



# K&H Group sustainability report 2010



responsibility  
**for a whole life**  
make smart decisions!



70 years



5 years

member of the KBC group



→ colophon

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Hendrik Scheerlinck, CEO



# I. address to the reader

## → Dear Readers,

Welcome to the opening pages of the sustainability report published by K&H Group for the fifth year running. When compiling the report each year our aim is to present a transparent and systematic picture of the varied activities of K&H Group in the context of sustainability. As the second largest financial institution in Hungary, it is clear to us that in addition to providing high quality financial services we also have responsibility for creating a sustainable economic, social and environmental context. The efforts we make for our environment and our society are guided by the intention to reach and improve our business targets while helping people live a full life.

In 2010 K&H Group continued the implementation of the objectives set out in its CSR strategy, following the tradition of previous years and making progress in all four focus areas. Thanks to our environmental measures we continued to open green branches, remove freon from our buildings and, by the end of 2010, reduce the energy consumption of illuminated company logos to close to one-tenth of previous levels, all over the country. We are proud that, in addition to the traditional K&H Olympic Running Days, for the first time in 2010 we also organised an event for cyclists in Budapest. With the competitions we announced for primary schools we increased financial awareness amongst young people. I believe that one of our most important schemes is the K&H MediMagic programme, as part of which we have been helping numerous children's healthcare institutions for the seventh year running, contributing to the earliest possible return of children to full life.

Last year delivered proof that socially responsible thinking is not only important in times of economic boom but it has to be given a special focus in times of recession as well. I trust that, reading the individual chapters of our sustainability report, our colleagues, clients and partners are just as proud and confident that we are on the right path.

**Hendrik Scheerlinck**  
CEO



## II. introducing K&H Group

### → board of directors of K&H Bank

(as at December 31, 2010)  
 Béla Singlovics (Chairman)  
 Marko Voljč  
 Dirk Mampaey  
 Guy Libot  
 Theo Roussis  
 Ignace Gheysens  
 Hendrik Scheerlinck (K&H Bank, CEO)  
 dr. Ágnes Bába (K&H Bank, Deputy CEO)

### → board of supervisors

(as at December 31, 2010)  
 Ronny Delchambre (Chairman)  
 Dirk Laureyns  
 Mrs. Amberboy-Kiss Attila

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

(as at December 31, 2010)  
 Johan B.P. Daemen  
 Walter J.M. Bogaerts  
 Hendrik Scheerlinck

### → shareholders of K&H Bank

(as at December 31, 2010)  
 KBC Bank N. V.: 100%  
 number of retail branches: 243  
 number of corporate branches: 10  
 auditor: Ernst&Young

### → shareholders of K&H Insurance

(as at December 31, 2010)  
 KBC Insurance N. V.: 100%

### → key membership in professional organisations

Magyar Bankszövetség (Hungarian Banking Association)  
 Magyar Vállalkozásfejlesztési Alapítvány (Hungarian Business Development Foundation)  
 Agrár-Vállalkozási Hitelgarancia Alapítvány (Hungarian Foundation for Enterprise Promotion)  
 Magyar Kockázati- és Magántőke Egyesület (Hungarian Venture Capital Association)  
 International Swaps and Derivatives Association (ISDA)  
 Nemzetközi Kereskedelmi Kamara (International Chamber of Commerce, ICC)  
 American Chamber of Commerce in Hungary Magyar Létesítménygazdálkodási Szövetség (Hungarian Facilities Management Association)  
 The Trilateral Commission (Europe)  
 Project Management Institute (PMI)  
 Magyar Biztosítók Szövetsége (Hungarian Insurance Association)

### → stakeholders identified

- clients
  - existing clients
  - clients with a complaint
- 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
- employees
  - existing employees
  - trade unions
  - potential employees
  - graduate students, undergraduates training in finances
- suppliers
- media
- financial analysts
- shareholders, investors



## CSR Committee

The CSR activities and strategy of K&H have been guided by the CSR Committee which has been in operation for two years now. In the course of 2010, we identified the key stakeholders and, in key areas, defined quantifiable objectives, using so-called key performance indicators. Following this approach, we identified indicators to be met by 2013. We defined specific, quantifiable targets for young mothers wishing to return to work (by December 31, 2013 we intend to reemploy 60% of all young mothers wishing to come back) in the area of HR, as well as for the reduction of electricity consumption (by 1.5-2% per annum), in the field of environmental protection.

In order to increase awareness about CSR, the CSR Committee organised several workshops for the senior management about the results achieved.

Beyond that, in 2010 we included CSR-related information in the material of HR training modules, and we made CSR-related activities an optional choice in team building exercises. The results of these are monitored by the Committee.



## III. responsibility towards the community

### → environment protection

With the application of new technologies and the modernisation of existing resources, we are continually reducing energy consumption and harmful emissions. In order to do so, we are gradually converting our existing resources into power-saving ones, and shifting energy consumption under central control. The usage of alternative energy sources will also be quite considerable in our new head office. In addition, in 2010 KBC's comprehensive environmental protection programmes also came into force in the facility management and logistics areas, posing tighter terms and conditions upon partners in this respect.

In 2010 we carried on with our freon removal programme, fully in line with the principles applied to cooling substances used in cooling equipment. The programme is expected to be completed by the end of the 1<sup>st</sup> quarter of 2011, making K&H's branch network fully freon-free.

#### → efficient use of resources

Under the energy management and rationalisation programme going on for a number of years, in 2010 we introduced a new system of illuminated company logos. The LED technology is not only more stable (requiring less maintenance and avoiding the need for replacing light sources), it also emits less heat and discharges light over an area which is roughly a quarter of the area involved in earlier solutions, thus significantly reducing the light pollution of our environment. In 2010, out of the 245 units we fully replaced company logos in 199 units and partially in 12. In the remaining units logos were either already illuminated using energy-saving solutions, or replacement is still taking place as part of the comprehensive renovation work scheduled for 2011. In 2009 we used approximately 1.013 MW of energy nation-wide for the illumination of company logos, and, as a result of the replacement exercise, in 2011 we have to use 87% less energy for this.

One important achievement in 2010 was the increasing of cooling base signals, which we did by 1 degree centigrade in the summer period. This measure also extended to the IT computer room.

Preparations have also started for the remote measurement of energy usage. The new system allows us to get real-time information about energy usage across the entire branch network. By analysing data, it will become possible to identify and stop energy wastage that's still hidden.

The success of central energy management measures also depends on the degree to which employees join the efforts taken by the company. In order to raise the interest of employees, a series of articles were published in the internal paper, providing details of possible energy-saving steps by employees, which have been met by much enthusiasm.



→ **energy consumption**

By reducing its energy consumption, K&H is a constant participant of the European Energy Championship, every year. The objective of the competition, organised in the spirit of the Kyoto Agreement with a view to reducing Europe's carbon dioxide emission is to save as much energy as possible in the course of the year solely by changing the attitude of employees and introducing new processes and habits. In the competition K&H further reduced energy consumption by an expected 3-4%, still to be finalised, on top of the 16% saved between 2008 and 2009.

→ **green branches**

In 2010, additional bank branches were converted into green branches, as part of K&H Group's initiative to slow down climate change. Through the utilisation of the most up-to-date technology available, K&H branches are now running entirely free of fossil fuels, not emitting any pollution into the air. In addition to the 6 bank branches currently operating without the direct emission of CO<sub>2</sub>, in 2010 preparations were also started for the conversion of another 2 branches, in Hajdúszoboszló and Békéscsaba.

→ **new head office**

The construction of K&H Group's new head office is taking place fully in line with the focus points of our sustainability strategy; namely the concept of attractive workplaces and environmental protection. The foundation stone of the building complex was laid in February, 2010 and the topping off ceremony took place in November, 2010. The two adjacent buildings, located in the Millennium City Centre, are planned to be completed by the end of 2011.

The engineering and energy principles, the equipment used, the acoustic, ergonomic and technical solutions applied in the design and construction of the new head office, as well as the green roof gardens and terraces all contribute to an environmentally friendly operation. One main advantage of the new building complex will be the expected, 20% cut in energy consumption resulting from the application of renewable energy sources. The application of heat pumps will bring the utilisation of alternative energy sources to 15%. The new technologies and up-to-date solutions applied will allow us to have not only an environmentally friendly but also a healthy and pleasant work environment.

→ **environmental data**

paper and water consumption						
	2010		2009		2008	
	FTE	consumption	FTE	consumption	FTE	consumption
paper (t)	4,376	717	4,373	667	4,523	936
pro rata consumption (tons) per employee		0.16		0.15		0.21
water (m <sup>3</sup> )	4,376	38,660	4,373	41,088	4,523	40,224
pro rata consumption (m <sup>3</sup> ) per employee		8.83		9.39		8.90

In 2010, the utilisation of paper grew by 50 tons (7.5%) compared to 2009, due to the increased usage of paper forms in the insurance company. However, we managed to reduce water consumption by 2,428 cubic metres year-on-year. At 38,660 cubic metres, water utilisation fell even below 2008 levels, by 1,564 cubic metres.

waste generated and disposal (tonnes)				
	2010	2009	2008	2007
total waste	1,222	1,922	1,914	2,565
recycled	159	149	223	122
incinerated	16	26	22	585
dumped	1,047*	1,747	1,669	1,980

\*estimate



In 2010 we managed to considerably reduce the quantity of waste produced compared to previous years, halving volumes over the past four years. It's an important achievement that, whilst reducing the overall quantity of waste, we managed to increase the ratio of selectively collected and recycle waste from 7.7% to 13% over the past year.

→ **greenhouse effect**

In 2010 we managed to reduce direct gas utilisation by close to 1,000 GJ, simultaneously with a slight drop in electricity and central heating usage.

greenhouse effect						
	2010			2009		
	annual gas consumption	CO <sub>2</sub> emission	CO <sub>2</sub> emission	annual gas consumption	CO <sub>2</sub> emission	CO <sub>2</sub> emission
	GJ	tonna / GJ	tonna	GJ	tonna / GJ	tonna
<b>from direct energy consumption</b>						
gas consumption	36,200	0.0561	2,031	37,084	0.0561	2,080
diesel consumption	-	0	0	0	0	0
total	36,200	0.0561	2,031	37,084	0.0561	2,080
<b>from indirect energy consumption</b>						
electricity consumption	65,465	0.000367	6,674	65,520	0.1019	6,679
other energy (district heating)	39,393	0.0561	2,210	39,619	0.0561	2,223
total:	104,858		8,884	105,139		8,902
grand total:	141,058		10,915	142,223		10,982

→ **community involvement**

In 2010 K&H Group aligned its community initiatives and funding strategy with KBC's integrated community policy built on the following pillars: support for healthcare programmes, creating opportunities for children and voluntary employee initiatives.

**paediatric healthcare**

→ **K&H MediMagic**

K&H Group is a committed supporter of children's healthcare in Hungary, aiming, year by year, to offer opportunities to specific institutions and professionals, tailored to the changing needs of this sector. Since the K&H MediMagic programme was launched, a total amount of more than 330 million HUF has been granted to 113 institutions (86 hospitals and 27 ambulance services) in order to support their work with instruments and medical equipment, of which 175 million HUF has been allocated by way of tenders. Out of the above, a total of 17 institutions received funding for medical instruments in 2010, in the value of close to 45 million HUF. On top of financial assistance, K&H also facilitated the recovery of small children and the work of medical professionals with entertainment programmes, gifts and books.



#### → national medical instruments tender

In the course of the national medical instruments tender announced for the 7<sup>th</sup> time in 2010 in the context of the K&H MediMagic programme, the professional board selected 7 hospital departments and 2 ambulance stations from 8 counties out of the 69 children's healthcare institutions that had applied from 16 counties, to receive children's healthcare instruments and ambulance equipment in the total value of HUF 25 million.

#### → entertainment programme for children

Similarly to previous years, we also organised entertainment programmes for small hospital patients under the K&H MediMagic programme, to make the time they spent in hospital a happier experience for them. In 2010, Tamás Barlai, magician and winner of the Europe Award, cheered up children with his hat tricks in 15 hospitals across the country. In earlier years, this programme had offered a magical experience to over 3,000 children hospitalised in 88 different locations.

In April, K&H MediMagic entertained sick children from all over the country. Close to 300 children came with their companions to see The Wizard of Oz in the Budapest Puppet Theatre.

#### → Christmas medical instruments aid

For years, K&H Group has been distributing funds available for buying Christmas gifts amongst the bidders applying under the K&H MediMagic tender, to provide further assistance to children's healthcare. In 2010, 3 hospitals were given the opportunity to purchase medical instruments, using the HUF 8 million budget. Our clients, partners and colleagues could cast their votes using a public website, and it was with their assistance that we decided upon the allocation of funds amongst hospitals.

#### → fast aid

In March, 2010, in the wake of the robbery that took place in the Heim Pál Children's Hospital, one of the most important children's healthcare centres in Hungary, the K&H MediMagic programme donated HUF 2.5 million to the institution. The aid helped the hospital get back to the normal routine, and, following the reconstruction and the purchasing of required equipment, doctors and nurses could focus all their energy on the most important task of healing children.

#### → our colleague's assistance in healing

Our employees also support the K&H MediMagic programme in their own ways. In 2010, HUF 1,672,736 was given to the Erzsébet Hospital of Jászberény from the 1% personal income tax refund our colleagues had donated for this purpose. Out of the employer's contribution to the Christmas dinner of internal organisational units, our colleagues offered HUF 300 thousand for charity purposes in 2010. The amount offered was forwarded by the programme to Dóri Ház (a children's hospice in Pécs) operated by the Szemem Fénye Foundation.

In addition to the donations, in December 2010, we also distributed 120 Santa bags, filled by our colleagues by way of voluntary work, to little patients recovering in the Bethesda Hospital.

#### → our clients also help little patients recover

Via K&H's bankcard programmes, the purchases of our Bank's clients also contribute to the recovery of sick children. Similarly to previous years, 1 forint from our bank commission on each K&H MasterCard bankcard purchase of HUF 1,000 was set aside for the healing of children. The collection period that started back in 2009 was closed with record results, HUF 16.3 million, in May 2010, which is HUF 3.9 million higher than the amount gathered during the previous year, thus facilitating the funding of 6 institutions.

For the second time in 2010, K&H Fund Management issued a fund whose subscription supported the K&H MediMagic programme. From the HUF 7 million offered by K&H Fund Management, the Children's Healthcare Department of Pándy Kálmán County Hospital in Gyula could purchase an EEG equipment, considered to be an essential instrument in medical diagnostics.

In the Christmas period of 2010, K&H Private Banking donated life-saving equipment in the further value of HUF 413,250 to the OMSZ Ambulance Station in Sárvár.

In addition to the expertise of professionals, the modern techniques and equipment applied and the full attention of nurses, little gifts also substantially contribute to the recovery of children and support the work of doctors. During the autumn of 2010, children's books and toys were gathered for little hospital patients in 22 bank branches all over the country as part of the K&H MediMagic initiative. During the 1-month campaign, more than 5,200 gifts donated by our clients were distributed in the children's healthcare departments of 22 hospitals, so a lot of children received surprise presents well before Christmas.

At a joint event organised by the K&H MediMagic programme and Neo FM in June 2010 in Egészségliget, Budapest, 2,199 books and toys were collected and then forwarded to ten institutions.

In 2010, a Hungarian sport club, client of K&H Bank, also joined the quest to contribute to the spiritual recovery of small patients. As part of the K&H MediMagic programme, at the beginning of the year the Football Club collected close to 200 used books and toys still in good condition, which we donated to little patients recovering in the Madarász Street Children's Hospital.

#### → story-reading

The initiative launched in 2010 as an experiment covers two focus areas of K&H Group's social responsibility-taking: education and the supporting of children's healthcare. At K&H MediMagic's request students from the Budai Secondary School visited the No.1 Semmelweis Children's Clinic before Christmas, and read children's stories to little patients.

## sport

Sustainable development is unthinkable without a healthy environment and healthy people. That is why K&H Group has given special attention in its sustainability strategy to the supporting of sports. Our activities – financial and other forms of aid – cover both the sports activities of top achievers and mass sports.

#### → mass sport

Our traditional mass running events, the K&H Olympic Running Days were organised for the 8<sup>th</sup> time in 2010. Between April and September a total of 16,800 people – including 104 K&H employees – lined up for start in five countryside cities and in Budapest, in individual and team categories.

K&H Group launched a new mass sport event series in 2010: bike and exercise lovers could attend the K&H Olympic Cycling Day on October 2 in Budapest, for the first time.

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

The cooperation with the Hungarian Olympic Committee and the Hungarian Paralympics Committee continued in 2010. We have been supporting the Hungarian Olympic Committee for the ninth, and the Hungarian Paralympics Committee for the fourth year running.

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

K&H Group donated a lump sum to two outstanding Olympic and one Paralympic players, for the fifth year running. In 2010, for the first time in the history of the programme, two sportsmen received the same number of votes from jury members, and therefore, Balázs Kiss, wrestler and Ferenc Csúri, para-swimmer received HUF 1 million each. Evelyn Verrasztó, swimmer and Gyula Káté, boxer were granted HUF 500 thousand each, to help them successfully prepare for the Games.

Since the programme was launched, from 2006 to 2010, K&H provided a total of HUF 21 million in individual donations to 22 Olympic and one Paralympics sportsmen.



## performing arts

### → K&H, the Bank of the Sziget Festival

K&H has been supporting one of the most significant cultural events of Hungary, Sziget Festival. As the Bank of Sziget, in addition to the usual banking and consultancy services, we invited festival participants to some special programmes as well in 2010. The lucky winners of the 'K&H safe with Line Man' competition received a general cleaning of their tents, or could attend their favourite concerts sitting on the shoulders of Strong Line Man. Festival participants were given financial advice in the Bank of Sziget branch every day, and 10 K&H ATMs were available for Sziget visitors, 24 hours a day. Sports lovers were offered active recreational opportunities at the K&H sport terrace.

## youth education

K&H finds it important that members of future generations master the basics of finances as soon as possible, to enable them to easily manage their financial matters as adults, and make more informed economic decisions, contributing to a fuller life. Therefore, the financial education of young people is an important element of our support strategy.

Related to the cartoon series entitled C(r)ash Course, produced with K&H's contribution, we announced the C(r)ash Course Film video competition for the school year 2009/2010, with pupils applying with short films they made themselves following the theme of 'money' in general, and elaborating on the messages of the cartoon. A total of 170 applications were received from 41 schools. More than 600 children worked on the videos. In April 2010 K&H Group rewarded the best pieces and the most active schools nation-wide with cash and presents in the total value of HUF 1.8 million.

In the academic year of 2010/2011, primary school students can reveal their financial expertise in a national competition called Ready, Steady, Money! Not only does K&H Group recognise students taking part in the competition, it also awards schools and teachers. The questions featuring in the three-round competition are based on the training material on finances incorporated in the C(r)ash Course! cartoon series and the teams selected for the final will compete in Budapest in May 2011.

## new art collection

Year by year, K&H Group grows its arts collection based on the concept developed by the most prominent representatives of Hungarian art. The K&H collection titled 'Art for a better and more meaningful world' gives a cross section of artistic trends in Hungary at the beginning of the 21<sup>st</sup> century, and demonstrates basic values K&H identifies with, such as dynamism, the ability of renewal and creating long-term value. The collection, now consisting of 41 pieces, could be viewed by the public in September 2010 for a week in Győr and Szeged each, as well as in Budapest, between 25-29 November.

To be able to continuously follow the activity of the youngest art generation, we continued our art scholarship programme. In 2010, Tamás Kovács Budha, artist and Judit Navratil, painter were granted an art scholarship of HUF 125,000 per month for six months. At the end of the period, one work of art by each winning artist was incorporated in the K&H collection.





## K&H employees taking an active role

Not only did the employees of K&H take part in the activities covered by the individual programmes, but they also contributed personally to creating a sustainable environment worth living in. During the year, our colleagues renovated information boards for visitors and also placed new boards in the Börzsöny area (Kóspallag-Nagyirtáspuszta), through voluntary work. They also repainted the bird feeder and the shelter. The nursery in Róna Street, Zugló, was redecorated with the hands-on assistance of our colleagues. In addition to re-painting and redecorating several rooms, in 2010 they also planted 60 thujas and installed pot-plants. A total of 69 K&H employees participated in the programme.

## extraordinary assistance for natural disaster victims

In 2010, due to natural and other disasters – floods, storms and the red sludge disaster – people had to face a number of emergencies. In addition to the usual procedures, K&H Group helped citizens in need with additional allowances and benefits, aiding their return to a full life as soon as possible.

K&H employees helped the victims of flooding, causing huge destruction across the country, by collecting HUF 1,632,700 on a voluntary basis, which was matched by K&H Group. This allowed us to help citizens suffering from the effects of extraordinary weather conditions with a total amount of HUF 3,265,400. K&H Insurance also simplified and therefore accelerated its claims settlement process. In the case of storm damage, we allowed victims to start eliminating the damage before the on-site survey by our claims expert. In 2010, telephone claim settlement was also introduced to handle such emergencies. We granted housing support to flood victims who were forced to leave their properties, and made advance benefit payments to all claimants in need.

K&H Group granted various special allowances to clients living in the area hit by the red sludge disaster. At the request of clients living in Kolontár, Devecser and Somlóvásárhely, the Bank granted deferred payment options and other allowances to ease the repayment of retail loans, and waived certain fees (payable for the stopping and replacement of cards and the reprinting of account statements). On top of that, K&H Insurance gave fast aid in the amount of HUF 150,000 to clients with property insurance. K&H doubled the HUF 3,826,000 collected by the employees of K&H Group on a voluntary basis, and transferred a total of HUF 7,652,000 to the Hungarian Red Cross.

In addition to financial support, we also sent mouth masks, hand disinfectant liquid and rubber gloves to the areas hit by the red sludge incident.

K&H Group employees also made personal donations for the citizens of Haiti hit by the earthquake of January, 2010 directly. HUF 853,712 was collected and transferred to the Hungarian Red Cross.



## IV. responsibility towards employees

### → labour

The establishment of an attractive workplace is a priority in K&H Group's sustainability strategy. This requires a satisfied, duly motivated and highly professional workforce and supporting environment.

#### → human resources development, information management

We are providing a number of educational and training opportunities of varying levels and content to employees, including management training; sales, language and IT training, as well as professional training and the development of skills. For local representatives we are organising compulsory training courses and examinations required by the relevant authorities to allow them to carry on with their financial and insurance activities. We also organise regular product training sessions and sales skill enhancement programmes.

In 2010 the amount spent on human resources development and training programmes exceeded 495 million HUF, which is 135 million HUF more than in 2009. On the average, the annual per capita amount spent on training came to 133 thousand HUF; 33 thousand more than in 2009. The per capita number of training days grew significantly compared to the previous year. While in 2009 each colleague had an average of 7 training days, by 2010 this figure increased to an average of 9 days.

In 2010 we organised a total of 1,164 training courses. We held 28 different types of training in K&H Insurance, over a period equalling 479 working days.

In addition to quantity, the quality of training also remained in focus. We managed to further increase the already high participant satisfaction. In 2010 96.2% of participants were happy with the training received, which is close to 2% more than in 2009.

In 2010, a total of 65 employees signalled an intention to conclude a training agreement with the company, which is somewhat higher than in previous years. Overall, in 2010 K&H Group managed to contribute to the education of 152 colleagues.

#### → career planning and development

Talented employees can be placed into three groups along K&H HR's principles (Young Potentials, High Potentials, Top Potentials). This allows participants to use custom-made development tools in view of K&H Group's requirements, based on the annual personal development plan.

In 2010, K&H Group spent a total of 105.4 million HUF on the further training of 216 people, as part of the various career management programmes. This represents a growth rate of over 100% compared to the previous year (in 2009, 50 million HUF was spent on the training of 132 people).

During the 12 months of the K&H career starter programme the youngest of talents work their way through various areas of K&H Group in a rota. In 2010, there were 4 young people participating in the 6th K&H young talent programme.

The second programme year of the third K&H network management programme is still underway. In 2010, 15 talents participated in the training. The purpose of the K&H network management programme is to ensure the availability of new retail branch managers from within the organisation and in the long run.

The purpose of the KBC Talent Bank programme is the selection of outstandingly talented, well-performing colleagues with management potential, in line with the system in place at KBC, as well as the training of such colleagues beyond individual specialist areas and regular training programmes, in order to ensure a succession of colleagues who are able to fill key positions with the right professional understanding and management skills. In 2010, 80 employees participated in the KBC Talent Bank programme.

In 2010, 117 people participated in K&H's Management Academy programmes. The purpose of the training organised for senior management was the development of management culture and skills, along with providing support for the development of a performance-driven culture and the steering of changes.

#### → young mothers programme

The K&H welcome back programme has reached its third year. The programme is aiming to help create the right balance between work and private life. In 2010, 491 employees participated in the programme aiming to support young mothers returning from maternity leave. Of those 155 went on maternity leave in 2010, and 87 wished to return to their workplaces. We were able to take back 58 colleagues, 67% of the total number, which is an improvement on the 60.7% figure in 2009. In 2010, 3 people from K&H Insurance signalled their intention to return to work, and all could resume work (representing a take-back ratio of 100%). In K&H Insurance, in addition to the welcome back programme, newborn children are also given a purchase voucher worth 30 thousand HUF, while K&H Bank is supporting young mothers with a social benefit of 40 thousand HUF. The success of the welcome back programme and the returning of young mothers are also supported by two-way communication.

#### → blood donation

In 2010, a total of 94 employees signalled an intention to donate blood. They gave a total of 423 litres of blood to staff from the National Blood Supply Service (Országos Vérellátó Szolgálat). This volume is sufficient to perform life-saving operations on 282 people.

#### → ergonomic displays

A safe and ergonomically sound work environment contributes to the company's efficiency in the long run as well. In order to promote this idea, in previous years K&H already started the replacement of monitors with up-to-date, eye-saving versions. In 2010 we replaced another 200 screens with LCD monitors. This means that, by the end of the year, the ratio of traditional, old-style monitors represented a mere 2% across the board.

#### → benefits

It was in 2010 that, for the first time, the outcome of the annual competency evaluation was given special emphasis in the allocation of the general budget available to increase salaries. In addition, we also paid special attention to differentiation, and the outstanding recognition of outstanding performance, both in terms of the basic salary and any additional benefits.

The year 2010 saw a general salary increase of 3.1% in Insurance. On April 1 we also introduced a general salary increase of 4% in the Bank with retrospective effect, as of January 1<sup>st</sup>, in an individually differentiated manner, based on the results of the competency

evaluation and general salary levels prevailing on the market. In 2010, K&H's senior management waived their salary increases.

At group level the budget for cafeteria-style, optional benefits came to a total of 1.7 billion HUF in 2010 – 20 million HUF more than in 2009. With the broadening of the legislative framework, several new forms of benefits were introduced in 2010, including the so-called 'culture voucher' and the supplementation of travel charges. Cold meal vouchers also became an optional choice. Benefits available to purchase clothing were converted into 'other eligible benefits', and therefore colleagues could submit claims for a variety of goods.

#### → internal communication

We distribute the weekly publication 'K&H csoportkép' and 'K&H kapocs' published monthly, electronically.

In 2010, employees were mostly interested in topics surrounding the crisis, and the topics most often mentioned via internal communication channels included the economic environment, K&H's strategy and HR issues. Close to 700 colleagues, representing 18% of the workforce, participated in the 'Chat with the CEO' programme, in which K&H's CEO invited colleagues for an informal chat once in each region and in the head office. Colleagues could also voice their questions during the annual kick-off events, where members of the K&H Country Team held presentations and answered colleagues' questions. Approximately 30% of all employees participated in these events.

#### → trade union

1500 K&H Group employees are members of the K&H Trade Union representing the interests of employees. The trade union also has 1 100 retired members. During the year the Trade Union provided social aid to close to 500 people – the source was provided by the Bank, and foundation aid to an additional 245 people. Every year trade unions negotiate with the company in matters such as employee benefits and the remuneration of colleagues. The company also makes decisions concerning HR policy issues in consideration of the Trade Union's recommendations.

The Central Works Council has 13 members, while 5 people represent the Labour Safety Committee. Both committees held two meetings each in 2010, in line with the relevant legislation.

#### → sports day for employees

In 2010 we organised the K&H Olympics, the sports day for employees, for the 22<sup>nd</sup> time. 950 colleagues participated in the competitions, in 12 different sports. At the event our colleagues also received free health checks.

#### → health protection

In 2010, K&H Group spent a total of 32.5 billion HUF on health protection, health services and healthcare. In addition to labour healthcare services, there are also various specialist healthcare services accessible by our employees. In 2010 a total of 1930 people turned up for specialist healthcare services, and most people attended the ophthalmology test.

patient numbers			
examination	2008	2009	2010
occupational healthcare in Budapest	2,285	1,584	1,800
specialist examination	1,612	1,625	1,930
examinations in surgeries outside Budapest	1,059	1,120	1,280

In addition to the above, another 160 people participated in various health checks at the K&H Olympics.

In 2010 K&H also supported the health protection of its employees by providing various sanitary solutions, such as anti-viral hand-washing liquid. The head office also organised an immunisation campaign against the flu, in which 200 people participated.

### → work safety, bank security

In 2010 we introduced fire protection training and made preparations for e-learning sessions in the field of labour safety. As part of our on-site bank security training sessions, we introduced the presentation of case studies (video recordings) via notebooks. The visual presentation helps colleagues better prepare for the handling of unusual events.

In 2010 a total of 6,102 employees participated in our fire and labour protection training initiatives, which is close to three times as many as in 2009. 94 employees received orientation training in the field of bank security, while we organised training sessions across 45 branches nation-wide in the same topic. On-site audits were also run in 43 branches. The training involved 19% of all branch employees.

In 2010 14 employees suffered an accident at work and 13 employees suffered road accidents. Having studied the details of those accidents, we examined the sites, identified the sources of danger and pointed them out to the affected colleagues.

### → opportunities / human rights

We are striving to ensure in our day-to-day operation that human rights and equal opportunities are respected in K&H Group. This also goes for areas such as the selection of employees, career programmes, training courses, the allocation of salaries and the termination of employment.

statistics on workforce composition		
group organizational structure – according to sex, work time and age	Dec 31, 2010	Dec 31, 2009
executive / of this, female	127 / 43	137 / 44
specialist, low- and middle-level manager / of this, female	2,183 / 1,546	2,545 / 1,676
employee / of this, female	2,078 / 1,775	2,019 / 1,737
indefinite-period / of this, female	4,362 / 3,345	4,689
definite-period / of this, female	26 / 19	12
active	3,956	4,261
inactive	491	458
male	1,024	1,244
female	3,364	3,457
full-time: (100%) / of this, female	3,864 / 2,863	4,599
part-time: 80%-100% / of this, female	7 / 3	68
part-time: < 80% / of this, female	85 / 76	53
total active workforce	3,956	4,261

### → other statistics on human resources

- average age: 38.68 years
- average time spent with the company: 7.72 years

reasons for absence and the number of days absent according to the various reasons for the absence		
	2010	2009
accident	571	646
illness	37,673	38,617
childbirth	98,282	81,812
other paid (including regular leave)	118,126	118,752
other unpaid	2,997	6,289
total	257,649	246,116





fluctuation				
	Bank (%)		Insurance (%)	
	2010	2009	2010	2009
total terminations	8.0%	3.9	5.6%	6.6
voluntary terminations	3.6%	3.6	3.8%	4.7

In 2010 more than half of employees who decided to leave K&H took the time to evaluate the time they had spent in K&H by completing an exit interview sheet. Another 20% gave verbal feedback of their positive and negative experiences.

In 2010, there was no major layoff exercise, and the reason for individual terminations of employment was the exceeding of headcount numbers approved for individual organisational units. Vacant positions were always first announced internally. In 2010, 73% of vacant positions were filled with internal applicants.

In 2010 21 people used the services offered by our labour office under the caring dismissal initiative. Such services included career advisory and training services, financial support for social and training purposes, training advice, psychological and lifestyle advisory services, as well as participation in jobseekers' training. The fact that 86% of employees who used the services of the labour office in 2010 already found new jobs on the labour market shows the success of the caring dismissal programme.

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

In order to identify and look after young talent, we participate in 3 job fairs each year, in the Corvinus University, the Pécs University of Sciences and the Debrecen University. Positions opening up for young graduates and employees are also published in ÁllásStart.

The most talented of students can also participate in an internship programme at K&H, and many become our employees later. We receive students in our countryside network and head office units alike, who have the opportunity to participate in various programmes. The Young Graduate programme offers high-standard opportunities to learn on the job. Our new, junior employees receive competitive salaries and excellent working conditions. We also support their development under the various talent programmes. In 2010 we offered internship positions to 110 people, almost three times as many as in 2009 (34 people).

#### → K&H Student Cup

In 2010 K&H announced the K&H Student Cup bank simulation competition for students of higher education for the second year running. The purpose of the competition is to reinforce the attractiveness of K&H, both as a financial institution and an employer, towards potential future employees and clients. The fact that in 2010 a total of 240 3-strong teams enrolled for the competition, 50% more than before, shows the popularity of this initiative. The winning teams won K&H bank accounts, financial awards, entry tickets to the Sziget festival and, as the main prize, a professional trip to Brussels, where they could meet managers and colleagues from KBC, our parent organisation.

## V. responsibility towards the clients

K&H serves clients in an efficient and responsible manner, via high-standard customer services, electronic and phone channels, e-banking services and the simplification of administrative processes. In 2010 we paid special attention to clients affected by the crisis: in addition to the debtor protection programme we also introduced the so-called proactive repayment easement scheme, whereby the affected clients were contacted by the bank and offered customised easement options.

### → helping clients

In 2010 we still felt the impact of the financial and economic crisis. As a responsible financial institution, we are aiming to minimise the impact of the crisis on our client relationships, assess the situation of our clients and seek mutually beneficial solutions that help them adjust to the changed financial circumstances.

In order to help our clients, K&H manages transactions in a flexible way, in line with the needs and possibilities of clients. We also inform clients about easement options via a wide range of media (including through our website, traditional mail and via the branch network).

In 2010 the debtor salvage package was again accessible by those with repayment difficulties. As part of the package, we offer the affected group of clients the opportunity to make significantly smaller repayments over a period of 12-24 months. If required by clients, it can be combined with the lengthening of the tenor as well. Clients may also request instalment payments for smaller overdue debts, and may also apply for the suspension of repayments over a period of 3-6 months. For home loans we reduce or waive the costs of final repayment, and offer the choice to make early or final repayments in the loan's original currency. We also ensure the convertibility of FX loans into HUF; thus making monthly repayments more predictable. If required, we also offer re-financing opportunities.

As of October, 2010 K&H introduced the so-called pro-active payment easement programme for mortgage holders. The Bank offered them a reduction in their repayment instalments over a temporary period (12-24 months), and public notary fees incurred as part of the necessary contract amendment are lent to clients by the Bank.

We can say that, owing to our cautious lending policy, only approximately 7-8% of our borrowing clients were forced to participate in one of the programmes (reactive or pro-active).

Despite the continuing crisis, no debtors or mortgage obligors were evicted from the real estate put forth as collateral, as a result of court procedures initiated by the Bank. Only in 1,385 cases, representing 1% of our total real-estate collateralised loan portfolio, were we forced to terminate or cancel the loan and mortgage contracts.

In 2010 K&H responded to numerous queries by various non-profit organisations that were mostly seeking deferred payments, instalment payments or other payment easement measures for the clients they represented. We received 35 such queries from the Association of Bank Loan Victims and 8 from the Hungarian Maltese Charity Service.

→ **K&H TeleCenter**

Our phone-based customer services received 840,000 calls in 2009 and 670,000 in 2010. In 2010 we extended the responsibilities of this service, centralising part of the collection process for SME clients. Under this scheme, TeleCenter staff warn customers of any overdue debts detected, preventing clients from being recorded as poor debtors as a result of sometimes small debts resulting from forgetfulness.

→ **complaints management**

Our specialists and advisors look into and manage every complaint individually. In 2010, a total of 36,612 complaints were filed with the bank.

The insurance company's Complaints Office registered and handled a total of 743 complaints in 2010.

The fact that in 2010 K&H Bank staff took an average of 10 days to resolve complaints, with insurance staff taking 8, shows the effectiveness of our complaints management system.

number of complaints			
business line	category	2009	2010
retail	<b>consumer in total</b>	25,375	18,575
	account	4,982	4,735
	deposit, investment	875	179
	bank card	16,107	10,710
	loans	1,426	1,493
	e-bank	1,574	960
	other	411	498
	<b>SME in total</b>	2,684	2,108
SME	account	817	1,506
	deposit, investment	13	9
	bank card	1,233	420
	loans	60	25
	e-bank	457	102
	other	104	46
	<b>corporate in total</b>	1,413	1,082
corporate	account	373	523
	deposit, investment	26	34
	bank card	22	10
	loans	351	40
	e-bank	387	403
	other	254	72
	<b>insurance</b>	<b>insurance in total</b>	322
<b>other</b>	<b>other, not classified</b>	0	14,847
<b>total processed</b>		29,794	37,355

## → products and services



### → K&H socially responsible fund

In 2010 K&H Fund Management operated a total of 7 funds where the concept of social responsibility played a role. 1 of these is open-ended, while the others are capital and yield-protected schemes.

The companies behind K&H's socially responsible, closed-end, capital and yield-protected funds are businesses that meet strict social responsibility selection criteria.

The open-ended K&H Eco Fund that has been available for over 3 years offers optimum investment opportunities in the securities of companies that are involved in alternative energy sources, water management and the mitigation of damages caused by climate change. There are KBC share funds directly behind the fund, and the shares featuring in these funds have also passed the SRI filter.

The companies behind the K&H Eco 3 Fund are business actively involved in the development of alternative energy sources and technologies that reduce carbon dioxide emissions, and make profits from investment projects in the field of water management.

Three of our additional capital and yield-protected funds – one issued in EUR – are backed up by the pharmaceutical industry, and it's the growth of this sector that investors can share in, while enjoying capital protection. In the case of two funds – the K&H Healing Magic Health Fund and the K&H Capital Protected Pharmaceutical Fund – K&H Fund Management also makes a donation to the K&H Healing Magic programme, in proportion to the value subscribed. In the spring of 2010, the Fund Management Company helped the Children's Department of the Gyula Hospital with a donation of medical equipment worth 7 million HUF.

## VI. responsibility towards suppliers

The quality of the products and work produced by our suppliers has a great impact on the performance of K&H Group and its perception by its clients. In 2010 we had 4,265 active suppliers, 861 less than in 2009, due to the rational merging of orders. When it comes to the selection of suppliers, we pay attention to ensuring that suppliers are aware of the impact their activities have on the environment.

As a member of KBC Group, K&H Group is firmly dedicated to working with partners who contribute to the achievement of K&H Group's objectives through their positive co-operation, high-quality work and the meeting of deadlines.

### → corporate responsibility statement

In 2010 we developed a 'Social Responsibility Statement' in line with the Hungarian legislative environment. We gradually incorporate this statement into existing and new supplier agreements. The statement sets our requirements concerning ethics, environmental consciousness, socially responsible business practices, human rights requirements, employee policies and anti-corruption practices. In 2010 close to 50% of contracts already included this statement.

## VII. media relations

In 2010, K&H gave a total of 20 press conferences at Group level in various topics, and our colleagues responded to about 297 queries by the press. The press releases issued remain accessible to representatives of the media and the general public through our website.

## VIII. relationship with financial analysts

In 2010 we published regular – quarterly – reports on the financial results of K&H Group. In compliance with the rules and regulations, we published the half-yearly and annual results of K&H Group in mandatory publications – [kozvetetelek.hu](http://kozvetetelek.hu), Magyar Tőkepiac (Hungarian Equity Market) and on K&H's own website, by the required deadline.

## IX. responsibility towards owners and investors

### → financial figures

#### → K&H Bank (as at December 31, 2010)

- shareholders' equity (IFRS consolidated, non-audited): HUF 219 billion
- balance sheet total (IFRS consolidated, non-audited): HUF 3,223 billion
- profit and loss before tax (IFRS consolidated, non-audited): HUF 36.1 billion
- profit and loss after tax (IFRS consolidated, non-audited): HUF 27.2 billion

#### → K&H Insurance (as at December 31, 2010)

- shareholders' equity (IFRS consolidated, non-audited): HUF 8.4 billion
- balance sheet total (IFRS consolidated, non-audited): HUF 102.2 billion
- technical profit and loss (IFRS consolidated, non-audited): HUF 0.7 billion
- profit and loss before tax (IFRS consolidated, non-audited): HUF 0.8 billion
- profit and loss after tax (IFRS consolidated, non-audited): HUF 0.7 billion

## X. awards and recognition

### → Best foreign bank in Hungary

The 'Best Foreign Bank in Hungary' award was given to K&H in 2010 by EMEA Finance magazine. K&H remains to be the only Hungarian financial institution to have received this award, since EMEA Finance set up this category in April, 2008. After giving the award to K&H last year, the decision-making board decided to recognise the Bank's performance in 2009 by granting the award to K&H this year as well.

### → Best trade finance provider in Hungary

Similarly to last year, K&H received the 'Best trade finance provider in Hungary' award in 2010 again, based on the evaluation of Global Finance magazine. Winners were selected based on the number of transactions performed, the quality of services offered, competitive pricing and innovative solutions.

### → MasterCard – Retail savings product of the year 2010

The 'K&H premium nagy esélyesek' (Premium Great Potential) fund won 3<sup>rd</sup> place in the 2010 'MasterCard – Bank of the year' programme. This recognition is of outstanding importance for K&H, because in the competition announced for commercial banks operating in Hungary, the services used by ordinary people and their quality were assessed.

### → MasterCard – Young banker of the year

István Horváth, employee of K&H Fund Management won 2<sup>nd</sup> place in the prestigious tender announced by MasterCard for the second time in 2010. The 'Young banker of the year' award goes to experts who, despite their young age, perform a task of outstanding significance for an institution as well as the whole sector, and can boast of unique achievements in the given year.



# → GRI Content Index



FI – In Sustainability – Guiding Principles  
FJ – In Sustainability Report 2009

GRI index	brief description	
<b>1.</b>	<b>strategy and analysis</b>	
1.1	statement about the relevance of sustainability to the organization and its strategy	FI 6, FJ 3
1.2	description of key impacts, risks, and opportunities	FI 6
<b>2.</b>	<b>organisational profile</b>	
2.1	name of the organisation	FI 8, FJ 4
2.2	primary brands, products, and/or services	FI 28, FJ 20
2.3	operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures	FJ 4
2.4	location of organisation's headquarters	FI 8, FJ 2
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 4
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 16, 23
2.9	significant changes during the reporting period regarding size, structure, or ownership	FJ 4
2.10	awards received in the reporting period	FJ 24
<b>3.</b>	<b>report parameters</b>	
3.1	reporting period (e.g., fiscal/calendar year) for information provided	FJ 3
3.2	date of most recent previous report (if any)	FJ 3
3.3	reporting cycle (annual, biennial, etc.)	FJ 3
3.4	contact point for questions regarding the report or its contents	FI 34, FJ 2
3.5	process for defining report content	FJ 3
3.6	boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers)	FJ 4
3.12	GRI content index	FJ 25
<b>4.</b>	<b>governance, commitments and engagement</b>	
4.1	governance structure of the organization	FJ 4
4.4	mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	FJ 5
4.6	processes in place for the highest governance body to ensure conflicts of interest are avoided	FI 11
4.8	internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation	FI 10
4.9	procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles	FI 12, FJ 5
4.10	processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance	FI 10, FJ 5
4.11	explanation of whether and how the precautionary approach or principle is addressed by the organization	FI 13
4.12	externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses	FI 27, FJ 4, 6
4.13	memberships in associations (such as industry associations) and/or national/international advocacy organizations	FI 27, FJ 4
4.14	list of stakeholder groups engaged by the organisation	FI 8, FJ 4
4.15	basis for identification and selection of stakeholders with whom to engage	FI 8
4.16	approaches to stakeholder engagement	FI 8
4.17	key topics and concerns that have been raised through stakeholder engagement	FI 8
<b>5.</b>	<b>management approach and performance indicators</b>	



<b>EC</b>	<b>economic performance indicators</b>	
EC1	direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments	FJ 8-12, 14, 23
EC8	development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement	FI 22
EC9	understanding and describing significant indirect economic impacts, including the extent of impacts	FJ 20
<b>EN</b>	<b>environment performance indicators</b>	
EN3	direct energy consumption by primary energy source	FJ 8
EN5	energy saved due to conservation and efficiency improvements	FJ 7
EN6	initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives	FJ 6, 7
EN16	total direct and indirect greenhouse gas emissions by weight	FJ 8
EN18	initiatives to reduce greenhouse gas emissions and reductions achieved	FJ 8
EN22	total weight of waste by type and disposal method	FI 17, FJ 7
EN26	initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	FI 17, FJ 6-8
EN29	significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce	FI 17
<b>LA</b>	<b>labour practices &amp; decent work</b>	
LA1	total workforce by employment type, employment contract, and region	FJ 16
LA3	benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	FI 21, FJ 14
LA6	percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs	FI 21, FJ 15
LA7	rates of injury, occupational diseases, lost days, and absenteeism, and total number of workrelated fatalities by region	FJ 16
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 16
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 13, 14
LA12	percentage of employees receiving regular performance and career development reviews	FI 20, FJ 13, 14
LA13	composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	FJ 16
<b>HR</b>	<b>human rights</b>	
HR2	percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	FJ 21
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
<b>S0</b>	<b>society</b>	
S01	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 8-12, FJ 18, 19
S04	actions taken in response to incidents of corruption	FI 11
<b>PR</b>	<b>product responsibility</b>	
PR5	practices related to customer satisfaction, including results of surveys measuring customer satisfaction	FI 29, FJ 18-20