - 0,40%]	BBB-	0,0028	0,0029	23	28			0,00%
	04 [0,40% - 0,80%]	BB+	0,0047	0,0062	5	6			0,00%
	05 [0,80% - 1,60%]	BB	0,0113	0,0113	3	6			0,00%
	06 [1,60% - 3,20%]	BB-	0,0226	0,0226	3	8			0,00%
	07 [3,20% - 6,40%]	B	0,0453	0,0453	67	63			0,00%
	08 [6,40% - 12,80%]	B-	0,0000	0,0718	3	4			0,00%
	09 [12,80% - 99,99%]	CCC	0,0000	0,0000	0	0			0,00%
Corporates	01 [0,00% - 0,10%]	A	0,0008	0,0008	1294	1567			3,97%
	02 [0,10% - 0,20%]	BBB	0,0014	0,0014	4821	4197	1	1	0,01%
	03 [0,20% - 0,40%]	BBB-	0,0029	0,0029	6816	7144		2	0,42%
	04 [0,40% - 0,80%]	BB+	0,0057	0,0058	9713	9868	2		0,12%
	05 [0,80% - 1,60%]	BB	0,0113	0,0114	11973	12374			0,19%
	06 [1,60% - 3,20%]	BB-	0,0224	0,0226	8191	8109	3	3	0,26%
	07 [3,20% - 6,40%]	B	0,0454	0,0455	12752	14874	9	8	0,28%
	08 [6,40% - 12,80%]	B-	0,0913	0,0900	2259	1984	14	9	9,62%
	09 [12,80% - 99,99%]	CCC	0,1896	0,1952	1683	1595	50	39	10,68%
of which specialised lending	01 [0,00% - 0,10%]	A	0,0000	0,0000	0	0			1,59%
	02 [0,10% - 0,20%]	BBB	0,0017	0,0014	2	2			0,00%
	03 [0,20% - 0,40%]	BBB-	0,0030	0,0030	110	58			0,00%
	04 [0,40% - 0,80%]	BB+	0,0055	0,0049	136	82			0,00%
	05 [0,80% - 1,60%]	BB	0,0115	0,0119	754	514			0,00%
	06 [1,60% - 3,20%]	BB-	0,0215	0,0226	520	619			0,00%
	07 [3,20% - 6,40%]	B	0,0453	0,0448	145	322			0,23%
	08 [6,40% - 12,80%]	B-	0,0905	0,0903	8	88			0,00%
	09 [12,80% - 99,99%]	CCC	0,1813	0,1810	6	4			15,30%
of which SMEs	01 [0,00% - 0,10%]	A	0,0007	0,0008	1151	1157			4,56%
	02 [0,10% - 0,20%]	BBB	0,0015	0,0015	3516	3086	1	1	0,03%
	03 [0,20% - 0,40%]	BBB-	0,0030	0,0029	5477	5904		2	0,15%
	04 [0,40% - 0,80%]	BB+	0,0058	0,0057	7496	7485	2		0,09%
	05 [0,80% - 1,60%]	BB	0,0112	0,0113	8115	8824			0,19%
	06 [1,60% - 3,20%]	BB-	0,0229	0,0227	6419	6211	3	3	0,34%
	07 [3,20% - 6,40%]	B	0,0449	0,0455	8437	8202	8	7	0,60%
	08 [6,40% - 12,80%]	B-	0,0883	0,0900	1891	1691	13	8	1,46%
	09 [12,80% - 99,99%]	CCC	0,1897	0,1958	1598	1499	49	38	9,03%
Retail	01 [0,00% - 0,10%]	A	0,0000	0,0009	1	2			0,43%
	02 [0,10% - 0,20%]	BBB	0,0015	0,0016	3684	4337	20	11	0,09%
	03 [0,20% - 0,40%]	BBB-	0,0028	0,0033	89010	102606	252	189	0,25%
	04 [0,40% - 0,80%]	BB+	0,0054	0,0056	102882	127618	1351	1311	0,59%
	05 [0,80% - 1,60%]	BB	0,0110	0,0116	57169	59090	798	771	0,88%
	06 [1,60% - 3,20%]	BB-	0,0234	0,0244	43521	38106	564	514	1,20%
	07 [3,20% - 6,40%]	B	0,0483	0,0495	35759	25811	463	387	1,90%
	08 [6,40% - 12,80%]	B-	0,0923	0,0953	8165	5506	372	236	3,12%
	09 [12,80% - 99,99%]	CCC	0,4191	0,4157	11768	10261	1761	867	25,04%
Mortgage	01 [0,00% - 0,10%]	A	0,0000	0,0000	0	0			0,04%
	02 [0,10% - 0,20%]	BBB	0,0015	0,0016	3668	4324	20	11	0,15%
	03 [0,20% - 0,40%]	BBB-	0,0027	0,0027	38060	43549	106	98	0,24%
	04 [0,40% - 0,80%]	BB+	0,0055	0,0058	16547	16392	117	115	0,77%
	05 [0,80% - 1,60%]	BB	0,0109	0,0110	18181	18223	395	383	1,13%
	06 [1,60% - 3,20%]	BB-	0,0222	0,0224	7029	6326	180	146	1,53%
	07 [3,20% - 6,40%]	B	0,0441	0,0444	4917	3756	231	172	3,50%
	08 [6,40% - 12,80%]	B-	0,0899	0,0897	2871	2060	254	137	4,26%
	09 [12,80% - 99,99%]	CCC	0,4271	0,4243	3824	3052	908	375	14,34%
Retail - Qualifying revolving									
Other Retail	01 [0,00% - 0,10%]	A	0,0000	0,0009	1	2			0,00%
	02 [0,10% - 0,20%]	BBB	0,0018	0,0018	16	13			0,15%
	03 [0,20% - 0,40%]	BBB-	0,0038	0,0038	50950	59057	146	91	0,30%
	04 [0,40% - 0,80%]	BB+	0,0052	0,0056	86335	111226	1234	1196	2,17%
	05 [0,80% - 1,60%]	BB	0,0123	0,0119	38988	40867	403	388	1,39%
	06 [1,60% - 3,20%]	BB-	0,0263	0,0248	36492	31780	384	368	2,28%
	07 [3,20% - 6,40%]	B	0,0500	0,0503	30842	22055	232	215	1,43%
	08 [6,40% - 12,80%]	B-	0,1065	0,0987	5294	3446	118	99	2,60%
	09 [12,80% - 99,99%]	CCC	0,3792	0,4121	7944	7209	853	492	129,53%
Equity IRB									

78. 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		94 411	53 344			1 077 769	42 017
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)						15 456	1 599
VAR for SFTs							
Total							**43 617**

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

	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
Mark to market		94 407	53 342			1 074 432	42 009
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)						12 124	963
VAR for SFTs							
Total							**42 971**

80. Table: EU CCR1 – Analysis of CCR exposure by approach (values in million HUF, 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	1 167	364
Based on the original exposure method		
Total subject to the CVA capital charge	**1 167**	**364**

81. 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	8 983											8 983	
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	8 983											8 983	

82. 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	34 004	0,05%	16395	47,33%	1,62	6 979	20,52%
	0,15 – <0,25	0	0,00%	2	0,00%	0,00	0	0,00%
	0,25 – <0,50	53	0,28%	3	0,00%	1,00	0	0,00%
	0,50 – <0,75							
	0,75 – <2,50							
	2,50 – <10,00	0	0,00%	1	0,00%	0,00	0	0,00%
	10,00 – <100,00							
	100,00 (default)							
	Subtotal	**34 057**	**0,05%**	**16401**	**47,26%**	**1,61**	**6 979**	**20,49%**
Corporates	0,00 – <0,15	2 108	0,09%	1455	59,39%	1,26	661	31,36%
	0,15 – <0,25	107	0,19%	59	66,36%	1,97	44	40,94%
	0,25 – <0,50	1 780	0,35%	519	68,69%	1,91	1 123	63,09%
	0,50 – <0,75	7 023	0,62%	2098	67,20%	1,10	5 481	78,04%
	0,75 – <2,50	16 328	1,53%	3866	62,63%	2,60	22 457	137,54%
	2,50 – <10,00	2 568	5,52%	920	67,16%	1,99	4 535	176,62%
	10,00 – <100,00	16	18,10%	12	66,16%	1,00	37	237,35%
	100,00 (default)	152	100,00%	16	87,16%	1,48	1 654	1089,49%
	Subtotal	**30 081**	**1,99%**	**8945**	**64,35%**	**2,06**	**35 993**	**119,65%**
of which SMEs	0,00 – <0,15	551	0,08%	448	66,59%	1,16	94	17,01%
	0,15 – <0,25	94	0,18%	54	66,39%	2,11	37	39,71%
	0,25 – <0,50	1 172	0,33%	458	67,31%	2,08	630	53,72%
	0,50 – <0,75	4 019	0,65%	988	67,97%	1,06	2 753	68,50%
	0,75 – <2,50	5 531	1,40%	2077	67,23%	1,33	5 006	90,51%
	2,50 – <10,00	1 877	5,60%	600	66,21%	1,16	2 792	148,77%
	10,00 – <100,00	16	18,10%	12	66,16%	1,00	37	237,35%
	100,00 (default)	42	100,00%	9	84,91%	2,73	446	1061,40%
	Subtotal	**13 301**	**1,94%**	**4646**	**67,34%**	**1,29**	**11 795**	**88,68%**
of which specialised lending	0,00 – <0,15							
	0,15 – <0,25							
	0,25 – <0,50	144	0,44%	8	88,02%	1,00	125	86,62%
	0,50 – <0,75							
	0,75 – <2,50	8 992	1,54%	164	59,08%	3,71	14 831	164,94%
	2,50 – <10,00	647	5,38%	146	71,00%	4,49	1 675	258,97%
	10,00 – <100,00							
	100,00 (default)							
	Subtotal	**9 783**	**1,78%**	**318**	**60,30%**	**3,72**	**16 631**	**170,00%**
Total (all portfolios)		**87 223**	**1,20%**	**30310**	**57,68%**	**1,95**	**71 398**	**81,86%**

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

Exposure class	PD scale	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density
Institutions	0,00 – <0,15	37 335	0,05%	16396	48,11%	1,49	7 616	20,40%
	0,15 – <0,25	0	0,00%	2	0,00%	0,00	0	0,00%
	0,25 – <0,50	53	0,28%	3	0,00%	1,00	0	0,00%
	0,50 – <0,75							
	0,75 – <2,50							
	2,50 – <10,00	0	0,00%	1	0,00%	0,00	0	0,00%
	10,00 – <100,00							
	100,00 (default)							
	Subtotal	**37 389**	**0,05%**	**16402**	**48,04%**	**1,49**	**7 616**	**20,37%**
Corporates	0,00 – <0,15	2 108	0,09%	1455	59,39%	1,26	661	31,36%
	0,15 – <0,25	107	0,19%	59	66,36%	1,97	44	40,94%
	0,25 – <0,50	1 780	0,35%	519	68,69%	1,91	1 123	63,09%
	0,50 – <0,75	7 023	0,62%	2098	67,20%	1,10	5 481	78,04%
	0,75 – <2,50	16 328	1,53%	3866	62,63%	2,60	22 457	137,54%
	2,50 – <10,00	2 568	5,52%	920	67,16%	1,99	4 535	176,62%
	10,00 – <100,00	16	18,10%	12	66,16%	1,00	37	237,35%
	100,00 (default)	152	100,00%	16	87,16%	1,48	1 654	1089,49%
	Subtotal	**30 081**	**1,99%**	**8945**	**64,35%**	**2,06**	**35 993**	**119,65%**
of which SMEs	0,00 – <0,15	551	0,08%	448	66,59%	1,16	94	17,01%
	0,15 – <0,25	94	0,18%	54	66,39%	2,11	37	39,71%
	0,25 – <0,50	1 172	0,33%	458	67,31%	2,08	630	53,72%
	0,50 – <0,75	4 019	0,65%	988	67,97%	1,06	2 753	68,50%
	0,75 – <2,50	5 531	1,40%	2077	67,23%	1,33	5 006	90,51%
	2,50 – <10,00	1 877	5,60%	600	66,21%	1,16	2 792	148,77%
	10,00 – <100,00	16	18,10%	12	66,16%	1,00	37	237,35%
	100,00 (default)	42	100,00%	9	84,91%	2,73	446	1061,40%
	Subtotal	**13 301**	**1,94%**	**4646**	**67,34%**	**1,29**	**11 795**	**88,68%**
of which specialised lending	0,00 – <0,15							
	0,15 – <0,25							
	0,25 – <0,50	144	0,44%	8	88,02%	1,00	125	86,62%
	0,50 – <0,75							
	0,75 – <2,50	8 992	1,54%	164	59,08%	3,71	14 831	164,94%
	2,50 – <10,00	647	5,38%	146	71,00%	4,49	1 675	258,97%
	10,00 – <100,00							
	100,00 (default)							
	Subtotal	**9 783**	**1,78%**	**318**	**60,30%**	**3,72**	**16 631**	**170,00%**
Total (all portfolios)		**90 554**	**1,16%**	**30311**	**57,62%**	**1,89**	**72 035**	**79,55%**

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

	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Derivatives	3 772	89 939	50 880	1 800	49 080
SFTs	15 648		15 456		15 456
Cross-product netting					
Total	**19 420**	**89 939**	**66 336**	**1 800**	**64 536**

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

	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Derivatives	3 768	89 938	50 886	1 800	49 086
SFTs	12 207		12 124		12 124
Cross-product netting					
Total	**15 976**	**89 938**	**63 010**	**1 800**	**61 210**

86. Table: EU CCR5-A – Impact of netting and collateral held on exposure values (values in HUF million, 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		1 800		20 126		
Total		1 800		20 126		

87. 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 2020.

The bank did not have credit derivatives at end of year 2020.

9.3. COVID 19

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread across the world, causing disruptions to businesses and economic activity.

With the aim of mitigating the economic impact of the coronavirus, on 18 March 2020 a financial moratorium was announced for the retail and corporate debtors for principal, interest and fee payments which would become due until 31 December 2020 (Government decree of 47/2020 and 62/2020). The payment moratorium was automatic for all eligible debtors and loans (but the debtor had the right to opt-out from the payment moratorium).

On 22 December 2020 the government announced the decree of 637/2020 about the introduction of the financial moratorium's special rules related to the Covid-19 crises. This decree prolongs the duration of the first moratorium according to which the financial moratorium is available for another half year until 30 June 2021.

The moratorium did not result in debt forgiveness: the unpaid interest and fee accumulated during the moratorium shall be redeemed after the moratorium in equal annual parts during the extended remaining tenor of the loan together with the due principal instalments. The tenor of the loan will be prolonged in a way that the debtor's new instalment covering the deferred interest and fee as well next to the due capital shall not exceed the instalment determined in the original payment schedule.

Although the debtors shall redeem all deferred payment obligations accumulated during the moratorium, as no interest can be charged on the unpaid interest the Group recognized a negative P&L impact arising from the time value of the payment deferral. According to preliminary estimations, the loss will amount to approximately HUF 4 400 million which amount was calculated based on the number of eligible debtors taking into account the opt-out rate of the clients. The estimated negative impact is recognized as a modification to the gross carrying amount of the related loans in the Group's consolidated statement of financial position and as modification losses on financial assets at amortized cost in the Group's consolidated income statement in 2020.

The Financial Stability Board of the Magyar Nemzeti Bank (MNB) adopted on March 19 a comprehensive package of measures to mitigate the effects of the Covid-19 crises on the financial intermediation sector. Among them the MNB called on banks and their shareholders not to approve or pay dividends until the end of September 2020 and prolonged this period with another 1 year later on in 2020.

In April MNB launched the latest scheme of the Funding for Growth Programme in order to support access to finance for SMEs. The scheme makes financial funds available to micro-, small and medium-sized businesses from April 20 through credit institutions and financial businesses at a fixed interest rate of a maximum 2.5%, available on a wider scale than before, helping SMEs to overcome the economic effects of the coronavirus.

In addition, based on Government decree of 1170/2020. (IV.21.) for the mitigation of the negative effects of the Covid-19 crises to SMEs and corporates, Garantiqa Hitelgarancia Zrt. launched a loan guarantee program with specific conditions giving a maximum 90% guarantee which quickens the application of loans for the companies.

		Gross carrying amount							Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying amount
			Performing			Non performing				Performing			Non performing			
				Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days			Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	Inflows to non-performing exposures
1	Loans and advances subject to moratorium	558 960	541 070	1 245	125 483	17 890	3 882	13 840	-24 760	-18 507	-99	-16 898	-6 253	-1 342	-4 286	8 045
2	of which: Households	263 288	257 375	1 191	44 492	5 913	2 307	3 134	-8 488	-6 328	-63	-5 764	-2 160	-680	-896	325
3	*of which: Collateralised by residential immovable property*	184 815	179 748	1 176	35 223	5 067	2 263	2 941	-5 968	-4 388	-62	-4 247	-1 580	-637	-786	277
4	of which: Non-financial corporations	291 587	279 610	53	80 991	11 978	1 575	10 706	-16 223	-12 130	-36	-11 133	-4 093	-662	-3 390	7 720
5	*of which: Small and Medium-sized Enterprises*	151 783	147 280	53	34 043	4 503	1 575	3 238	-7 265	-5 167	-36	-4 587	-2 099	-662	-1 397	252
6	*of which: Collateralised by commercial immovable property*	174 968	171 341	51	63 251	3 627	1 575	2 427	-10 872	-9 140	-36	-8 415	-1 732	-662	-1 054	154

88. Table: Covid 1 Information on loans and advances subject to legislative and non-legislative moratoria (K&H Group)

		Number of obligors	Gross carrying amount							
				Of which: legislative moratoria	Of which: expired	Residual maturity of moratoria				
						<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
1	Loans and advances for which moratorium was offered	120 163	558 960							
2	Loans and advances subject to moratorium (granted)	120 163	558 960	558 960	558 960	558 960				
3	of which: Households		263 288	263 288	263 288	263 288				
4	*of which: Collateralised by residential immovable property*		184 815	184 815	184 815	184 815				
5	of which: Non-financial corporations		291 587	291 587	291 587	291 587				
6	*of which: Small and Medium-sized Enterprises*		151 783	151 783	151 783	151 783				
7	*of which: Collateralised by commercial immovable property*		174 968	174 968	174 968	174 968				

89. Table: Covid 2 Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria

		Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
			of which: forborne	Public guarantees received	Inflows to non-performing exposures
1	**Newly originated loans and advances subject to public guarantee schemes**	6 825		6 703	
2	of which: Households				
3	of which: Collateralised by residential immovable property				
4	of which: Non-financial corporations	6 825		6 703	
5	of which: Small and Medium-sized Enterprises	6 771			
6	of which: Collateralised by commercial immovable property	2 265			

90. Table: Covid 3 Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis

For further details on Credit Risk related measures please see note 3 of Consolidated IFRS Financial Statements.

10. Quantitative information about market risk

	RWAs	Capital requirements
Outright products		
Interest rate risk (general and specific)		
Equity risk (general and specific)		
Foreign exchange risk	1 131	90
Commodity risk		
Options		
Simplified approach		
Delta-plus method		
Scenario approach		
Securitisation (specific risk)		
Securitisation (specific risk)		
Total	**1 131**	**90**

91. 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*