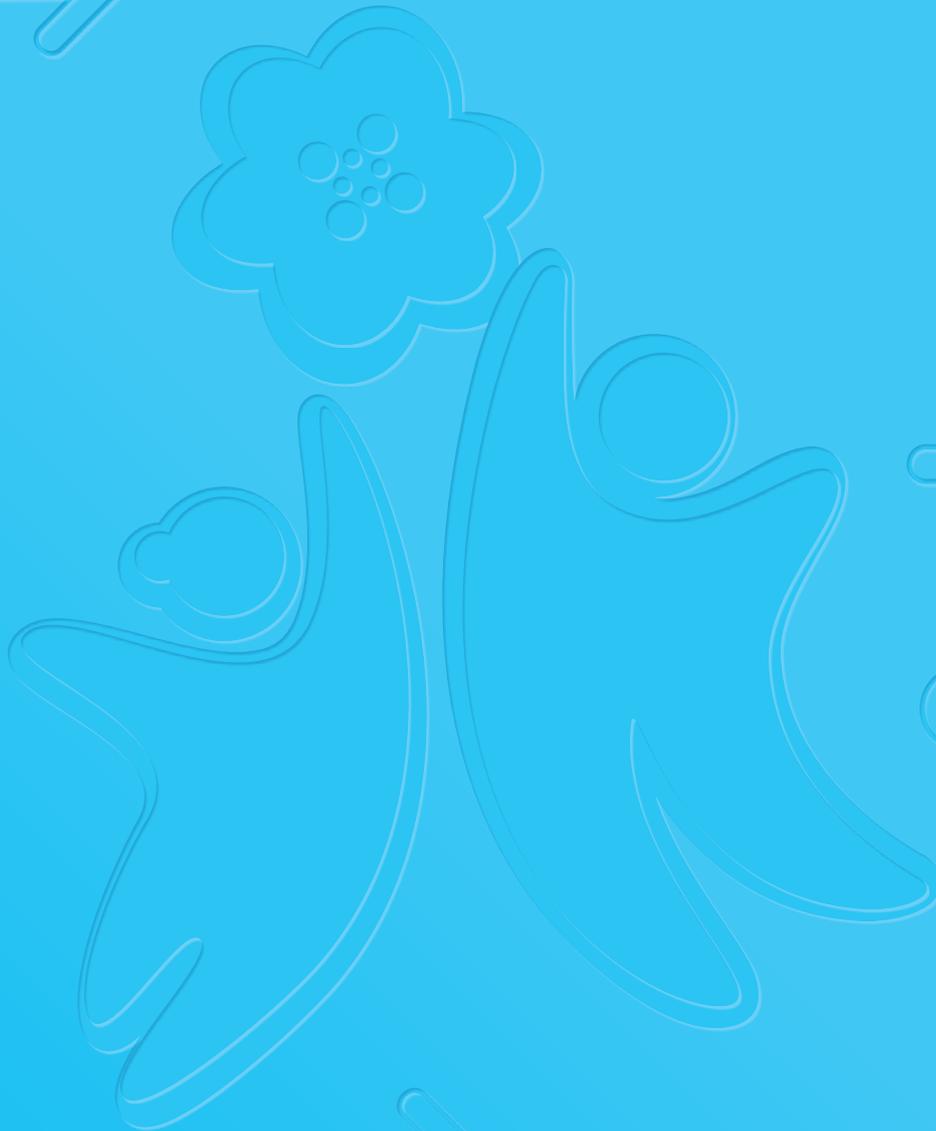


# K&H Group's sustainability report 2012



member of the KBC group

# editorial information

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→ **issued by**

K&H Group

Communications Directorate

Budapest, 2013

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Hendrik Scheerlinck, CEO



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# I. foreword by the Chief Executive Officer



It is now the seventh year running that we issue K&H Group's Sustainability Report, giving a detailed account of the measures we took in the spirit of sustainability and the main results achieved.

K&H Group is aiming to make smart decisions in the course of its dynamic operation, whilst helping present and future societies live a full life. For this reason, we find it important that any measures we take should serve our future, despite the difficult economic circumstances. Beyond the provision of high-quality financial services, we are also responsible for the sustainability of the economy, society and the environment surrounding us. It is with these in mind that we are progressing towards the goals we have set for ourselves.

Our long-term commitment is best proven by the fact that our CSR focus areas remained unchanged in 2012. In addition to environmental protection, children's healthcare and sports, we also paid special attention to creating an attractive workplace. During the year, our colleagues fully occupied our new head office, the symbol of our efforts to create an attractive workplace for colleagues, as if offers a modern, dynamic and healthy environment for our employees to work in. The new head office also reflects our commitment towards environmental protection, as it helps us significantly reduce our energy consumption.

In 2012 we supported Hungarian childrens' healthcare for the 9<sup>th</sup> year running through the K&H MediMagic program. In addition to the grants we offer for equipment purchases, we again paid special attention to the spiritual wellbeing of little patients. We involved our colleagues, partners and clients to offer financial help, read stories and donate books and toys – all aimed at supporting their speedy recovery.

Out of the grant winners of our K&H Olympic and Paralympic card program, 24 athletes represented Hungary at the London, 2012 Games. It is a wonderful feeling to know that with the help of our grants, by supporting their preparation, we could also contribute to their success and Hungary's outstanding track record in the history of the Games.

We trust that, as a result of our social responsibility-taking, we can truly contribute to the improvement of the environment surrounding us. We are trying to do our utmost best to be present in our selected CSR areas with exemplary initiatives, thus also encouraging others to act in a socially responsible way.

We believe that it's only through the consistent, long-term, responsible and co-operative behaviour of economic and social players that members of our society can live a truly full life.

**Hendrik Scheerlinck**  
Chief Executive Officer



## II. introduction of K&H Group



### → K&H Bank's Board of Directors

(as at December 31, 2012)

Béla Singlovics (Chairman)

Marko Voljč

Guy Libot

Theo Roussis

Ignace Gheysens

Hendrik Scheerlinck (K&H Bank, CEO)

dr. Ágnes Bába (K&H Bank, Deputy CEO)

### → Supervisory Board

(as at December 31, 2012)

Philip Marck (Chairman)

Dirk Laureyns

Zsuzsanna Kovács

### → K&H Insurance's Definitive Supervisory Board

(as at December 31, 2012)

Johan B.P. Daemen (Chairman)

Hendrik Scheerlinck

Willem Hueting

Attila Gombás

### → K&H Bank's ownership structure

(as at December 31, 2012)

KBC Bank N. V.: 100%

Number of retail branches: 226

Number of corporate branches: 10

Auditors: Ernst&Young

### → K&H Insurance's ownership structure

(as at December 31, 2012)

KBC Insurance N. V.: 100%

### → key memberships in professional organisations

Hungarian Banking Association

Hungarian Insurance Association

Association of Hungarian Investment Fund and Asset Management Companies

Hungarian Leasing Association

Budapest Chamber of Commerce and Industry

American Chamber of Commerce in Hungary

Magyar Forex Club

International Swaps and Derivatives Association (ISDA)

International Chamber of Commerce (ICC)

Institute of Internal Auditors (IIA)

Information Systems Audit and Control Association (ISACA)

Hungarian Association of Facility Management

The Trilateral Commission (Europe)

Academy Club Association

Hungarian SEPA Association

SALDO Pénzügyi tanácsadó és Informatikai Zrt. [SALDO Financial Consultancy and IT Ltd.]

Projektfinanszírozási Klub K&K pro Bt. [Project Financing Club K&K pro Bt.]

SOL MO Tanuló Szervezetek a Fenntarthatóságért

Alapítvány [SOL MO Student Organisations for Sustainability Foundation]

The Association of Chartered Certified Accountants (ACCA)

Hungarian Business Leaders Forum (HBLF)

Magyar Szálloda Szövetség [Hungarian Hotel Association]

Magyar Gabonafeldolgozók, Takarmánygyártók és Kereskedők Szövetsége [Hungarian Grain and Feed Association]

Magyar Állattenyésztők Szövetsége [Hungarian Animal Breeders Association]

Baromfi és Tojástermelők Szövetsége [Hungarian Poultry and Egg Producers Association]

TEJ Szakmaközi Szervezet és Terméktanács [TEJ Dairy Interprofessional Organization and Marketing Board]





→ **identified stakeholders**

- **clients**
  - existing clients
  - clients launching complaints
- **community**
  - the wider public
  - local communities
  - governments / municipalities
  - educational institutions
  - consumer protection and non-profit organisations
  - community media networks
  - regulatory authorities (financial, labour, town planning)
  - business and commercial associations
- **employees**
  - current employees
  - trade unions
  - potential employees
  - young graduates, finance students
- **suppliers**
- **media**
- **financial analysts**
- **owners, investors**



# CSR Committee



The CSR Committee set up for the management and supervision of K&H Group's social responsibility activities has been in operation for the 4<sup>th</sup> year running.

In 2012 the CSR Committee followed up the pro-rata achievement of objectives to be realised by 2013, and added new items to its agenda.

For the past two years our two focus topics included the supporting of young mothers returning to work, as well as environmental protection and the reduction of power consumption. Under the guidelines in force until the end of 2013, we wish to provide work to 60% of young mothers returning from maternity leave. In 2012 this ratio reached 70%. We are aiming to reduce power consumption by 1.5-2% till the end of 2013. Although in the November, 2011 to November, 2012 period we used 3.3% less energy, our year 2012 power consumption increased in overall terms, due to the energy burden of commissioning our new head office.

In 2012, the Committee also focused on changing smoking regulations. As a result, our company declared itself a non-smoking workplace. In the same year we also drafted our reputation framework regulations, which also extended to K&H's social responsibility activities and the Committee, as the organisation managing such activities.

We still consider it one of our key tasks to familiarise our employees with K&H's CSR activities.



# III. responsibility towards the community



## environmental protection

Although K&H's core activities do not qualify the company as an organisation with an outstandingly negative environmental impact, environmental considerations are given special focus in our operation.

### → new head office

The new head office commissioned in 2011 meets expectations in all respects: it is not only an attractive workplace but also helps us significantly reduce our energy consumption in the long run, thus ensuring compliance with our environmental targets.

### → safeguarding of resources

The most significant step taken in 2012 in this respect is linked to branch development projects. In these projects the installation of LED light sources is now common practice, while earlier we only used these in an experimental manner.

In 2012 we also paid much attention to ensuring that our employees have as much information as possible about environmental consciousness. We regularly made suggestions to colleagues, which were incorporated into our day-to-day work. As a result, now colleagues always turn off the lights at the end of their working day, only print documents if it is essential, and in the head office waste is collected in selective waste bins.

### → energy consumption

In the new head office we save significant volumes of energy; however, the impact will only be seen in the long run. In the 4<sup>th</sup> quarter of 2011 and the 1<sup>st</sup> quarter of 2012 our power and gas consumption temporarily increased, as we moved into the new head office gradually, in several stages, and, for a period of close to 6 months, we used the old and new buildings parallel with each other. Actual, full year figures for the reduced energy consumption of the new head office will only be available after the end of 2013.

By the end of 2012 we finalised the settings of our new head office's built-in systems; i.e. we optimised and harmonised their operation. As a result, the building's power consumption remained below target values.

We also adjusted the settings in the branch network in order to save energy, as a broad spectrum of functions is controlled by built-in building management systems.

### → green branches

In 2012 we had 8 green branches in total. We are still aiming to fully eliminate fossil fuels by converting existing branches and through newly built branches, thus reducing air pollution. What's more, this technology is not only beneficial for the environment; it also significantly reduces power consumption.



→ environmental protection details

**the evolution of paper and water consumption**

	2008		2009		2010		2011		2012	
	FTE*	utilisation	FTE	utilisation	FTE	utilisation	FTE	utilisation	FTE	utilisation
paper (t)	4 523	936	4 373	667	4 376	717	4261	564	4182	516
utilisation in proportion to the number of FTEs (t)		0.21		0.15		0.16		0.11		0.12
water (m <sup>3</sup> )	4 523	40 224	4 373	41 088	4 376	38 660	4261	36 925	4182	35 852
utilisation in proportion to the number of FTEs (m <sup>3</sup> )		8.89		9.40		8.83		8.67		8.57

\*FTE: full-time equivalent; employees employed full time

In 2012 we switched to electronic statements for all of our e-bank clients, and, as a result, we now send out 150 000 fewer paper statements each month.

Compared to 2011, our paper utilisation reduced by 48 tons, meaning we have saved 800 trees from being felled, as well as 15 million litres of water.

Our water utilisation also dropped. Relative to 2011, we saved 1 073 m<sup>3</sup> of water, which equals 10 000 baths, 100 000 washing-up sessions or 6 500 car washes.

**waste volumes and utilisation (in tons)**

	2008	2009	2010	2011	2012
selectively collected and recycled	223	149	159	167	188
to the incinerator	22	26	16	9	43
to the waste deposit site of the waste management company	1 669	1 747	1 047	1 046	1 040
total waste	1 914	1 922	1 222	1 222	1 271

**annual gas usage (GJ)**

	2008	2009	2010	2011	2012
<b>from direct energy consumption</b>					
from gas consumption	44 840	37 084	36 200	35 900	74 459
from gasoline consumption	42	0	0	0	0
in total:	44 882	37 084	36 200	35 900	74 459
<b>from indirect energy consumption</b>					
from power consumption (kWh/GJ)	67 895	65 520	65 465	65 432	69 717
other energy consumption (remote heating)	39 353	39 619	39 393	39 110	16 003
in total	107 248	65 520	104 858	104 542	85 720
<b>grand total</b>	<b>152 130</b>	<b>102 604</b>	<b>141 058</b>	<b>140 442</b>	<b>160 179</b>



## CO<sub>2</sub> emission (in tons)

	2008	2009	2010	2011	2012
<b>from direct energy consumption</b>					
from gas consumption	2 516	2 080	2 031	2 014	4 154
from gasoline consumption	3	0	0	0	0
in total:	2 519	2 080	2 031	2 014	4 154
<b>from indirect energy consumption</b>					
from power consumption (kWh/GJ)	6 880	6 679	6 674	668	6 850
other energy consumption (remote heating)	2 208	2 223	2 210	2 194	2 126
in total	9 088	8 902	8 884	8 862	8 976
<b>grand total</b>	<b>11 606</b>	<b>10 982</b>	<b>10 915</b>	<b>10 876</b>	<b>13 130</b>

The data of 2012 are more than doubling just related to „double occupancy” – old buildings and new HQ.

## community role-playing

In 2012 K&H Group participated in 3 areas with its community initiatives: children's healthcare, sports and the education of young people.

### → children's healthcare

In 2012 it was the 9<sup>th</sup> year running that K&H supported Hungarian children's healthcare through its MediMagic program.

#### ● nation-wide equipment tender

In the nation-wide tender announced for the 9<sup>th</sup> time, funds were granted with special focus on institutions performing paediatric cardiology functions, as well as institutions helping children living with disabilities. Our invitation to tender attracted a record number (105) of applications from all corners of the country. At the end of the evaluation process, a total of 11 institutions received funds from the equipment grant pool that has a total value of 25 million HUF.

#### ● card program

In 2011, a sum of 7 million HUF was collected from our clients' K&H MasterCard purchases, granted in 2012 to 3 hospitals and 2 ambulance stations for equipment purchases.

#### ● equipment subsidies for Christmas

In 2011, we again offered the sum earmarked for buying Christmas presents for our clients and business partners to the K&H MediMagic program, and purchased equipment for 3 institutions, in the total value of 8 million HUF.

#### ● volunteer programs

##### *support from employees and partners*

We have been trying to involve colleagues and partners in the K&H MediMagic program right from the start.

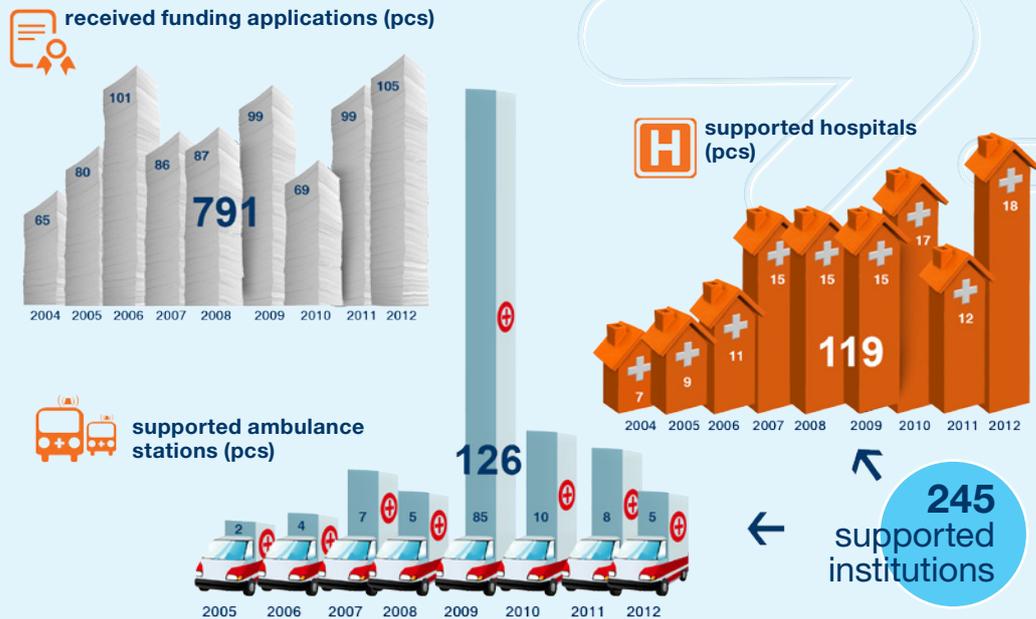
Gravoform, our SME client, has been a staunch supporter of our program for many years. In 2012 they donated 530 000 HUF to the Gézengúz Foundation of Budapest.

In 2012 it was for the 4<sup>th</sup> time running that K&H's private banking business line and clients joined the K&H MediMagic program. They purchased equipment for the Makó Hospital of the Csongrád County Healthcare Supply Centre in the total value of 496 000 HUF.



The employer's contribution to the Christmas dinners of internal organisational units and 1% of the personal income tax payable by colleagues could be again donated in 2012 to the K&H MediMagic program. The sum collected was given to the Balatonfüred station of the National Ambulance Service, and the City hospital of Keszthely, for purchasing medical equipment and instruments.

### K&H MediMagic in numbers



The more than 5 200 presents gathered in the book and toy collection campaign organised in K&H branches through the summer and the autumn were given to the children's departments of 33 hospitals.

#### story-reading little doctors

Since the launching of the K&H MediMagic program, we have been striving to help the institutions providing children's healthcare services with more than just instruments and equipment; by also contributing to the spiritual healing of little patients. Under our 'story-reading little doctors' program, volunteers mainly from secondary schools visit the children's units of hospitals to lighten up the hospital stay of little patients with story-telling sessions. In 2012 story-telling sessions were held in 16 towns, with the involvement of 133 volunteers. Approximately 50 colleagues also joined the initiative.

#### → sports

2012 was the year of the London Olympic and Paralympic Games. Accordingly, we paid special attention to our Olympic and Paralympic grant program and also our sports events. The Olympic Games held in 2012 represented our third joint Olympic Games with the Hungarian Olympic Committee, and the second one with the Hungarian Paralympic Committee.

#### ● K&H Olympic and Paralympic card program

We continued our card program in the year of the Olympic and Paralympic Games. In March, the Jury of the K&H Olympic and Paralympic Card Program selected Sarolta Kovács, Éva Csernoviczki and Péter Pálos as the winners of the card program's 10<sup>th</sup> round. It was the last time we selected winners before the Olympic and Paralympic Games, with the help of the wider public. After counting the votes, the winners were named as András Szatmári, fencer; Gábor Császár, handball player and Richárd Osváth, wheelchair fencer. The winners received a one-off grant of 1 million HUF each to help them prepare for their Olympic or Paralympic competitions.



Out of the 34 grant winners of the K&H Olympic and Paralympic Card Program, 24 athletes were selected to represent our country at the London Games. 9 of the Olympians and 9 of the Paralympic athletes earned points for the country. We are very pleased that we could also contribute to their results.

In addition to supporting professional sportspeople, since 2003 K&H has also been closely involved in the organisation of mass sports events. In 2012 we again organised the nation-wide K&H Olympic running and cycling day series, providing programs for those who wish to make smart decisions not only in financial matters but also in their free time, and vote for active recreation.

● **K&H Olympic running days**

In 2012 we organised the K&H Olympic running days on 4 different occasions. In addition to the Olympic Marathon and half-Marathon running relays organised in Budapest, the lovers of running could also meet the representatives of K&H in Szeged, Kecskemét and Kaposvár. A total of 17 500 runners participated in the 4 events.

● **K&H Olympic cycling days**

In 2012 the K&H Olympic cycling day event was also extended into an event series, and this time it was also possible to go for a joint ride in Dunaújváros, Budapest and around Lake Velence. More than 7 300 people mounted their bikes during the three events.

➔ **education of young people**

Several pieces of research show that the adult Hungarian population is financially under-informed. Our primary objective with the financial competition announced for primary schools and titled 'K&H C(r)ash Course' is to ensure that the members of future societies obtain basic financial knowledge as early as possible, so they can make more conscious economic decisions as adults, thus also contributing to living a fuller life.

The Budapest, nation-wide final of the year 2011/12 'K&H C(r)ash Course' was organised in May, 2012. The competition organised for individual age groups was won by the teams of the Hungarian and English Language, Bilingual Primary School of Városliget, Budapest; the Hársfadombi Primary School of Máty; the Sztárai Mihály Primary School of Pécs, and the Primary School of the Mezőberény Sub-region. The children won various toys and technical equipment, while schools received office equipment, sports equipment and book packages. The teachers involved in the preparation of children received gift vouchers in return for their efforts.

The financial competition for primary schools titled 'K&H C(r)ash Course' was also announced for the 2012/2013 school year. The application record was broken again in 2012, as this time 718 teams compared their knowledge, involving more than 3 000 pupils.

**number of participants in the knowledge competition titled 'K&H C(r)ash Course'**

	2010/11	2011/12	2012/13
number of schools	89	226	236
number of teams	150	539	718
number of pupils	600	2 700	3 034

➔ **expanding our collection of works of art**

In 2012 K&H continued to build up its art collection titled 'Art for a better and more meaningful world', and offered on-going support for the career launch and artistic development of the new generation of creative artists. In 2012 K&H Group again announced a creative scholarship tender for young artists. The award includes a monthly creative grant of 125 000 HUF, over a period of 6 months, and K&H also purchases works of art from the artists applying for the scholarship. The results of the tender were announced in 2013.



## IV. responsibility towards employees



A motivated and well-trained workforce is an essential ingredient in the company's high-standard operation in the long term. Representing our employees' interests and providing opportunities for their career progression form an integral part of our company strategy. The purpose of the training is two-fold: on the one hand we wish to create a team with up-to-date and competitive product and system knowledge, and, on the other hand, we aim to provide superior services to our customers through committed and engaged colleagues.

The establishment of an attractive workplace is a strong focus point within our sustainability strategy, and it also covers informal employee events. Such events include the employees' sports day and the year-end meeting held at Christmas.

### present employees

#### → development of human resources, knowledge management

Following the career planning sessions held with their line managers, our colleagues, similarly to previous years, could choose from a variety of different training options, in line with their unique life situation, objectives and professional motivation. We supported their continued language and professional training by signing study contracts with them. We also supported their participation in professional conferences, as well as competence and skill improvement training sessions. We organise regular and modular training sessions for both employees and tied agents.

For the tied agent network it is especially important to organise forms of training that offer up-to-date knowledge, including refresher product training, sales technique training, as well as the mandatory regulatory training sessions and examinations required for becoming licensed insurance intermediaries. Training sessions held by our own specialists remained very popular, as the information participants received through these sessions was not only up-to-date, but also specific to the bank, covering a range of market information.

In 2012 we organised a total of 915 (1 003 in 2011 and 1 164 in 2010) training sessions for the bank's colleagues. The per capita number of training days for the bank's employees stood at 7.95 days per person (8.9 days/person in 2011 and also 8.9 days/person in 2010). The reason for the reduction lies in our very strict cost control measures, as well as the skipping of classic, external team-building sessions. The bank spent a total of 280 million HUF on training (434 million in 2011). The annual average per capita amount came to 81 000 HUF (it was 124 000 HUF/person in 2011, and 131 000 HUF/person in 2010). We implemented conscious cost-cutting measures, giving preference to internal training and educational sessions, as well as professional days relevant to the banking profession. We also regularly monitor the feedback received from colleagues participating in these training sessions. In 2012, on average, 96% of the Bank's colleagues gave a positive assessment of the training (in 2011 this ratio stood at 96.7%, and in 2010 at 96.2%).

In 2012 the Bank signed study contracts with 121 colleagues (in 2011 with 134 colleagues), providing financial contribution to their studies.

#### → career planning and development

It is very important for our company to identify talented colleagues with management potential and offer them the right career development program, beyond regular training programs. In our experience this is the most efficient and reliable way of filling vacant TOP 100 management positions and key network positions.

In 2012, a total of 75 colleagues participated in the career program titled KBC Talent Bank, and 14 in the K&H Network Manager



Program. Out of the programs' participants 6 were appointed to Top100 management positions, and 5 became branch managers. Under the KBC Talent Bank scheme, in 2012 16 talents participated in the mentor program. The objective of the program is that experienced colleagues should help their younger peers in the development of their management skills. As a basic principle, we encourage talents to choose a mentor outside their own areas, to get to know a different management approach and familiarise themselves with the operation of a different area. The role of the mentor is increasingly popular and widespread within the organisation, also proven by the fact that several of our senior managers also agreed to taking on such a role.

→ **pleasant working environment**

By the 1<sup>st</sup> quarter of 2012, the move to the new head office was completed. The 2 500 colleagues working here can perform their duties in a modern work environment that lives up to the requirements of our age from all aspects. In addition to the modern offices and workstations, we also make our employees' day-to-day work easier by offering facilities such as changing rooms for cyclists, showers, as well as a car wash facility in the garage.

A healthy environment is also ensured by the cooling / heating ceiling panels and the replacement of our computer fleet; while our mealtimes are made more pleasant by our top-floor restaurant with panoramic views.

Tied agents were especially pleased that on many occasions the training sessions organised for them were held in the new head office. This gave them an opportunity to see the building's benefits for themselves, and get a better perspective on the day-to-day life of the company's head office.

→ **remuneration**

On April 1, 2012 we raised salaries by an average 2% for G4-G7 employees, differentiated on an individual basis, depending on the results of competency evaluations and the ruling salary rates on the market in general.

→ **healthier colleagues**

K&H has always paid much attention to preserving the health of its colleagues, and to supporting programmes encouraging the creation of a healthy workforce. In addition to the regular medical fitness health checks, we offered ophthalmology, rheumatology and dermatology services to colleagues working in the head office. We also provided free ultrasound-aided gynaecological and ear, throat and nose services in surgeries in external locations. In 2012 K&H Group spent 32.9 million HUF (28.5 million HUF in 2011) on health protection and general health services.

Our company has demonstrated its commitment to sports and exercise in several ways. It is also a message it conveys to colleagues. Regular exercise is essential for good health; therefore, our company is striving to support such activities by its employees. Colleagues can use the fitness rooms and gyms operating in the vicinity of the new head office at discounted prices. Another recurring event in our health prevention efforts was the organisation of flu jabs in 2012. 30 of our colleagues used the opportunity to get immunised.

**number of colleagues participating in health checks**

	2008	2009	2010	2011	2012
health and safety checks in Budapest	2 285	1 584	1 800	2 399	2 051
specialist health checks	1 612	1 625	1 930	1 506	1 953
health checks run at countryside sites	1 059	1 120	1 280	1 560	1 209

In addition to the above examinations, we also offered a comprehensive health screening program to our employees in two locations: in Budapest, in the head office, and for colleagues working in the countryside in Siófok, as part of the K&H Olympic event. 1 309 colleagues participated in the health screening programmes, using 35 343 checks in total.

→ **programs for young mothers**

The program we launched 5 years ago under the name 'K&H welcome back' was continued in 2012. Young mothers returning to work have the option to work part-time, or according to an individual schedule, or even from home. In 2012, 101 young mothers indicated their intention to return to work (this compares to 89 in 2011), out of whom 68 returned to active employment (62 in 2011).



## → employee statistics

statistics on the composition of employees at K&H Bank Group

breakdown of organisational hierarchy based on gender, working time and age	2012
senior management level / of this: female employees	129 / 46
expert, lower and middle management level / of this: female employees	2 068 / 1429
subordinate level / of this: female employees	1 650 / 1427
staff employed for indefinite term / of this: female employees	3 824 / 2 887
staff employed for definite term / of this: female employees	23 / 15
active	3 425
non-active	422
male	945
female	2 902
full time employees (100%) / of this: female employees	3 732 / 2 803
part time employees 80%-100% / of this: female employees	5 / 4
part time employees < 80% / of this: female employees	110 / 97
<b>total active headcount</b>	<b>3 424</b>

- average age: 39.1 years (male employees: 37.56 years, female employees: 39.6 years)
- average time spent at the company: 10.4 years
- proportion of female employees in the organisation: 75.4%
- percentage of female employees in management position: 30%
- proportion of employees with higher education degree 55% (8.78% of them have an ITCB diploma)
- annual fluctuation: 10 %

### reasons underlying absences, and the number of days absent based on these reasons

	2012
accident	198
illness	17 230
maternity leave	92 710
other paid leave (including regular holiday)	105 313
other unpaid leave	5553
<b>total</b>	<b>221 004</b>

### fluctuation data (% , based on the figures as at 31 December 2012)

	bank	insurance
total percentage of exits	10	19.8
exits initiated by employees	4.8	11.9

The management and the processing of feedback received from our employees play an important role in the life of our organisation in order to have a dedicated employee base. The relatively low fluctuation also shows that our employees are committed for the long-run towards K&H and that we can mutually count on one another.



Bank Group:

In 2012, 285 employees joined the company while 353 employees left; of these, 53 employees retired. Exiting employees have the opportunity to fill out a so called exit sheet in which they can share the reason for their leaving and their plans for the future (in which sector and what position they will be employed). We have exit information for 86% of the employees who left the company in 2012.

Insurance:

In 2012, 131 employees joined the insurance company; of these, 60 employees are employed for definite term hired for various campaigns. 63 colleagues left, of them, 1 person retired. 14% of the leaving employees used the opportunity to fill out the exit sheet.

#### → **workplace safety and bank security**

In compliance with our legal obligations, our Company places emphasis on all trainings that can help our employees prevent dangerous situations and accidents. Most of these training courses take place in the form of e-learning via the Internet.

In accord with the legislative environment, in 2012 we organised fire and workplace safety trainings only for the new entrant colleagues.

In 2012, 406 employees participated in fire protection training, 367 colleagues took part in workplace safety training and 110 employees received orientation training on bank security and we held practical bank security trainings in 82 branches nationwide as part of which we showed and analysed potential emergency situations through video case studies.

Only few workplace accidents happen in our Company. In 2012 only 8 workplace accidents were reported (compared with the 13 cases reported in 2011). We thoroughly investigate these cases and try to eliminate the source of danger.

#### → **internal communication**

For years, our internal communication channels have been efficiently supporting the continuous information flow among our colleagues. The 'K&H csoportkép' publication now published electronically reaches every employee every other week, informing them of all relevant company news. The K&H annual kick-off events and the employee letters ensure regular communication among the various areas. In 2012 we continued the program „Chat with the CEO”; more than 500 colleagues took part in the four regional and two Budapest based events.

#### → **employee sports day**

In 2012, 980 colleagues were present on the sports day organised for the 24th time in Siófok. Our colleagues measured their skills in 18 branches of sport while they could also take part in a free medical examination.

## trade union

The K&H Trade Union represents the interests of 1,450 active employees and 950 retired employees. Its tasks include, among others, consultations with the Company's management regarding the benefits and remuneration of the employees and the social framework agreements. The operation of the K&H Trade Union is managed by the Council of Secretaries composed of 40 members and the National Trade Union Committee (OSZB).

The amended Collective Agreement, which had to be updated due to legislative changes, was signed in 2012 as the result of several months' long conciliation efforts of the K&H Trade Union.

In 2012, a total of 869 employees, pensioners, trade union members received social and placement support and the Trade Union managed to retain all previous allowances. According to the provisions of the Collective Agreement every colleague working for K&H Bank for 25 years or longer will continue to receive a jubilee bonus and certificate. The role of the Workers Council and of the Workplace Safety Committee has not changed compared with the previous years.



The other trade union, is the K&H member organisation of the PSZDSZ. In 2012 its representatives took part in the negotiations conducted with the employer regarding the remuneration and benefits of the employees. They conducted conciliations with the employer regarding the remuneration policy aligned to the new job classifications, analysing their impact on the employees. During the second half of the year, they regularly consulted on the modifications of the Collective Agreement made necessary by the new Labour Code and on the re-conclusion of the Collective Agreements. Moreover, they made proposals for the budget of the supports granted by the Social Committee for the employees.

## potential employees, young graduates, students specialising in finance

To identify talents, and in order to keep contact with the potential career starter students, K&H ensures 6 to 15-week long internship programs for college and university students.

In 2012, 115 students took part in the 6-week internship program while we hosted 45 students in our 15-week long internship program, so compared with the previous year, the number of students doing their internship at K&H increased overall.

As part of the K&H career starter program we received 4 young graduates in 2012 who had the opportunity to become familiar with the various areas of the K&H Group and could expand their knowledge during a 12-month long rotation program. At present, all four of them are in the third quarter of the program at four different areas of the Bank.

### → K&H Student Cup

We hosted the fourth K&H Student Cup in 2012 which is a national online bank simulation competition for students studying economics. A total of 681 students in 227 teams from 26 higher education institutions entered the competition. The winning team named Equilibrium came from the University of Pécs and its members had the chance to take part in a 3-day professional tour in Brussels where they also visited KBC Bank.



# V. responsibility towards clients



Our company is looking forward to serve its clients with a well trained staff at our Customer Service, its continuously developing electronic and phone-based administration, its e-banking and e-mail services.

## helping our clients

In 2012, we strived to find a solution to the payment problems of our clients affected by the crisis, while keeping an eye on the principles of the agreements concluded between the banks and the government. Our financed retail clients were offered a number of repayment easement alternatives: final repayment in foreign currency, temporary suspension of instalment payment, grace period for payments, payment easement scheme developed by K&H Bank, extension of tenor, loan refinancing, instalment payment, exchange rate fixing and loan conversion offered as part of the government's bailout package.

In 2012, K&H Bank was able to offer its payment easement scheme for 3,215 clients. Till the end of the year, the government's exchange rate fixing was set for 15,000 mortgage loans. Approximately 25% of the Bank's eligible clients took advantage of the loan conversion possibility offered as part of the government's bailout package. The Bank has joined the National Asset Management Programme and is proactively contacting its clients to offer them this opportunity.

We devote special attention to informing our clients: we try to explain in detail any possible risk factors arising in connection with our products and services. In the information brochures published in the bank branches and on the Internet we regularly inform our clients about the opportunities available for them, should they have any payment difficulties. In the course of the year, K&H Bank has contacted its clients on several occasions via mail, phone or in person offering them some kind of payment easement solution.

### → accessibility for the disabled

In 2012, approximately 78% of our branches could be accessed by the disabled and of our 430 ATMs 399 have been equipped with a talking function. In this way, our disabled, visually impaired clients are able to use our branches and ATMs without another person's help, in a safe way.

On a pilot basis, we started to provide special assistance at certain of our branches for hearing impaired customers.

### → K&H TeleCenter

Our well-trained customer service bankers are awaiting our clients' calls every day of the year, 24 hours a day. Thanks to the popularity of the online customer service\* the number of clients turning to the K&H TeleCenter has decreased, in 2012, our colleagues received a total of 505 500 calls. During these calls, the clients were identified electronically in 237, 326 cases, thereby reducing the possibility of fraud and increasing our clients' and our partners' security. In 2012, our customer service received 69 244 calls in connection with the Széchenyi Pihenő Card. In order to increase efficiency, we have introduced an automated call initiator system in connection with outbound calls.

\* Our clients can now request us online, via our website to return their calls at a specific point in time to set up an appointment for one of our bank branches.

### → e-bank

The K&H e-banking service enjoys increasing popularity among our clients. In 2012, the number of retail clients and SME clients using our e-banking service increased by 16 and 15% respectively.

As from July 2012 – in compliance with our legal obligations – we have introduced a favourable modification concerning the execution of domestic HUF transfers; thanks to the introduction of a new, more modern payment system, we can now execute any domestic payments within the same day.



## → complaints management

Every customer service area of K&H manages complaints; our clients can lodge their complaints in several ways. In 2012, K&H Group received a total of 33 290 complaints. Similarly to previous years, most of the received complaints were related to bank card transactions, bank card acceptance. K&H Leasing Group received 1 595 complaints and K&H Insurance received 1 180 complaints in 2012.

In July 2012, we conducted a survey among our complaining clients regarding the process of complaints management. Based on the response of 100 complaining clients, the survey was closed with the following result: according to 90% of the complaining clients, our colleagues were helpful during the complaint handling process while 72% of the clients think that an acceptable solution was found to their complaints. We want to highlight that 72% of our complaining clients would recommend the services of K&H to their acquaintances.

### number of complaints managed by the Complaint Management Team by business line and category (number of complaints)

business line	category	2008	2009	2010	2011	2012
retail	total retail	19 543	25 375	18 575	15 901	16 509
	bank accounts	4 451	4 982	4 735	4 157	4 219
	deposits, investments	539	875	179	351	425
	bank card	11 529	16 107	10 710	8 143	6 389
	loans	1 056	1 426	1 493	2 002	2 835
	e-bank	1 682	1 574	960	809	1 744
	SZÉP card	-	-	-	-	430
	other	286	411	498	439	467
SME	total SME	3 263	2 684	2 108	2 035	3 076
	bank accounts	801	817	1 506	769	1 068
	deposits, investments	18	13	9	22	25
	bank card	162	1 233	420	689	801
	loans	43	60	25	18	29
	e-bank	680	457	102	479	754
	SZÉP card	-	-	-	-	317
	other	101	104	46	58	82
corporate	total corporate	1 501	1 413	1 082	878	752
	bank accounts	531	373	523	227	163
	deposits, investments	33	26	34	23	12
	loans	210	22	10	3	0
	bank card	10	351	40	166	91
	e-bank	588	387	403	380	344
	SZÉP card	-	-	-	-	85
	other	129	254	72	79	57
other	other, not classified	0	0	14 847	9 359	10 178
	K&H Leasing	n/a	n/a	n/a	1 130	1 595
	K&H Insurance	n/a	n/a	n/a	1 120	1 180
<b>total processed:</b>		<b>24 307</b>	<b>29 472</b>	<b>36 612</b>	<b>30 423</b>	<b>33 290</b>

## products, services

### → socially responsible funds

In 2012, the K&H Fund Manager operated one socially responsible fund, the open-end eco fund. The speciality of this fund, which at the same time differentiates it from other investment funds, is that the idea of sustainable development and social responsibility is present in the underlying investment.

The K&H eco fund is a higher risk classification, open-end equity fund with the objective to make the socially responsible investments easily available for the domestic investors. This fund offers an optimal investment opportunity in the securities of companies that deal with alternative energy, water treatment and the mitigation of the unfavourable impacts of climate change. The fund invests directly in KBC equity funds that manage equities that have gone through the filter of socially responsible investments as well. Assets currently managed in this fund amount to HUF 400 million.

### → green loan

The green loan introduced in 2011 continued to be available for our retail clients also in 2012; the green loan is a means of financing available for home upgrading investments resulting in energy savings. Our clients can access the loan amount in a lump-sum even before the start of the investment which greatly facilitates the implementation of such investments as the initial costs for procuring material, machinery and equipment considerably exceed the cost of live labour needed for their installation. When applying for a K&H green loan, K&H Bank refunds the fee of the energy certificate related to the building for up to HUF 25 thousand. Next to the K&H green loan, we also offer the K&H 'green' home insurance to ensure the modernised property.



## VI. responsibility towards suppliers



We continued to pay special attention also in 2012 to work with supplier partners who are aware of the impact of their activities on the environment. We have 3 953 active suppliers.

The 'Mandatory components of contracts and General Contractual Terms and Conditions' of the Procurement Regulation were already supplemented in 2011 with the 'Social responsibility declaration', which includes the requirements pertaining to the ethical, environmentally conscious and socially responsible business activity and human rights and employee policy. We supplemented the 'Social responsibility declaration' with the section 'Anti-corruption requirements' in 2012.

In 2012, 65% of our effective contracts contained the 'Social responsibility declaration'.



## VII. responsibility towards the public



K&H Group continuously strives to inform its partners and clients via the publicity of the press about the important news, events and changes concerning the company's life.

In 2012, we had 14 press conferences and published 265 press releases, and we responded to 402 queries received from the media.

Our press releases are regularly published on our website so they are available and retrievable at any time for the public and for the media.



# VIII. responsibility towards the shareholders and the investors



## relationship with the financial analysts

In 2012, we disclosed our Company's financial results every quarter. In line with legislation, we have published K&H Group's semi-annual and annual results at kozzetetelek.hu and also on K&H's website on time.

## financial data

K&H's not audited, consolidated results according to the IFRS:

### → K&H Bank

as at 31 December 2012:

shareholders' equity: **HUF 215 billion**

total assets: **HUF 2,462 billion**

after tax profit: **HUF 20.5 billion**

### → K&H Insurance

as at 31 December 2012:

shareholders' equity: **HUF 10.3 billion**

total assets: **HUF 106.2 billion**

insurance technical results: **HUF 2.4 billion**

after tax profit: **HUF 1.9 billion**



## IX. awards, recognitions



### → Banker of the year 2012

The 'MasterCard – Bank of the year' programme is the competition of commercial banks operating in Hungary. In 2012, Hendrik Scheerlinck, CEO of K&H Bank received the honourable title of the 'Banker of the year 2012'. The managers of credit institutions operating in Hungary have selected the winners from among 35 nominees.

### → 'Project of the year'

On the Resource Property Award event, recognising outstanding performance in the real estate sector, the new headquarters of K&H won the award in the 'Project of the year' category in 2012.

### → Mentor Oscar 2012

K&H Bank received the Mentor Oscar award in 2012 recognising the persons and companies outstanding in the area of mentoring and coaching. This recognition is awarded each year to those persons and organisations who have achieved significant results in spreading and/or using the mentoring and coaching driven management in their work in Hungary. The Mentor Oscar professional award further increases the reputation of K&H as being an attractive workplace.

### → Golden Lollipop

The Creative Group has been rewarding the best of the BTL and communication solutions with the Lollipop award. In 2012, K&H Group and Extreme Event Agency won the first prize in the events category, client parties, employee events, team building sub-categories with the opening celebration of the K&H headquarters.

### → Consumer-Friendly Insurer of the Year

The prize was established in 2011 by the Hungarian Financial Supervisory Authority (HFSA), the Association of Hungarian Insurers (MABISZ), the Hungarian Consumer Protection Association (FOME) and Tetszett Magyar Fogyasztóvédelmi Elégedettségi Monitor Kft. ("Liked It Hungarian Consumer Protection Satisfaction Monitor Ltd", or Tetszett) to recognise the efforts of consumer-friendly financial organisations and to promote developments serving clients' interests. K&H Insurance has won the Consumer-Friendly Insurer of the Year title, the prize was awarded in 2012 by an independent professional judging panel.



# GRI – G3 index

FI - to be found in the publication titled sustainability guidelines

FJ - to be found in the publication titled sustainability report 2012



GRI Index	brief description	
<b>1</b>	<b>strategy and analysis</b>	
1.1	statement about the relevance of sustainability to the organisation and its strategy	FI 3, FJ4
1.2	description of key impacts, risks, and opportunities	FI 3
<b>2.</b>	<b>organisational profile</b>	
2.1	name of the organisation	FI 4, FJ5
2.2	primary brands, products, and / or services	FJ 5
2.3	operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures	FJ 5
2.4	location of organisation's headquarters	FI 12, FJ2
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 4
2.6	nature of ownership and legal form	FI 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 15, 23
2.9	significant changes during the reporting period regarding size, structure, or ownership	FJ 5
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 4
3.2	date of most recent previous report (if any)	FJ 4
3.3	reporting cycle (annual, biennial, etc.)	FJ 4
3.4	contact point for questions regarding the report or its contents	FJ 2, FI12
3.5	process for defining report content	FJ 4
3.6	boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers)	FJ 5
3.12	GRI content index	FJ 25
<b>4</b>	<b>governance, commitments and engagement</b>	
4.1	governance structure of the organization	FJ 5
4.4	mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	FJ 5, 16
4.6	processes in place for the highest governance body to ensure conflicts of interest are avoided	FI 7
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 6, FJ4
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 7, FJ 7
4.10	processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance	FI 6
4.11	explanation of whether and how the precautionary approach or principle is addressed by the organization	FI 9
4.12	externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses	FI 11, FJ 5
4.13	memberships in associations (such as industry associations) and / or national / international advocacy organizations	FI 11, FJ 5
4.14	list of stakeholder groups engaged by the organisation	FI 5, FJ 6
4.15	basis for identification and selection of stakeholders with whom to engage	FI 4
4.16	approaches to stakeholder engagement	FI 4
4.17	key topics and concerns that have been raised through stakeholder engagement	FI 4



<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 10-12, 14
EC8	development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement	FJ10-12
EC9	understanding and describing significant indirect economic impacts, including the extent of impacts	
<b>EN</b>	<b>environment performance indicators</b>	
EN3	direct energy consumption by primary energy source	FJ 8-9
EN5	energy saved due to conservation and efficiency improvements	FJ 8-9
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 9-10
EN16	total direct and indirect greenhouse gas emissions by weight	FJ 10
EN18	initiatives to reduce greenhouse gas emissions and reductions achieved	FJ 10
EN22	total weight of waste by type and disposal method	FJ 9
EN26	initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	FI 7, FJ 8-9
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 7
<b>LA</b>	<b>labour practices &amp; decent work</b>	
LA1	total workforce by employment type, employment contract, and region	FJ 15
LA3	benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	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	FJ 16-17
LA7	rates of injury, occupational diseases, lost days, and absenteeism, and total number of workrelated fatalities by region	FJ 15, 16
LA8	education, training, counselling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	FJ 14
LA11	programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	FJ 13-14
LA12	percentage of employees receiving regular performance and career development reviews	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 15
<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 4, FJ 10-12, FJ 18-19
S04	actions taken in response to incidents of corruption	FI 8
<b>PR</b>	<b>product responsibility</b>	
PR5	practices related to customer satisfaction, including results of surveys measuring customer satisfaction	FJ 19

