



**K&H Group
sustainability report 2009**

„Our efforts for the environment and society are driven by our intention to achieve and improve our business results while contributing to members of society being able to live life to the full.”

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→ colophon

K&H Group

Address: 1051 Budapest, Vigadó tér 1.

Postal address: 1851 Budapest

Telephone: (06 1) 328 9000

Fax: (06 1) 328 9696

e-mail: bank@kh.hu

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Hendrik Scheerlinck, CEO

I. address to the reader



➔ Dear Readers,

On behalf of the K&H Group, let me thank you for your interest in our fourth annual CSR report, in which we present the efforts we made in 2009 for social, environmental and economic sustainability.

As the second largest financial institution in Hungary, we realized years ago that it is also essential for us to contribute to protect and develop our social and natural environment.

We believe that at a time of economic recession there is an even greater need for responsible economic thinking, prudent and future-oriented operation. We know that social responsibility does not merely mean that we support good causes; it is far more than that. Being a responsible institution, we strive to strengthen all aspects of this concept, from client service through product development to taking care of our employees. For this reason, as of the beginning of 2009 our social responsibility activities are supervised and managed by the CSR Committee, a professional body comprising representatives of all of our subsidiaries and divisions.

We consider it a success that despite the unfavourable economic environment our CSR strategy was not impeded and we could demonstrate achievements in all four key CSR areas also in 2009. Our outstanding performance in environmental protection – the development of “green branches” and the elimination of freon from all our

buildings – was also appreciated in professional circles. The development of our environment-friendly new head office is also in progress, which will allow us to provide modern and friendly workplaces to our employees. To create attractive workplaces, our career development and training programs, as well as the “welcome back” program meant to help young mothers returning back to work, are still available for our colleagues and we also took steps to improve our employees’ work-life balance. As a dedicated supporter of sports, K&H successfully organized the “Olympic running days” event series enjoying the active participation of large numbers of people. We are also happy to report that we extended our cooperation with the Hungarian Olympic Committee and the Hungarian Paralympic Committee for another 4 years. Last but not least, we are proud to say that for the 6th year now we have been aiding the work of many paediatric institutions through the K&H magic cure program, helping children to become healthy and to be able to play and learn again.

We trust that our commitment and our efforts in the area of corporate responsibility will also inspire other players in the community.

Hendrik Scheerlinck
CEO

Budapest, June 2010



II. introducing K&H Group

→ **board of directors of K&H Bank**

(as at December 31, 2009)

Béla Singlovics (chair)

John Hollows

Dirk Mampaey

Ronny Delchambre

Theo Roussis

Ignace Gheysens

Marko Voljč (CEO of K&H Bank)

dr. Ágnes Bába (deputy-CEO of K&H Bank)

→ **board of supervisors**

Riet Docx (Chair)

Dirk Laureyns (KBC)

Mrs Attila Amberboy-Kiss (customer relationship manager of K&H Bank)

→ **definitive supervisory board of K&H Insurance**

Johan Daemen (Chair)

Walter Bogaerts

Marko Voljč

→ **shareholders of K&H Bank**

(As at 31 December 2009)

KBC Bank N. V.: 100%

no. of retail branches: 242

no. of corporate branches: 20

auditor: Ernst&Young

→ **shareholders of K&H Insurance**

(As at 31 December 2009)

KBC Insurance N. V.: 100%

→ **membership in professional organisations**

Hungarian Banking Association

American Chamber of Commerce in Hungary

Dutch Hungarian Chamber of Commerce (Eunite Kft.)

Somogy County Chamber of Commerce and Industry

Hungarian Enterprise Development Foundation

Agricultural Businesses' Credit Guarantee Foundation

Hungarian Venture Capital and Private Equity Association

Hungarian Forex Club

International Swaps and Derivatives Association (ISDA)

International Chamber of Commerce (ICC)

Bank Security Working Group of the Hungarian Banking Association

IIA

ISACA

Komárom-Esztergom County Chamber of Commerce and Industry

Financial Research Plc

Fejér County Chamber of Commerce and Industry

Csongrád County Chamber of Commerce and Industry

Hungarian Facilities Management Association

The Trilateral Commission (Europe)

Academic Club Association

Deloitte Zrt.

Hungarian Association of International Businesses

Panac Automotive Industry Cluster Division

Project Management Institute (PMI)

Hungarian SEPA Association

SALDO Pénzügyi Tanácsadó és Informatikai Zrt.

Project Finance Club K&K pro Bt.

Hirös Kulcs Kamarai Gazdaságfejlesztő és Szervezői Kft.

SOL Hungary Learning For Sustainability Foundation

→ **stakeholders identified**

- the community
 - general public
 - local communities
 - government/municipalities
 - educational institutions
 - consumer protection agencies
 - community media networks
 - regulators
 - (financial, labour, urban planning)
 - industry and commerce associations
- clients
 - clients with a complaint
- employees
 - trade unions
 - potential employees, graduate students, undergraduates training in finances
- suppliers
- media
- financial analysts
- shareholders, investors



CSR Committee

In order to monitor the implementation of the CSR strategy and guidelines, and to coordinate CSR activities across the entire organisation, K&H Group's Executive Committee decided to set up a body that oversees CSR in all subsidiaries and business lines. The K&H Group Corporate Social Responsibility Committee, or K&H CSR Committee, was formed in early 2009.

In line with KBC Group's policy and practice, CSR management and supervision were transferred from the Communications Directorate to the Operational Risk Directorate in late 2008, indicating that CSR is considered much more than a communication task: it is regarded as a company-wide process, which is vital to the organisation's health and future. Its absence or malfunction can cause severe damage to the company, i.e. it represents an operational risk. Therefore it is essential that every member of the organisation should be aware of the sustainability guidelines and know how to implement them at the business as well as the personal level.

The Committee is made up of delegates from all directorates and business areas directly involved in CSR, including the major lines and subsidiaries as well as the "servicing" and controlling functions. This is useful for more than one reason: compliance with, and the promulgation of, the guidelines is more straightforward and people are easier to get involved through personal

example than via written instructions; everyone has the opportunity to give their input to the formulation of the guidelines and the strategy. Moreover, CSR tasks and responsibilities are clearly defined for everyone in the organisation – not just for Committee members.

The CSR Committee meets three times a year; the Chair is entitled to convene extraordinary meetings if necessary. Each meeting will invite a specific business line or area as a guest to tell the Committee about their CSR actions. The Committee members and the guests are entitled to make proposals, which are discussed by the Committee and then the decision is forwarded to the relevant business line.

Although the Committee was formed in 2009, it has already put much emphasis on CSR at K&H Group.



III. responsibility towards the community

→ environment protection

Although K&H's core activity is not particularly polluting, the Group lays great emphasis on environmental awareness with respect to itself and its partners. We have several initiatives underway to reduce the emission of greenhouse gases, which have been put into practice gradually since our energy management and rationalisation programme began three years ago.

→ efficient use of resources

An important element of the programme is the reduction of energy consumption, which is aided by a package of measures independent of the users and the employees. In a network-wide heating upgrade campaign we install inverter air conditioners, programmable thermostats and modern boilers. We also gradually replace conventional light sources with energy saving ones. We keep power consumption under control: an increasing number of units are integrated in our remotely managed network, which allows central management, control and intervention. We are keen on promoting frugality in the use of resources, especially energy: for instance, employees are reminded to fully switch off their computers outside working hours.

In 2009, we launched an initiative which is aimed at the replacement of the current company signs with ones using LED technology.

→ energy consumption

After the success in 2008, K&H went in for the European Energy Trophy in 2009 again, involving some 60% of its branch network. The results are still being released, but it is already a fact that our energy consumption decreased by 16% on the same period last year. This means that although there are 14% more branches now and electricity prices have also increased by 4-6%, our electricity bills remained by and large the same as in 2008.

→ green branches

One of K&H Group's initiatives with a focus on the future is the creation of green branches to fight climate change. After a pilot conversion in 2008, K&H turned four branches – two in Budapest and one in Vác and Fehérgyarmat each – green in 2009. The green branches do not use any fossil energy at all and therefore they do not pollute the atmosphere. All branches built after 2003 have been made to comply with EU standards and thus are CFC-free, but the older ones need an upgrade.

→ green fleet

The banking group replaced its entire fleet in 2008: its 470 vehicles are all equipped with low-CO₂-emission diesel engines complying with the EURO 4 standard. The Group is committed to operating vehicles of at least

such green capabilities. The fuel of these vehicles contains more than 4.4% bio components. The green fleet releases some 25% less emission.

Another aim of ours is to reduce the emission related to business travel by more efficient route planning and advising our drivers on economical driving.

→ new head office

Two elements of K&H Group's sustainability strategy: environmental protection and the creation of an attractive workplace feature in the development of the new head office. The engineering, electric, acoustic, ergonomic and technical solutions as well as the green roof gardens and terraces will all contribute to an environmental operation. Thanks to the use of renewable sources, the new office building is expected to use 30-40% less energy. The share of alternative sources will be some 10-15%, partly as a result of solar collectors. Up-to-date solutions and an uncompromising application of environmental principles will create a workplace that is modern, dynamic, healthy and inspiring at the same time.



→ **environmental objectives for this year**

We continue our green-branch programme – we will turn another four branches environmentally friendly this year. We also want to make all cooling equipment free of CFCs and switch to LED technology in our external company signs by the end of 2010.

→ **environmental data**

paper and water consumption				
	2009		2008	
	FTE	consumption	FTE	consumption
paper (t)	4,373	667	4,523	936
water (m ³)	4,373	41,088	4,523	40,224

Our paper consumption was 269 tonnes less in 2009 than the year before, while our water consumption increased by 864 m³, or from 8.9 m³ to 9.39 per-capita and per year.

→ **waste**

waste generated and disposal (tonnes)	2009	2008	2007
total waste	1,922	1,914	2,565
recycled	149	223	122
incinerated	26	22	585
dumped	1,747	1,669	1,980

The amount of waste recycled dropped because we buy fewer newspapers and print much less than we used to in earlier years.

→ **greenhouse effect**

greenhouse gas emission, 2009			
	annual gas consumption	CO ₂ emission	CO ₂ emission
from direct energy consumption	GJ	tonne/GJ	tonne
gas consumption:	37,084	0.0561	2,080
diesel consumption:	0	0	0
total:	37,084	0.0561	2,080
from indirect energy consumption			
electricity consumption	65,520	0.1019	6,679
other energy (district heating)	39,619	0.0561	2,223
total			8,902
grand total			10,982

has donated medical equipment worth HUF 294,6 mln to 98 hospitals and ambulance services since its beginning, of which HUF 150 mln was granted on applications. In 2009, we supported 23 children's healthcare institutions with HUF 53 mln, because K&H knows that smart decisions can only be made, even by physicians, if the circumstances do not dictate compromises – this is how K&H wishes to ensure a full life for everybody.

In 2009, 99 paediatric healthcare institutions (19 from Budapest and 80 from other regions) applied for grants. The jury awarded a total of HUF 25 mln to eight institutions; that money now helps medical staffs' work in seven counties.

→ **grant winners in 2009:**

- Baja City Hospital, Neonatal and Paediatric Department, Baja
- National Ambulance Service, Budapest
- SE ÁOK Children's Hospital I., Child and Adolescent Psychiatry Department, Budapest
- Kenézy Hospital and Surgery Health Service Kft, Debrecen
- Borsod-Abaúj-Zemplén County Hospital, Miskolc
- Tolna County Municipal Balassa János Hospital, Paediatric Department, Szekszárd
- Dr. Bugyi István Hospital, Szentes
- Fejér County Szent György Hospital, Neonatal and Paediatric Department, Székesfehérvár

→ **community involvement**

paediatric healthcare

→ **K&H MediMagic**

Six years old in 2009, the K&H MediMagic programme

Just like in recent years, K&H Group reallocated funds originally earmarked for client gifts to charity in 2009: it bought medical equipment for HUF 8 mln as a Christmas present to four healthcare providers caring for children.

→ **the beneficiaries:**

- Bethesda Children's Hospital of the Hungarian Reformed Church, Budapest
- Orosháza City Hospital, Orosháza
- OMSZ Túrkeve Ambulance Service, Túrkeve
- OMSZ Baktalórántháza Ambulance Service, Baktalórántháza

K&H MediMagic does not only donate money: it organised 15 entertainment events in hospitals in 2009 to bring some colour into the lives of the little inpatients.

→ **our employees' involvement**

Our employees play a part in the K&H MediMagic programme too, be it either donation or active participation. In 2009, our colleagues offered HUF 540,000 from the employer's contribution to Christmas parties for charity. That money bought vital equipment for Karolina Hospital and Surgery, Mosonmagyaróvár.

Other donations included paper houses, children's entertainment and Santa's gifts for little inpatients treated at the Gottsegen György National Institute of Cardiology, Budapest, and at the National Institute of Neurology.

→ **our clients' contribution**

We continued our bank card programme throughout 2009, whereby we set aside one forint on every HUF 1,000 K&H Mastercard purchase for the treatment of children. The resulting HUF 16 mln, HUF 3.5 mln more than in 2008, was spent on medical equipment requested by six institutes.

→ **the institutions:**

- National Health Care Centre of the Ministry of Defence, Central Department of Obstetrics and Gynaecology, Budapest
- National Institute of Neurology, Department of Infant and Paediatric Neurosurgery, Budapest
- St. Pantaleon Hospital, Infant- and Paediatric Department, Dunaújváros
- National Ambulance Service, Encs Ambulance Station, Encs
- Szatmár-Bereg Hospital and Spa, Fehérgyarmat-Vásárosnamény
- National Ambulance Service, Sümeg Ambulance Station, Sümeg

K&H client Podium Productions offered 200 complimentary tickets to the Disney on Ice production, to be distributed among the patients of the Pető Institute. The same institution received exercise tools from K&H SME client Gravoform. OMSZ Zirc Ambulance Service got more than HUF 0.5 mln thanks to K&H's private banking clients.

Health is essential to living a full life, and the road to health is – at least partly – through our soul! A story-book, a doll, a toy car catches a child's attention, making the physician's job easier. K&H and one of MediMagic's media partners took up a collection in 2009 which resulted in the donation of some 1,400 story-books and toys, which in turn were distributed among ten institutions throughout the nation. Similar donations were gathered by the Békéscsaba, Cegléd, Esztergom and Nyíregyháza branches before Christmas, and the nearly 700 items collected there were offered to the little patients of local children's hospitals.

sport

Besides the environment, paediatric healthcare and the creation of an attractive workplace, sport is an important domain of K&H Group's social responsibility.

→ **mass sport**

A devoted supporter of sports, K&H Group organised the K&H Olympic Running series again in 2009. The spring saw the Dunaújváros, Veszprém and Kecskemét races, followed by the usual Marathon and half Marathon in Budapest. After the summer break it was again the capital that played host to the K&H Night Run in September; then the series continued in Szeged and finally arrived at Kaposvár. All in all, some 23,000 people participated in the races!

Happily for us, more and more of our colleagues take up the challenge and cover the long miles.

→ **Olympics, Paralympics**

K&H has been a sponsor of the Hungarian Olympic and Paralympic teams for years as we seek the same objective as the athletes: excellence – excellence in giving financial assistance to our clients.





→ **Financial Institution of the Hungarian Olympic and Paralympic teams**

Despite the economic hardships, we decided that our commitment to sports was a long-term value, and prolonged our contracts with the Hungarian Olympic Committee and the Hungarian Paralympic Committee for four years in 2009. We have been sponsoring the former for eight and the latter for three years. According to the new agreements, K&H will be a Gold-Level Principal Sponsor of the Hungarian Olympic team and a Silver-Level Sponsor of the Hungarian Paralympic team until 2012. The sponsorship covers the provision of financial services to the teams and financial support for the athletes so that the best can turn their full attention to preparation for the Olympics.

→ **K&H card programme for Olympic and Paralympic athletes**

The Olympic and Paralympic card programme started in autumn 2006. For every HUF 1,000 spent with a K&H Visa Classic embossed debit bank card K&H sets aside one forint from its own profit. From the fund so raised the Bank pays lump-sum grants to two excelling Olympic and one Paralympic athletes in every six months. In

the fifth round of the programme wrestler Zoltán Fodor, short-track speed skater Erika Huszár and swimmer Tamás Sors were granted HUF 1 mln each to support their preparation for the games. The sixth round took place in the second half of 2009. The recipients of the HUF 1 mln grants were swimmer Dániel Gyurta, pentathlete Ádám Marosi and wheelchair fencer Gyöngyi Dani. The grantees are selected by a jury in consideration of their sports results, sportsmanship and human qualities, and expected performance.

A total of HUF 18 mln was raised by the card programme and granted to 18 athletes between 2006 and 2009.

performing arts

→ **K&H: banker of the “Sziget” Festival**

As part of the implementation of its long-term sponsorship strategy, K&H has held the title ‘Banker of the “Sziget” and sponsored the festival for five years. In 2009, K&H Group set up an Information Point for the audience, where everyone could choose their favourite programmes with the help of our advisers. K&H’s giant screen advertised the programmes of the day, showed live reports from the different stages and interviews with the artists, as well as gripping behind-the-scene pictures. Members of the audience could seek financial advice in the Sziget branch every day and had access to ten K&H ATMs 24 hours a day. Those who could do with a little exercise found recreational facilities at the K&H sports terrace.

youth education

K&H has been active in more than one way in disseminating the knowledge of basic financial concepts, making it easier for people to find their way and make smart financial decisions. One major target group of this educational mission is the young.

K&H paid out an aggregate amount of HUF 2.14 mln to 14 educational institutions through foundations in 2009 (this amount includes both direct and indirect grants). On top of that, we provided development support in amount of HUF 67.12 mln to 165 institutions.

With K&H's sponsorship, 2006 saw the release of an animated film series, "Ez kész! Pénz!" /C(r)ash Course/, aimed at getting the young acquainted with basic economic and financial concepts in a simple and funny way. To secure it the greatest possible penetration K&H decided to distribute 4,000 DVD copies of the series among elementary schools in autumn 2009. To lend teachers a hand, K&H accompanied the DVDs with teachers' guides with entertaining assignments for the different age groups to help drive home the basic concepts.

K&H Group also decided to organise a competition for elementary school pupils, who were invited to make short films reflecting on the message of the cartoon series and the theme of money in general. The winner got HUF 150,000, the second HUF 100,000 while the third as well as the winners of the two special awards HUF 50,000 each (gross amounts); the prizes were paid to K&H Trambulín accounts opened for the recipients. The school

with the highest number of films made was provided with computers in the value of HUF 1,000,000, and two other very active schools received HUF 200,000 each.

new art collection

In 2008, K&H Bank decided to sell its old art collection and build a new one along guidelines defined by the best of Hungarian art, which better reflects K&H's values. This new collection, which will be one of Hungary's finest contemporary corporate collections, will be bought from the proceeds of the old one, thus recycling the entire value into Hungarian art.

The new collection, the motto of which is "**Art for a better and more meaningful world**", will better suit the prime values embraced by K&H: dynamism, the ability to renew oneself, a sensitivity in our reactions to new challenges and the creation of long-term value, in other words reliability.

Part of the collection will be obtained in an unconventional way: K&H has started a support programme for the youngest generation of artists, whereby winner applicants are granted HUF 125,000 a month for six months after which one or more works by each artist will be included in the collection. In 2009, nearly 150 young artists applied for the art grant, and the professional jury selected painter Krisztián Sándor and graphic artist Gábor Födő. The first 24 pieces of the "Art for a better and more meaningful world" collection were displayed at a public exhibition in autumn 2009.

IV. responsibility towards employees



→ labour

K&H Group considers employees its most important resource and is convinced that it can only be successful if supported by satisfied, motivated and highly skilled workers. Therefore it works towards a harmony between employees and corporate expectations in every respect of human resources management.

→ human resources development, information management

We offer a wide range of training courses to our employees: management and sales trainings, language and computer literacy courses, skills and professional training courses. In 2009, more than 400 professional courses, taking up the equivalent of 29,043 working days, were offered at group level focusing on market monitoring and follow-up, as well

as skills development, sales and management. That is an average of seven days per head of workforce. These trainings cost more than HUF 400 mln, or more than HUF 100,000 per employee.

Sales continued to be paid special attention in the 2009 human resources development efforts. The sales training for the retail branch network proved particularly successful: 1,700 participated, with altogether 7,200 training days. The development programmes, which were aimed at not just individual needs but team ones too (competences, languages, team cohesion, management, workshops), accounted for 3,400 days. Encouraged by the positive feed-back of previous years, we held an orientation day for new entrants in 2009 again to get them acquainted with the Group and its corporate culture, and to widen their professional knowledge.

The Group supported 187 employees in 2009 with money and shorter working hours to allow them to get their degrees or diplomas.

→ career planning and development

We continued to offer several career development programmes in 2009, ensuring that the key positions are occupied by talented and competent employees. The second round of the K&H Young Talent Programme (YTP) was completed by 11 persons. Furthermore, the KBC Talent Bank and the K&H YTP initiatives have been harmonized, and the talents will be developed under

the auspices of the KBC Talent Bank in the future. The first year of the K&H network management programme was completed successfully with the third round, with the participation of 15 talents in 2009.

We offer diverse career development opportunities. Executives attend our Leadership Academy, and we prepare individual development plans for talented young persons. Development includes professional workshops and multi-level leadership/skills trainings, and personal coaching/mentoring is also available to our executives and key experts.

→ young mothers programme

We continued our “welcome back” programme, started in 2007, which is aimed at the mitigation of stress and striking the right balance between work and private life. 358 participated in this programme, which aids young mothers returning from child-birth leave. In 2009, 84 employees wanted to return to K&H. 51 of them, or 60.7%, had the opportunity to do so. This is a decline on the previous year (2008: 77%); unfortunately, the recession has slowed down fluctuation and decreased the number of vacancies. At K&H Insurance, the “welcome back” programme is supplemented with a Brendon voucher of HUF 30,000 granted for every child-birth, while at K&H, HUF 30,000 social support is provided to young mothers.

→ blood donation

The National Blood Service organised four donations at



the Vigadó tér head office in 2009; our employees gave 120 units, or 54 litres, of life-saving blood.

→ ergonomic displays

One of K&H's prime objectives is to create an ergonomic and pleasant working environment. It was for this reason that K&H replaced the Bank's monitors with modern, less eye-tiring LCD displays in the years before 2009. The displays of K&H Insurance will be replaced together with the PCs by the end of the third quarter this year.

→ benefits

Our employees enjoyed wide ranging benefits in 2009. The system of remuneration did not change significantly compared to the previous years, however, more attention was paid to the evaluation of performance inasmuch as both bonuses and pay rises were more closely linked to results.

The benefits fall into two main groups: general benefits and optional benefits. General benefits include compulsory and ad hoc health screenings, social relief, housing and personal loans. Employees are offered a bank-account and bank-card package with reduced costs, and each colleague receives hot-meal tokens in the amount of HUF 6,500 a month in addition to cafeteria. Employees are provided with group risk life insurance and can also benefit from reduced premiums at K&H Insurance. The Group spent HUF 1.68 bln, on optional benefits like cafeteria in 2009.

Optional benefits include, among others, health-fund contributions, contributions to voluntary pension fund payments, life insurance and unit-linked plans, holiday contributions, education contributions, housing subsidies and local public transport contributions. Those with little children can opt for the school-year-starting benefit.

There was no general wage increase in 2009.

→ internal communication

The company is keen to maintain two-directional communication within the organisation about the issues concerning the employees and the company as a whole. The most popular means of internal communication are: the intranet, 'All staff' LoNo messages, the company weekly 'K&H Csportkép', the quarterly 'Kapocs' – dealing mainly with HR issues –, and the project- and business line-specific newsletters. Our colleagues asked altogether 61 questions from the K&H Country Team at the Country Team Forum, a means of feedback, in 2009.

→ trade union

1,600 employees of K&H Group are members of the K&H Trade Union, which has another 1,100 retired members. The K&H Trade Union provided social relief to some 1,000 people in 2009.

The company and the trade union discuss the employee benefits and the bonus system each year, and the trade union is always consulted before decisions affecting employees at the regular trade union meetings.



The Central Works Council numbers 13, while the Work Protection Committee comprises three. Both bodies met twice in 2009, as required by the law.

The company sports event, K&H Olympics, was organised jointly by the HR Directorate and K&H Trade Union in 2009, with the participation of some 1,000.

→ health protection

Pre-employment and regular medical clearance examinations are available to all employees. In addition to occupational healthcare examinations, specialist examinations and treatments are also available in the Budapest surgeries. These medical check-ups can diagnose several health problems at an early stage. Other specialist consultations available in the Vigadó tér surgery include ophthalmology, gynaecology, rheumatology, internal medicine, dermatology and otolaryngology.

→ patient numbers

examination	2008	2009
occupational healthcare in Budapest	2,285	1,584
specialist examination	1,612	1,625
examinations in surgeries outside Budapest	1,059	1,120

Another 500 persons were screened at the K&H Olympics.

→ pandemic recovery plan

Our responsibility for our employees also involves the monitoring of epidemics and the information of our employees about the spreading of epidemics, the potential dangers involved and the possible treatments

available. In line therewith, in 2009 – following the guidelines formulated in the national pandemic recovery program – we developed K&H's own pandemic recovery plan. In the course of 2009, in connection with the spreading of the H1N1 virus, our employees received information on several occasions about the dangers of the flue virus and the possible methods of protection against it. In addition, K&H also supported the protection of its employees' health by procuring hygiene tools (antiviral liquid hand soap) and offering the possibility of vaccination within the framework of a central scheme. The plan covered all solutions applicable in a pandemic situation that may help reduce personal contact, thereby hindering the spreading of the virus.

→ work safety, bank security

In 2009, a total of 2,236 employees were trained in fire protection and work safety. 68 employees participated in orientation trainings and 150 in other trainings on bank security. Five colleagues had some work accident and 14 met with road accidents.

→ equal opportunities / human rights

A respect for human rights is an integral part of the Bank's corporate culture and labour policy. The rights established in the Collective Agreement are recognised in our everyday HR procedures.

→ statistics on workforce composition

group organizational structure - according to sex, work time and age	31 Dec. 2008	31 Dec. 2009
executive / of this, female:	133 / 44	137 / 44
low- and middle-level manager / of this, female:	2,560 / 1,678	2,545 / 1,676
employee / of this, female:	2,156 / 1,859	2,019 / 1,737
indefinite-period:	4,831	4,689
definite-period:	18	12
active:	4,400	4,261
inactive:	449	458
male:	1,269	1,244
female:	3,580	3,457
full-time: (100%)	4,756	4,599
part-time: 80%-100%	6	68
part-time: < 80%	87	53
total active workforce:	4,400	4,261

→ other statistics on human resources

- average age: 38.2 years
- average term of employment: 9,35 years
- absenteeism (reasons, days)

	2008	2009
injury	463	646
illness	39,391	38,617
childbirth	89,285	81,812
other paid (including regular leave)	113,157	118,752
other unpaid	7,670	6,289
total	249,966	246,116

- in 2009, 97% of the Bank's and 87.4% of the Insurance Company's employees took 10 days of uninterrupted vacation, as opposed to the 2008 figures of 85% and 80.7%, respectively.

→ fluctuation

	Banking Group (%)		K&H Insurance (%)	
	2008	2009	2008	2009
total terminations	12	3.9	9.4	6.6
voluntary terminations	7	3.6	7.5	4.7

In order to improve retention the company continuously monitors internal transfer opportunities, offers clear career paths, adjusts salaries to market medians and remunerates professional excellence with outstanding



pay. In general, we strive for tying salaries and bonuses to performance and offering the best possible working environment. Those who still leave can fill out an "Exit Interview Form", and these are assessed every six months. More than half of those leaving choose to complete the form.

Owing to the economic recession, some streamlining was unavoidable. Still, there were no drastic job cuts; in fact, we cut back on the workforce only when we quitted retail vehicle leasing at the end of 2008 and when we had to suspend foreign-currency lending in August 2009. These cuts affected only 3,18 per cent of the payroll, though. We are keen on preserving jobs and keeping up the level of employment.

In 2009, 64 persons resorted to our caring severance service, which includes career counselling, psychological and life management advice, training advice, social and training grants and job-seeker training.

→ **potential employees, graduates and undergraduates training in finances**

We regard the young generations important stakeholders as it is them who will be our future employees. In 2009, we employed 34 student interns. In order to find and attract young talents we attend job fairs and operate a successful internship programme for new entrants. In 2009, four talented university graduates were admitted into this special programme.

K&H pays them competitive salaries, and they enjoy excellent working conditions and their development is furthered by different dedicated training courses.

V. responsibility towards the clients



Sustainability efforts are also reflected in the management of clients, as well as in the products and services offered by K&H. We support the suitable and responsible servicing of our clients with K&H e-banking and telephone customer services, personal client management, the provision of correct information and the simplification of administrative processes. We have launched a debtor protection programme for clients affected by the crisis. We are following a prudent lending policy, and in our activities and in the management of clients we are striving to conduct ourselves in line with the rules of ethical business behaviour.

→ development of services

→ talking cash machine (ATM)

Out of the 454 ATMs K&H had in 2009, 322 had been especially developed for blind clients and clients with impaired sight. This year the number of such ATMs has reduced by 45 compared to last year, the reason being that the previous Diebold ATMs have been replaced with NCR ones, which do not yet have this function.

→ K&H e-bank

By the end of the year, nearly 275 thousand clients were using popular and easy-to-use K&H e-banking services, which represents significant growth compared to the previous year, when 200 thousand people were using this service. We are offering almost the entire range of our services via this channel, which is in fact an alternative to

branch servicing. In 2009, we established an integrated client identification system by introducing K&H "me ID".

→ K&H e-zone

The K&H e-zone terminal continues to make banking easier in 18 branches. In addition to paying yellow payment slips, clients use the K&H zone terminal most often for topping up their mobile phone balance and making one-off transfers.

→ accessibility initiative

We managed to make an additional two branches accessible by wheelchair. As a result, now 70% of our client areas are accessible by disabled people.

In planning and developing the new head office, we fully took into consideration the reduced mobility of disabled clients. The personal entrances of the new office building – including branches and customer service areas – will be accessible by disabled clients. On the individual office levels we shall establish toilets for disabled clients in the number and position required by relevant regulations. We shall also establish separate parking spaces for disabled clients arriving by car in the underground garage, close to the elevators.

→ product, services

→ K&H socially responsible fund

In January, 2009 K&H launched its socially responsible capital and yield-protected, closed-end fund. The



companies behind this fund comply with the strict selection criteria of social responsibility. In addition, these companies are also significant organisations beyond social consciousness, which could be good investment targets individually as well. The value of registered capital approached 1 billion HUF.

This way we already have 6 current capital and yield-protected funds where social responsibility plays an important part in the underlying investment. This means that the share baskets of funds offering the possibility of extra yield may only contain the shares of companies which have passed a so-called SRI (social responsible

investment) filter which ensures that these companies also operate in an ethically flawless way. This means that they do not participate in certain industries such as gambling, the military sector, weapons and tobacco manufacturing; and they respect human and employee rights in their operation.

We have issued 4 eco funds, which all have the unique feature of offering a share of the stock market performance whilst combining traditional financial/economic valuation with social, ethical and environmental protection criteria. There are companies behind these funds that are active in the development



of alternative energy resources and techniques reducing carbon dioxide emission, and draw profits from water management-related projects.

The **K&H MediMagic health funds** – issued in HUF and EUR alike – offered a share of the rate gains of stocks pertaining to the largest pharmaceutical and medical supplies manufacturers, in a capital and yield-protected format.

Thus, funds where social responsibility plays a major part hold assets of over 12 billion HUF.

→ **the K&H ecological fund is still on offer**

The K&H ecological fund has been on offer by K&H for over 2 years. This is an open-ended, share-type fund. Resulting from the open nature of the fund, investments may be purchased or redeemed at any time. This ensures that our investors are continually offered investment opportunities where social responsibility and ecological

thinking play a part. This product requires a certain level of risk-taking, and therefore we offer it to our more risk-tolerant clients.

Similarly to capital and yield-protected funds, this fund is also backed up by the performance of companies that are active in the development of alternative energy resources, provide solutions that reduce carbon dioxide emission or participate in water-management projects.

→ helping clients

2009 was the year of the crisis, when economic conditions evolved unfavourably. As a responsible financial institution, we are using all of our power and all of the tools available to us to maintain our client relationships, to adapt to our clients' changing circumstances, and to offer all the help we possibly can. In order to keep wild exchange rate fluctuations at bay and to eliminate or mitigate risks, K&H has, for years, been offering the option of converting long-term FX loans to HUF. If due to a drop of income, loss of job or permanent reduction of liquidity the client hits repayment difficulties, it is also possible to adjust the loan's maturity, and the resulting instalment will be less of a burden on the family budget – sometimes in the long term as well. As another concession, we have also offered to waive any fees chargeable for the conversion of FX loans into HUF and the extension of the tenor. We were also one of the first organisations to introduce

the so-called 'debtor salvage package' in March 2009 to those struggling with repayment difficulties. This package fully takes into consideration the client's individual and social circumstances and status, offering individually customised repayment instalments for the following 1-2-year period. This solution can be very helpful to families or individuals where one or more of the breadwinners become unemployed, and can save families from slipping into the red month by month. We can also say that, thanks to our cautious lending policies, only a very small fraction of our borrowing clients have had to participate in this programme.

In 2009 we were one of the first organisations to sign the Ethical Code focusing on the ethical behaviour, towards clients, of financial organisations lending funds to consumers.

In 2009 we also signed the recommendation of the Hungarian Banking Association that makes the switch between various retail bank accounts easier for clients.

Out of the 150 000 loan contracts collateralised by real estate, we have been forced to terminate or cancel the loan and mortgage contract in a mere of approximately 900 cases, which represents 0.5% of the total portfolio. In the year of 2009 there was not a single case when we had to forcibly remove a debtor or a mortgage obligor from real estate put up as collateral as a result of a judicial enforcement initiated by the Bank.

In the March 1, 2009 to December 31, 2009 period there were 5827 transactions concerning which we



passed a decision where, as a result of a debtor's changed financial circumstances or other factors resulting from the crisis, we approved payment concessions and, as a result of such concessions, the modification of the contract outstanding with the client. Out of this number, in 4584 cases the actual contract has been modified.

We believe that the protection of households' interests is important, and therefore we welcome all recommendations and initiatives that are aimed at helping people in the current economic circumstances. Several local municipalities and notaries initiated cooperation, and we have been contacted by two non-profit organisations in this matter, and we have provided responses to their queries.

→ **instead of the 'small print'**

We are striving to word all communication aimed at clients in an easy-to-understand manner, free of professional jargon, whilst providing all the necessary information. As an important step in this process, we

have been drafting supplementary materials instead of the 'small print' for campaigns and key products launched since 2009.

Such publications make our products more transparent and easy-to-understand for clients. In today's world we need clear, detailed, yet still professional explanations. It is important to highlight not only the best features of individual products, but also those that may not be the most favourable to all. Where it was possible, we have also added charts and examples to our detailed guidelines, to ensure it's even easier to understand how a particular product works. This way, our existing and potential clients can make a fully informed decision in choosing one of our products.

→ **K&H TeleCentre**

In 2009, in the area of what we call 'banking services requiring electronic identification' we introduced a new system, facilitating the standard identification of clients. The new identification system allows clients to use the same 8-digit client ID and 6-digit ePIN code to access phone-based customer services and e-banking facilities in the consumer, SME and corporate segments alike. Thanks to the new identification system, the accessing of services offered by K&H TeleCentre has become much easier and simpler.

→ **complaints management**

Compared to 2008, the total number of complaints processed grew by 5165. The retail segment received more, and the SME and corporate segments received

fewer complaints than last year. Our specialists and advisory investigate and manage each complaint individually.

→ **number of complaints managed by the Complaints Management Group, broken down by business line and category (number of complaints)**

business line	category	2009
retail	retail in total	25,375
	accounts	4,982
	deposits and investments	875
	bank cards	16,107
	loans	1,426
	e-bank	1,574
	other	411
SME	SME in total	2,684
	deposits and investments	817
	bank cards	13
	loans	1,233
	e-bank	60
	other	457
corporate	corporate in total	1,413
	accounts	373
	deposits and investments	26
	bank cards	22
	loans	351
	e-bank	387
other	254	
other	other, not classified	0
total number processed		29,472

VI. responsibility towards suppliers



In 2009, K&H Group worked out a social responsibility policy pertaining to its suppliers, in line with domestic legislative requirements. K&H Group has taken on a commitment to get these approved by its suppliers.

→ key guidelines of K&H's procurement policy

The purpose of K&H Group's procurement policy is to ensure that products required for the smooth operation of banking and other operative processes, world-leading technologies and services are available in the right place at the right time, in the required quantities and quality, at the best price achievable on the market at any time, and at minimum risk. It is a firm intention of K&H Group, as a member of the KBC Group, to work together only with contracted suppliers that contribute to the fulfilment of K&H Group's goals through their positive willingness to co-operate, high-standard work and the precise keeping of deadlines.

Another key requirement concerning the procurement policy is that it enforces and fulfils KBC's long-term expectations, such as

- reducing the number of supplier partners within reasonable limits,
- ensuring that 80% of procurements or the procurement value are realised through framework contracts,
- ensuring that the products, tools and services used are standardised,
- ensuring compliance with prevailing sustainability guidelines.

→ pre-qualification of supplier partners

We are striving to maintain an on-going dialogue with our suppliers, and establish a mutually beneficial partnership, as the quality of the products supplied and the work performed by our suppliers has a material impact on the performance of K&H Group and its perception amongst its clients. In order to achieve this, we regularly get in touch with our supplier partners (with our key strategic partners semi-annually) and classify them into various professional categories and generate the relevant pre-qualification indicators, using the data they supply on the so-called pre-qualification form.

→ the enforcement of sustainability guidelines and environmental protection considerations in our co-operation with partners

K&H Group places major emphasis on the application of environmentally friendly business practices, which it also enforces in the co-operation with its suppliers. Thus, we make sure that our partners adhere to the high-level stipulations of environmental legislation and regulations, and do not apply obsolete techniques or methods or ones that could be clearly harm the environment. In addition, our partners are also obliged to enforce environmental protection regulations with their own representatives or subcontractors.

It is also an expectation towards K&H Group's partners that they are aware of the impact their activities have on the environment. Therefore we appreciate and consider it a positive feature if our suppliers have an

environmental policy statement in place, and take environmentally conscious decisions, for example:

- measure the environmental impact,
- make an effort to reduce the impact on the environment;
- take initiatives aimed at improving the environmental consciousness of employees, subcontractors and buyers,
- and establish an environmental management system.

→ active suppliers in 2009

In 2009, we had a total number of 5 126 active suppliers; 568 less than a year earlier. In the selection process we fully considered the guidelines set out above, placing great emphasis on qualification processes.

→ compliance with human rights

K&H Group's existing and potential suppliers are obliged to ensure and enforce certain core requirements pertaining to employees; including, in particular, the following:

- ensure that the interests of employees are duly represented within the work organisation,
- impose a ban on forced labour,
- impose a ban on child labour,
- impose a ban on discrimination based on sex, race, ethnicity, religion, politics or orientation; as well as on any materially negative discrimination between the sexes in terms of remuneration.

The following represent a major violation of K&H Group's regulations:

- forced labour,

- child labour,
- a ruling that confirms the hindering of the work of trade unions, the conducting of collective negotiations or the employment of employees under unsafe or unhealthy working conditions.

The following are perceived to be positive characteristics by K&H Group:

- drawing up a policy concerning employees,
- providing training/educational opportunities,
- measuring employee satisfaction at set intervals,
- application of complaints management techniques.

→ our commitment to our suppliers in the year 2010

Using guidance provided by KBC, our parent organisation, and also taking into consideration the rules pertaining on the domestic legal environment, we have drafted a 'Social responsibility manifesto' covering environmental protection considerations and the enforcement of human rights, which will be incorporated in all of our contracts; i.e. approved by our suppliers from 2010 onwards.

The manifesto covers the following key areas:

- ethics
- environmental consciousness
- socially responsible business practices
- human rights requirements
- requirements concerning employment policy
- anti-corruption requirements

VII. media relationships

We are fully committed to open and transparent communication even under difficult circumstances. We aim to respond to the queries of stakeholders in a prompt and precise manner.

In 2009 we received and responded to 406 queries by the press. (In 2008 we had 506 queries.). In addition, we held a total of 17 press conferences. Although K&H's official form of association is 'Zrt.' (a private company limited by shares) and therefore it is not obliged to file reports, we reported our financial results to the press on a quarterly basis.



VIII. relationship with financial analysts

We regularly (quarterly) reported K&H Group's financial results. We published K&H Group's 6-monthly and annual results with the frequency required by law in the mandatory locations; i.e. on the www.kozzetetelek.hu website and the websites of Magyar Tőkepiac and K&H.



IX. responsibility towards owners and investors



→ financial details

K&H Group is Hungary's second largest financial services provider. An important part of our responsibility is our commitment towards our shareholders and investors, i.e. the generation of financial results that ensure the continued and stable operation of the company, as well as the required level of profits for stakeholders.

→ K&H Group

In 2009 our financial and operative decisions were greatly influenced by the protracted crisis and the negative

economic environment. Due to the deteriorating macro-economic environment, we set up a significant level of provisions. Although our profits before provisioning grew by 17% compared to the previous year, our profits before and after tax, calculated after provisioning, both dropped compared to the previous year. Despite this, our after-tax profits are still in the positive range, levelling out at 10 billion HUF at the end of 2009.

The loan to deposit ratio of K&H Bank remains the best on the market out of all significant Hungarian banks. By the end of December, this figure stood at 91.1%, while our cost/income ratio improved to 58.7%.

→ K&H Insurance

The Life branch of K&H Insurance closed an outstanding year in 2009. During the year we came third on the market in single fee products, and we managed to keep this position until the end of the year. Our overall market share rose to above 5%, reaching the highest value in the company's history. In terms of gross written premium, we did better than the other market players in all categories: regular and single fee products as well as life policies. In terms of revenues, our non-life branch performed below the market; however, due to our risk-awareness and thoughtful portfolio management practices, our net operating results increased by 41% compared to the 2008 figure. The net combined loss ratio stands at 83% - an excellent market performance.

K&H Bank's non-audited, consolidated results calculated according to international accounting rules (IFRS):

- K&H's operating revenues were 2% above 2008 levels, approaching 140 billion HUF,
- operating costs reduced by 7%, to 81 billion HUF,
- before tax profits reduced by 59% to 17 billion HUF, due, primarily to the 40 billion HUF worth of provisions set up,
- after tax profits reduced by 61% to 10 billion HUF,
- as at December 31, 2009, the company's balance sheet total stood at 3 064 billion HUF, 4% lower than in the same period of the previous year (3 182 billion HUF).

As the bank of savings, K&H further increased its retail and corporate deposit portfolios compared to the previous

year, by 4% and 12% respectively. In investment funds, our market share remains above 20%. Guaranteed funds purchased 3 years beforehand matured in 2009. We managed funds of over 100 billion HUF in 17 investment funds, out of which 13 were restructured. The average re-investment ratio stood at 66%.

The consumer loan portfolio stood at 709 billion HUF – a level similar to the previous year. Although the ratio of non-performing loans grew as a result of the crisis, we have a credit portfolio that's well above the sectoral average in terms of quality, in both the retail and corporate business lines.

key details

(IFRS consolidated, non-audited):

→ K&H Bank (As at December 31, 2009):

- equity: 211 billion HUF
- balance sheet total: 3064 billion HUF
- operating profits before provisioning: 56.8 billion HUF
- profits before tax: 17.0 billion HUF

→ K&H Insurance (As at December 31, 2009):

- equity: 12.3 billion HUF
- balance sheet total: 109.2 billion HUF
- technical result: 4.9 billion HUF
- profits before tax: 5.3 billion HUF
- profits after tax: 4.2 billion HUF

X. awards, recognitions



→ environmental protection prize for K&H

In 2009, the Environmental Protection and Sustainability Work Group of the Hungarian Business Leaders Forum (HBLF) announced the 7th 'Business Life for the Environment' tender, to encourage environmentally cautious behaviour amongst domestic companies. The prizes, announced in the form of an open tender, were awarded to organisations that showed outstanding commitment to environmental issues, putting in an environmental protection performance that's of exemplary value compared to the organisation's size. Out of 32 applicants, K&H Group won 3rd position thanks to its projects aiming to reduce climate change, as well as its achievements in the domain of environmental protection.

→ best trade finance provider of Hungary



We can proudly report that our activities in 2009 were also recognised by the profession. Based on the evaluation of Global Finance magazine, in 2009 K&H was given the 'Best trade financing entity in Hungary' award. Winners were selected based on the volume and quality of transactions conducted in 2009, the quality of services offered, competitive pricing and innovative

solutions. The award was given to K&H in recognition to its continued commitment to both short-term (STATEMENT) as well as medium- and long-term (MLT) trade financing services.

→ 'Rejuvenated Man' award

In 2009, K&H was awarded the 'Rejuvenated Man' award on the 4th occasion in recognition of our significant contribution to the improvement of our employees' quality of life and their active recreation.

→ Hungarian Donation Forum Award

In the category of companies that had most increased the amount spent on donations compared to the previous year, K&H achieved 3rd position in 2008, whilst in the same year it got into second position in the category of financial companies that had donated most in proportion to their net sales revenues and profits before tax.



GRI content Index

FI – in Sustainability – Guiding Principles

FJ – in Sustainability Report 2009

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1.2	description of key impacts, risks, and opportunities	FI 6
2.	organisational profile	
2.1	name of the organisation	FI 8, FJ 6
2.2	primary brands, products, and/or services	FI 28, FJ 28
2.3	operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures	FJ 6
2.4	location of organisation's headquarters	FI 8
2.5	number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	FI 8
2.6	nature of ownership and legal form	FJ 6
2.8	scale of the reporting organization: number of employees; net sales; total capitalisation broken down in terms of debt and equity; quantity of products or services provided	FJ 24, 40
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3.	report parameters	
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3.3	reporting cycle (annual, biennial, etc.)	FJ 4
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4.11	explanation of whether and how the precautionary approach or principle is addressed by the organization	FI 13
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5.	management approach and performance indicators	
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LA7	rates of injury, occupational diseases, lost days, and absenteeism, and total number of workrelated fatalities by region	FJ 25
LA8	education, training, counselling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	FI 18, FJ 24
LA11	programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	FI 20, FJ 20-21
LA12	percentage of employees receiving regular performance and career development reviews	FI 20, FJ 20-22
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HR	human rights	
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HR6	operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour	Observing the Constitution of the Republic of Hungary
HR7	operations identified as having significant risk for incidents of forced or compulsory labour, and measures taken to contribute to the elimination of forced or compulsory labour	Observing the Constitution of the Republic of Hungary
SO	society	
SO1	nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting	FJ 13-18
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