

Disclosure according to Pillar 3

# Risk Report

K&H Banking Group and  
K&H Bank Zrt

For the Third Quarter of 2018 Financial Year

K&H committed itself to conform to the requirements of Pillar 3 defined in Chapter 8 of 575/2013/EU Regulation of the European Parliament, of the Council (CRR) and in Article 122 of the Hpt.<sup>1</sup> and the 13/2017 (XI.30) recommendation of the Hungarian National Bank. K&H prepares this “Risk Report” for such purposes, containing the information required by law. In line with its general communications policy, K&H is trying to communicate its market risk exposures as openly as possible.

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

Overview of RWAs and capital requirements as of 30th of September, 2018:

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

Risk Weight Asset (RWA)	K&H Group	K&H Bank
Total RWA	1897	1927
Credit Risk (CVA included)	1634	1662
Market Risk	16	16
Operational Risk	247	249
Capital Adequacy Ratio	16,19%	13,62%

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

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

Values in HUF million	RWAs		Minimum capital requirements
	T	T-1	T
Credit risk (excluding CCR)	<b>1 602 218</b>	<b>1 471 654</b>	<b>128 177</b>
Of which the standardised approach	97 829	92 155	7 826
Of which the foundation IRB (FIRB) approach	0	0	0
Of which the advanced IRB (AIRB) approach	1 464 302	1 321 867	117 144
Of which MRA	0	0	0
Of which equity IRB under the simple risk-weighted approach or the IMA	40 087	57 633	3 207
CCR	<b>32 206</b>	<b>40 443</b>	<b>2 577</b>
Of which mark to market	31 586	39 875	2 527
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	620	568	50
Settlement risk	0	0	0
Securitisation exposures in the banking book (after the cap)	0	0	0
Of which IRB approach	0	0	0
Of which IRB supervisory formula approach (SFA)	0	0	0
Of which internal assessment approach (IAA)	0	0	0
Of which standardised approach	0	0	0
Market risk	<b>15 795</b>	<b>15 320</b>	<b>1 264</b>
Of which the standardised approach	15 795	15 320	1 264
Of which IMA	0	0	0
Large exposures	0	0	0
Operational risk	<b>246 588</b>	<b>246 796</b>	<b>19 727</b>
Of which basic indicator approach	0	0	0
Of which standardised approach	246 588	246 588	19 727
Of which advanced measurement approach	0	0	0
Amounts below the thresholds for deduction (subject to 250% risk weight)	0	0	0
Floor adjustment	0	0	0
<b>Total</b>	<b>1 896 807</b>	<b>1 774 214</b>	<b>151 745</b>

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

Values in HUF million	RWAs		Minimum capital requirements
	T	T-1	T
Credit risk (excluding CCR)	<b>1 629 891</b>	<b>1 497 390</b>	<b>130 391</b>
Of which the standardised approach	72 299	70 609	5 784
Of which the foundation IRB (FIRB) approach	0	0	0
Of which the advanced IRB (AIRB) approach	1 517 505	1 369 148	121 400
Of which MRA	0	0	0
Of which equity IRB under the simple risk-weighted approach or the IMA	40 087	57 633	3 207
CCR	<b>32 253</b>	<b>40 498</b>	<b>2 580</b>
Of which mark to market	31 633	39 930	2 531
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	620	568	50
Settlement risk	0	0	0
Securitisation exposures in the banking book (after the cap)	0	0	0
Of which IRB approach	0	0	0
Of which IRB supervisory formula approach (SFA)	0	0	0
Of which internal assessment approach (IAA)	0	0	0
Of which standardised approach	0	0	0
Market risk	<b>15 795</b>	<b>15 320</b>	<b>1 264</b>
Of which the standardised approach	15 795	15 320	1 264
Of which IMA	0	0	0
Large exposures	0	0	0
Operational risk	<b>249 454</b>	<b>249 454</b>	<b>19 956</b>
Of which basic indicator approach	0	0	0
Of which standardised approach	249 454	249 454	19 956
Of which advanced measurement approach	0	0	0
Amounts below the thresholds for deduction (subject to 250% risk weight)	0	0	0
Floor adjustment	0	0	0
<b>Total</b>	<b>1 927 392</b>	<b>1 802 661</b>	<b>154 191</b>

## Own funds and leverage ratio:

Table 4: Component of own funds

Components of own funds (HUF million)	K&H Group	K&H Bank
<b>OWN FUNDS</b>	<b>307 054</b>	<b>262 417</b>
<b>_ TIER 1 CAPITAL( TIER 1 OR T1 CAPITAL)</b>	<b>265 934</b>	<b>221 297</b>
<b>_ COMMON EQUITY TIER 1 CAPITAL (CET 1 CAPITAL)</b>	<b>265 934</b>	<b>221 297</b>
___ Capital instruments eligible as CET1 capital	<b>189 753</b>	<b>189 753</b>
___ Paid up capital instruments	<b>140 978</b>	<b>140 978</b>
___ Memorandum item: Capital instruments not eligible	-	-
___ Share premium	<b>48 775</b>	<b>48 775</b>
___ (-) Ow n CET1 instruments	-	-
___ (-) Direct holdings of CET1 instruments	-	-
___ (-) Indirect holdings of CET1 instruments	-	-
___ (-) Synthetic holdings of CET1 instruments	-	-
___ (-) Actual or contingent obligations to purchase ow n CET1 instruments	-	-
___ Retained earnings	<b>77 033</b>	<b>32 228</b>
___ Previous years retained earnings	<b>33 784</b>	<b>32 228</b>
___ Profit or loss eligible	<b>43 250</b>	-
___ Profit/loss attributable to ow ners of the parent	<b>43 250</b>	<b>43 028</b>
___ (-) Part of interim or year-end profit not eligible	-	- <b>43 028</b>
___ Accumulated other comprehensive income	<b>196</b>	<b>196</b>
___ Other reserves	-	-
___ Funds for general banking risk	<b>17 639</b>	<b>17 630</b>
___ Transitional adjustments due to grandfathered CET1 Capital instruments	-	-
___ Minority interest given recognition in CET1 capital	-	-
___ Transitional adjustments due to additional minority interests	-	-
___ Adjustments to CET1 due to prudential filters	<b>2 968</b>	<b>2 922</b>
(-) Increases in equity resulting from securitised assets	-	-
___ Cash flow hedge reserve	<b>3 428</b>	<b>3 428</b>
___ Cumulative gains and losses due to changes in ow n credit risk on fair valued liabilities	- <b>0</b>	- <b>46</b>
___ Fair value gains and losses arising from the institution's ow n credit risk related to derivative liabilities	- <b>4</b>	- <b>4</b>
___ (-) Value adjustments due to the requirements for prudent valuation	- <b>455</b>	- <b>455</b>
___ (-) Goodw ill	-	-
___ (-) Goodw ill accounted for as intangible asset	-	-
___ (-) Goodw ill included in the valuation of significant investments	-	-
___ Deferred tax liabilities associated to goodw ill	-	-
___ (-) Other intangible assets	- <b>16 109</b>	- <b>16 119</b>
___ (-) Other intangible assets gross amount	- <b>16 109</b>	- <b>16 119</b>
___ Deferred tax liabilities associated to other intangible assets	-	-
___ (-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	-	-
___ (-) IRB shortfall of credit risk adjustments to expected losses	- <b>5 546</b>	- <b>5 313</b>

___(-) Defined benefit pension fund assets	-	-
___(-) Defined benefit pension fund assets gross amount	-	-
___ Deferred tax liabilities associated to defined benefit pension fund assets	-	-
___ Defined benefit pension fund assets w hich the institution has an unrestricted ability to use	-	-
___(-) Reciprocal cross holdings in CET1 Capital	-	-
___(-) Excess of deduction from AT1 items over AT1 Capital	-	-
___(-) Qualifying holdings outside the financial sector w hich can alternatively be subject to a 1,250 % risk w eight	-	-
___(-) Securitisation positions w hich can alternatively be subject to a 1250 % risk w eight	-	-
___(-) Free deliveries w hich can alternatively be subject to a 1,250 % risk w eight	-	-
___(-) Positions in a basket for w hich an institution cannot determine the risk w eight under the IRB approach, and can alternatively be subject to a 1,250 % risk w eight	-	-
___(-) Equity exposures under an internal models approach w hich can alternatively be subject to a 1,250 % risk w eight	-	-
___(-) CET1 instruments of financial sector entities w here the institution does not have a significant investment	-	-
___(-) Deductible deferred tax assets that rely on future profitability and arise from temporary differences	-	-
___(-) CET1 instruments of financial sector entities w here the institution has a significant investment	-	-
___(-) Amount exceeding the 17,65 % threshold	-	-
___ Other transitional adjustments to CET1 Capital	-	-
___ Additional deductions of CET1 Capital due to Article 3 CRR	-	-
___ CET1 capital elements or deductions — other	-	-
<b>ADDITIONAL TIER 1 CAPITAL (AT1 CAPITAL)</b>	-	-
___ Capital instruments eligible as AT1 Capital	-	-
___ Paid up capital instruments	-	-
___ Memorandum item: Capital instruments not eligible	-	-
___ Share premium	-	-
___(-) Ow n AT1 instruments	-	-
___ (-) Direct holdings of AT1 instruments	-	-
___ (-) Indirect holdings of AT1 instruments	-	-
___ (-) Synthetic holdings of AT1 instruments	-	-
___ (-) Actual or contingent obligations to purchase ow n AT1 instruments	-	-
___ Transitional adjustments due to grandfathered AT1 Capital instruments	-	-
___ Instruments issued by subsidiaries that are given recognition in AT1 Capital	-	-
___ Transitional adjustments due to additional recognition in AT1 Capital of instruments issued by subsidiaries	-	-
___(-) Reciprocal cross holdings in AT1 Capital	-	-
___(-) AT1 instruments of financial sector entities w here the institution does not have a significant investment	-	-
___(-) AT1 instruments of financial sector entities w here the institution has a significant investment	-	-
___(-) Excess of deduction from T2 items over T2 Capital	-	-
___ Other transitional adjustments to AT1 Capital	-	-
___ Excess of deduction from AT1 items over AT1 Capital (deducted in CET1)	-	-
___ Additional deductions of AT1 Capital due to Article 3 CRR	-	-
___ AT1 capital elements or deductions — other	-	-

<b>TIER 2 CAPITAL (T2 CAPITAL)</b>	<b>41 120</b>	<b>41 120</b>
__ Capital instruments and subordinated loans eligible as T2 Capital	41 120	41 120
__ Paid up capital instruments and subordinated loans	41 120	41 120
___ Memorandum item: Capital instruments and subordinated loans not eligible	25	25
___ Share premium	-	-
___ (-) Own T2 instruments	-	-
___ (-) Direct holdings of T2 instruments	-	-
___ (-) Indirect holdings of T2 instruments	-	-
___ (-) Synthetic holdings of T2 instruments	-	-
___ (-) Actual or contingent obligations to purchase own T2 instruments	-	-
__ Transitional adjustments due to grandfathered T2 Capital instruments and subordinated loans	-	-
__ Instruments issued by subsidiaries that are given recognition in T2 Capital	-	-
__ Transitional adjustments due to additional recognition in T2 Capital of instruments issued by subsidiaries	-	-
___ IRB Excess of provisions over expected losses eligible	-	-
__ SA General credit risk adjustments	-	-
__ (-) Reciprocal cross holdings in T2 Capital	-	-
___ (-) T2 instruments of financial sector entities where the institution does not have a significant investment	-	-
___ (-) T2 instruments of financial sector entities where the institution has a significant investment	-	-
___ Other transitional adjustments to T2 Capital	-	-
__ Excess of deduction from T2 items over T2 Capital (deducted in AT1)	-	-
___ (-) Additional deductions of T2 Capital due to Article 3 CRR	-	-
__ T2 capital elements or deductions — other	-	-

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

<b>Leverage ratio</b>	<b>2018.09.30</b>
SFT exposure according to CRR 222	15 296
Derivatives	156 171
Undrawn credit facilities, which may be cancelled unconditionally at any time without notice	130 259
Medium/ low risk trade related off-balance sheet items	22 392
Medium risk trade related off-balance sheet items and officially supported export finance related off-balance sheet items	438 924
Other off-balance sheet items	363 654
Other assets	3 240 430
Tier 1 capital	265 934
Regulatory adjustments	-13 141
<b>Leverage ratio</b>	<b>6,11%</b>

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

<b>Leverage ratio</b>	<b>2018.09.30</b>
SFT exposure according to CRR 222	15 296
Derivatives	156 176
Undrawn credit facilities, which may be cancelled unconditionally at any time without notice	129 861
Medium/ low risk trade related off-balance sheet items	62 371
Medium risk trade related off-balance sheet items and officially supported export finance related off-balance sheet items	241 494
Other off-balance sheet items	507 004
Other assets	3 263 506
Tier 1 capital	221 297
Regulatory adjustments	-13 197
<b>Leverage ratio</b>	<b>5,07%</b>

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

	RWA amounts	Capital requirements
RWAs as at the end of the previous reporting period	1 321 867	105 749
Asset size	129 137	10 331
Asset quality	-34 042	-2 723
Model updates	52 093	4 167
Methodology and policy	0	0
Acquisitions and disposals	0	0
Foreign exchange movements	-4 753	-380
Other	0	0
RWAs as at the end of the reporting period	1 464 302	117 144

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

	RWA amounts	Capital requirements
RWAs as at the end of the previous reporting period	1 369 148	109 532
Asset size	133 279	10 662
Asset quality	-32 181	-2 574
Model updates	52 093	4 167
Methodology and policy	0	0
Acquisitions and disposals	0	0
Foreign exchange movements	-4 834	-387
Other	0	0
RWAs as at the end of the reporting period	1 517 505	121 400