



K&H Group Sustainability Report 2011



member of the KBC group



→ **editorial information**

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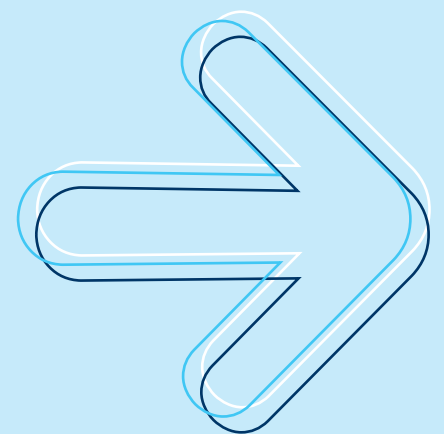
Hendrik Scheerlinck, CEO





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I. foreword by the CEO

Thank you for taking the time to study K&H Group's Year 2011 Sustainability Report! This year marks the sixth time that we give a detailed account of the activities we performed all through the year in the spirit of sustainability.

Even in the current, difficult economic environment that goes back a long way now we consider it important to carry on with the initiatives we launched in previous years. We believe that, beyond our obligation to provide high-standard financial services, our responsibility also extends to the sustainability of the economy, society and environment around us. K&H Group aims to make smart decisions in the course of its dynamic operation, whilst helping present and future societies live a full life.

Our focus areas in CSR remain unchanged. In 2011 we continued to focus on environmental protection, children's healthcare and sport. We also paid special attention to the establishment and maintenance of attractive workplaces. By moving into the new head office, we took significant steps in the direction of reducing energy consumption, and, at the same time, we created modern, dynamic and healthy working conditions for 2 500 colleagues. In 2011 we also celebrated a jubilee, as it was the tenth year running that we sponsored the Olympic Team and the fifth year that we contributed to the successes of the Paralympic Team. We also rejuvenated our bank card programme, and in the autumn round we fully left it to the general public to select the athletes we would sponsor. In the year of voluntary activities we paid special attention to community co-operation in children's healthcare. Our colleagues, partners and clients also actively participated in the programme. They read children's stories and collected toys and books for little patients recovering in hospital.

We are proud of the fact that in 2011 we received international recognition for the efforts we have made in the area of social responsibility: The Global Banking & Finance Review business portal awarded us the "Best in CSR Programmes Hungary 2011" prize. This tells us that we are on the right path, which gives us new momentum to carry on with our initiatives, despite the difficult circumstances. We trust that our activities will also encourage other economic players as well.



Hendrik Scheerlinck
CEO



II. introduction of K&H Group

→ K&H Bank's Board of Directors

(as at December 31, 2011)

- 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, 2011)

- Philip Marck (Chairman)
- Dirk Laureyns
- Zsuzsanna Kovács

→ K&H Insurance's Definitive Supervisory Board

(as at December 31, 2011)

- Johan B.P. Daemen (Chairman)
- Hendrik Scheerlinck
- Walter J.M. Bogaerts

→ K&H Bank's ownership structure

(as at December 31, 2011)

- KBC Bank N. V.: 100%
- number of retail branches: 236
- number of corporate branches: 10
- auditor: Ernst&Young

→ K&H Insurance's ownership structure

(as at December 31, 2011)

- KBC Insurance N. V.: 100%

→ key memberships in professional organisations

- Hungarian Banking Association
- Budapest Chambers of Commerce and Industry
- American Chamber of Commerce in Hungary

- Hungarian Forex Club
- International Swaps and Derivatives Association (ISDA)
- International Chambers of Commerce (ICC)
- Institute of Internal Auditors (IIA)
- Information Systems Audit and Control Association (ISACA)
- Komárom Esztergom County Chambers of Commerce and Industry
- Pénzügykutató Részvénytársaság [Financial Research Ltd.]
- Hungarian Association of Facility Management
- The Trilateral Commission (Europe)
- Academy Club Association
- Deloitte Zrt.
- 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.]
- Hírös Kulcs Kamarai Gazdaságfejlesztő és Szervezői Kft. ['Famous Key' Chamber Economic Development and Organisation Ltd.]
- 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 Biztosítók Szövetsége [Association of Hungarian Insurance Companies]
- Magyar Szálloda Szövetség [Hungarian Hotel Association]

→ identified stakeholders

- clients
 - existing clients
 - complaining clients



- 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

K&H set up its CSR Committee in 2009. The Committee holds regular meetings, and steers and supervises the Group's social responsibility activities.

In 2011 we carried on with the initiatives launched in previous years, and the Committee also looked into the progress made in respect of the targets quantified in previous years, to be achieved by 2013. In the area of HR we looked at the progress made in respect of young mothers returning to work, while in the domain of environmental protection we assessed the results of our power consumption reduction programme. In 2011 we managed to provide work to 70% of young mothers returning from maternity leave, which significantly exceeded our 60% target. In terms of power consumption, by building our new head office, we have made significant progress with the targets we have set for ourselves for the period ending in 2013. However, the power savings expected in 2011 as a result of this have not been realised due to the parallel usage of the old and new head offices over a period of close to 6 months.

We still believe that it's important to monitor the integration of CSR knowledge into our training programmes, and, for this reason, our internal trainers receive basic CSR training.

One recurring task for us year-by-year is to increase awareness of KBC Group's unified community policy amongst our employees via internal communications channels and to monitor relevant results, using questionnaires addressed to individual specialist areas.





III. responsibility to the community

→ environmental protection

→ new head office

When it comes to our new head office, considerations such as the establishment of attractive workplaces and our commitment towards environmental protection were put into focus, whilst we were also striving to significantly cut energy consumption.

Owing to the new head office we expect that in the long run power consumption will reduce by a total of 30-40% compared to previous years. Heat pumps are facilitating the exploitation of environmentally friendly energy all year round. By using these power sources we can significantly reduce the energy requirements of heating relative to other, traditional heating techniques. Pumps drilled into the Danube's gravel bed provide sufficient water volumes for engineering purposes, thus reducing the network's water consumption. The cooling/heating ceiling panels and the energy-saving light fittings also result in significant savings. To save water, we also use rain water for the irrigation of plants.

We have compiled a building information prospectus for employees working in the new head office, to familiarise them with the expectations we have set concerning the environmentally conscious and energy-saving use of the new building, thus also promoting the embedding of 'green thinking' into the company's operation.

→ safeguarding of resources

In 2011 we successfully completed the removal of Freon from all of our branches, installing modern, energy-saving air-conditioning equipment. In some of the branches we also started the implementation of LED light fittings, under a pilot scheme.

In 2011 we also managed to complete the modernisation of the company logo system launched in the previous year, and by now all of our company logos are illuminated using LED technology.

We can only take effective steps for environmental protection if environmentally friendly measures are embedded into the company's day-to-day thinking. In 2011 we again regularly communicated our thoughts to our employees, as a result of which colleagues now make sure that at the end of the day they switch off their computers, turn off the lights, collect waste in selective containers in the head office and only print documents if they really need to, as environmentally friendly thinking is also important when it comes to small day-to-day decisions.

→ power consumption

By moving into the new head office, we have taken significant steps to reduce our power consumption over the long term. However, in 2011 our power and gas consumption increased in a temporary manner, by close to 5-6%, as we moved into the new head office gradually, in several steps, and for a period of almost 6 months we used both the old and the new building parallel.

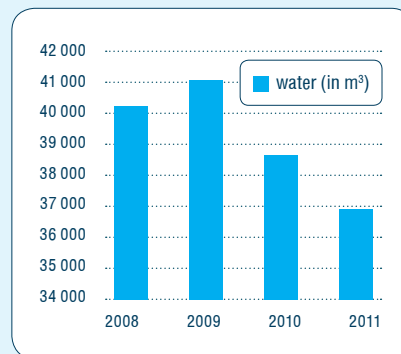
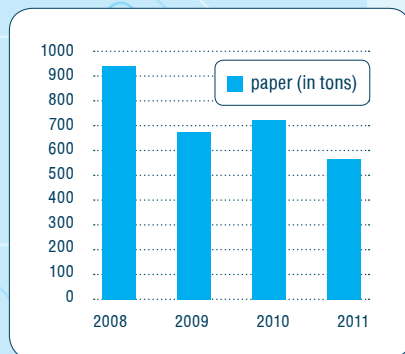


→ **green branches**

In 2011 we converted another 3 bank branches to green operation in Siklós, Hajdúszoboszló and Békéscsaba. Together with the branches converted in previous years we have a total of 9 green branches operating in Hungary, which, due to the elimination of fossil fuels, do not pollute the air at all.

→ **environmental protection details**

the evolution of paper and water consumption								
	2008		2009		2010		2011	
	FTE	utilisation	FTE	utilisation	FTE	utilisation	FTE	utilisation
paper (t)	4 523	936	4 373	667	4 376	717	4 261	564
utilisation in proportion to the number of FTEs (t)		0.21		0.15		0.16		0.11
water (m ³)	4 523	40 224	4 373	41 088	4 376	38 660	4 261	36 925
utilisation in proportion to the number of FTEs (m ³)		8.89		9.40		8.83		8.67

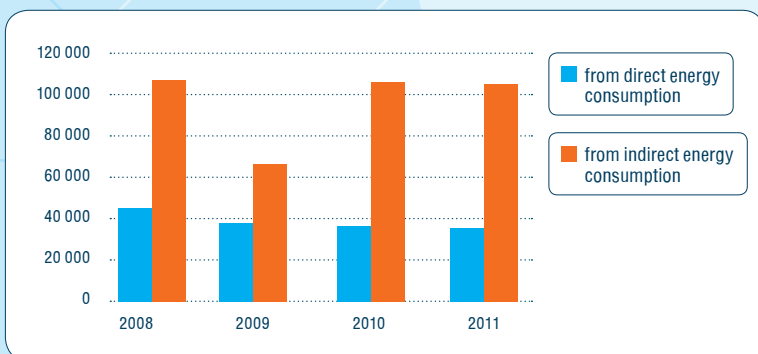


waste volumes and utilisation (in tons)						
	2006	2007	2008	2009	2010	2011
selectively collected and recycled	72	122	223	149	159	167
to the incinerator	n/a	585	22	26	16	9
to the waste deposit site of the waste management company	1 005	1 980	1 669	1 747	1 047	1 046
total waste	1 403	2 565	1 914	1 922	1 222	1 222



In terms of the utilisation of waste, the positive trend continued in 2011 as well: the volume of selectively collected and recycled waste increased by 8 tons, while the quantity of waste taken to the incinerator facility reduced by approximately 44%.

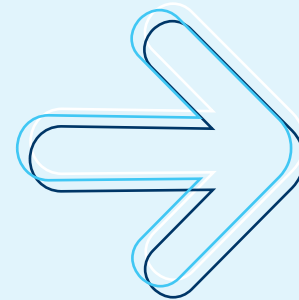
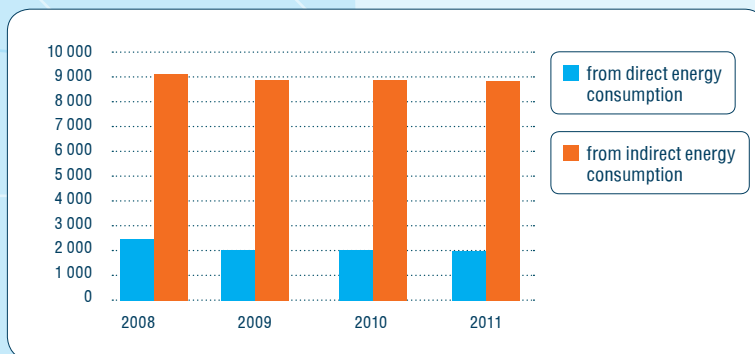
annual gas usage (GJ)				
	2008	2009	2010	2011
from direct energy consumption				
from gas consumption	44 840	37 084	36 200	35 900
from gasoline consumption	42	0	-	0
in total	44 882	37 084	36 200	35 900
from indirect energy consumption				
from power consumption (kWh/GJ)	67 895	65 520	65 465	65 432
other energy consumption (remote heating)	39 353	39 619	39 393	39 110
in total	107 248	65 520	104 858	104 542
grand total	152 130	102 604	141 058	140 442



In 2011 we managed to further reduce the volume of gas consumption arising from direct energy usage by a total of 300 GJ. We also managed to cut power usage and the energy requirement of remote heating services relative to 2010 figures.



CO ₂ emission (in tons)				
	2008	2009	2010	2011
from direct energy consumption				
from gas consumption	2 516	2 080	2 031	2 014
from gasoline consumption	3	0	0	0
in total	2 519	2 080	2 031	2 014
from indirect energy consumption				
from power consumption (kWh/GJ)	6 880	6 679	6 674	6 668
other energy consumption (remote heating)	2 208	2 223	2 210	2 194
in total	9 088	8 902	8 884	8 862
grand total	11 606	10 982	10 915	10 876



→ community role-playing

Similarly to previous years, in 2011 K&H Group's community initiatives were focused on 4 key areas: children's healthcare, sports, the performing arts and the education of young people.

children's healthcare

→ K&H Medi Magic

Our company has been a staunch supporter of children's healthcare for 8 years. We are consciously making sure that healthcare institutions are supported by us in line with changing healthcare requirements. In 2011 we focused on children's ophthalmology and otolaryngology services. 2011 was the year of voluntary activities, and therefore, on top of our equipment donations, we were also aiming to actively involve the community, members of society, as well as our colleagues in helping those in need.

→ nation-wide equipment tender

In 2011, 8 hospitals and surgeries across 7 counties received children's healthcare and life-saving equipment under the K&H Medi Magic programme, in the total value of approximately 25 million HUF, which also included awards to 4 ambulance stations whose children's specialist consultants received the grants in person.





“Thanks to the support of the K&H Medi Magic programme, we managed to purchase an up-to-date binocular ophthalmoscope which allows us to check children’s eye-grounds in a much easier and faster manner. As the device is portable, we can also use it outside the doctor’s office, by the children’s bedside. The remaining amount was spent on an examination frame and lens set essential for basic day-to-day eye examinations.., – explained one of the tender’s winners, Dr. Róbert Czigány, Consultant Ophthalmologist in the Ophthalmology Department of the Kanizsai Dorottya Hospital of Nagykanizsa.

→ **equipment subsidies for Christmas**

In 2011, we again offered the sum earmarked for purchasing Christmas presents for our clients and business partners to the K&H Medi Magic programme, and purchased life-saving equipment for 2 hospitals and 3 ambulance stations, in the total value of 8 million HUF.

→ **card programme**

Similarly to previous years, in 2011 we also continued our card programme. We set aside 1 HUF for the K&H healing magic programme from our own revenues for each purchase made in the value of 1 000 HUF using a K&H MasterCard bank card. In May, 2011, we managed to purchase medical equipment and devices for 10 hospitals and ambulance stations from the 18.1 million HUF collected in 2010.

→ **programmes in the spirit of voluntary activities**
story-reading little doctors

We are also keeping children’s spiritual health in mind, and for this reason each year we organise entertainment programmes to aid the recovery of little patients. In 2011, under the ‘story reading little doctors’ programme volunteers from secondary schools visited some local hospitals to read children’s stories to sick children. We used the healing power of story-telling on 15 occasions nation-wide, involving more than 100 secondary school students, to cheer up the time little patients spend recovering in hospital.

our clients’ help with healing

We announced toy and book-collections in 50 branches of our nation-wide branch network. Our clients collected a total of 5 000 toys and 2 000 books, filling 135 cases, which we handed over to little patients recovering in 35 hospitals.

In May we donated 900 footballs to three institutions focusing on the development of children disabled due to the impairment of their central nervous systems.

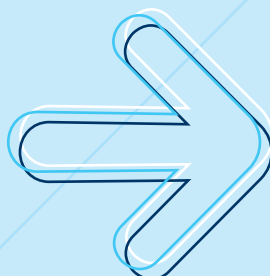
In addition, Gravoform, an SME client of ours, donated 500 000 HUF our program which was awarded to the Mór ambulance station.

At Christmas, 2011, the K&H Private Banking Directorate joined the K&H Medi magic programme for the third time. The Directorate’s clients decided to support the Neonatal and Children’s Unit of the Sopron Erzsébet Hospital for which they purchased equipment in the value of 533 400 HUF.

our colleagues help with healing

Our colleagues also have the healing of sick children close to their hearts, and support the K&H Medi magic programme by their own means. In 2011 they offered 1% of their personal income tax to the K&H healing magic programme in a total value of 1.5 million HUF. This sum was used to buy the equipment requested in the applications process for the Peter Cerny Foundation.

The employer’s contribution to the Christmas dinners of internal organisational units could be again donated in 2011, and, as a result, we managed to support the children’s hospice activities of the Szemem Fénye [The Light of my Eyes] Foundation with a sum of 627 000 HUF.



In the run-up to Christmas our colleagues also joined the story-telling initiative, with 50 volunteers visiting the children's departments of different hospitals, reading stories to little patients.

In 2011 a total of 141 colleagues donated blood, and professionals from the National Blood Supply Service drew a total of 63.45 litres of blood.

sports

In 2011 K&H Group again supported top athletes with their preparation for the 2012 Olympic and Paralympic Games. We also celebrated a jubilee, as K&H has been the financial institution of the Hungarian Olympic Team for 10 years and of the Hungarian Paralympic Team for 5.

„K&H Group has been a staunch supporter of the Hungarian Olympic and Paralympic Teams for a long time now. Since 2006 the Group has also been providing individual sponsorship to top athletes through its K&H Olympic and Paralympic card programme, helping them prepare for domestic and international competitions. The 10th, special jubilee prize giving ceremony is also behind us by now. We are very pleased that K&H can identify with the values of the Hungarian Olympic and Paralympic Committees. With the financial institution's help Olympic and Paralympic athletes can prepare for the impending London Games in a stress-free environment. We wish to thank you for your support on behalf of the athletes and the Hungarian Olympic Committee!” (Zsolt Borkai, Chairman of the Hungarian Olympic Committee)

„As the diamond-grade supporter of the Hungarian Paralympic Committee, K&H Bank gives a shining practical example of the emphasis it places on its role within the community and the elimination of segregation within society. K&H's Olympic and Paralympic card programme offers significant moral and financial support to our Paralympic athletes. We wish to extend our heartfelt congratulations for your jubilee celebrations, and wish you a similarly successful continuation of your programme!” (Zsolt Gömöri, Chairman of the Hungarian Paralympic Committee)

In addition to competitive sports, we also regularly support mass sport events attracting crowds longing for some exercise.

→ K&H Olympic running days

In 2011 we organised the K&H Olympic running day series for the 8th time, in 5 countryside towns: in Szeged, Kaposvár, Kecskemét, Dunaújváros and Veszprém. Those longing to exercise could also compare their skills in the Olympic Marathon and half-Marathon running relays organised in Budapest in May. 18 600 people participated in the running days, including 180 colleagues.

→ K&H Olympic cycling days

In September, 2011 we organised K&H's large-scale recreational sports event, the 2nd Budapest K&H Olympic cycling day. The number of participants doubled from the previous year, with approximately 10 000 people visiting the event, including families, groups of friends, the young and the old alike. Participants could also meet eager-to-exercise Olympians, veteran cyclists, as well as representatives of classic and extreme sports.

→ K&H card programme to support Olympic and Paralympic athletes

K&H's Olympic and Paralympic card programme was launched in 2006. Over the years we supported the preparation of 28 athletes with a total sum of 27 million HUF. In 2011 our Company handed over the one-off sponsorship amount to 6 top athletes. In the spring, we introduced two separate categories for Olympic athletes: the 'Olympic Hopeful' category, aiming

to support sportspeople in the early stages of their sports careers, and the 'Adult' category where sums are granted to top athletes who have already achieved excellent results.

In the spring, we awarded 1 million HUF to swimmer Boglárka Kapás in the 'Olympic Hopeful' category. In the 'Adult' category we supported the preparation of judo wrestler Anett Mészáros, and Paralympic swimmer Zsolt Vereczkei.

In the programme, for the first time, the selection of athletes for the autumn round was fully left to the wider public. In the 'Olympic Hopeful' category hammer thrower Bence Pásztor was awarded our 1 million HUF sponsorship, while in the 'Adult' category swimmer Gergő Kiss and Paralympic swimmer Tamás Tóth received 1 million HUF each to help them prepare for the year 2012 London Olympic and Paralympic Games.

performing arts

→ K&H, the Bank of 'Sziget'

In 2011 K&H offered banking and financial services to visitors of the Sziget Festival for the 7th year running. We operated a total of 6 ATMs for cash withdrawals, working round the clock.

education of young people

K&H places great importance on the financial education of young people, to make sure that, as adults, they have a better understanding of the world of finances and are able to make conscious decisions. In this spirit, in the 2010/2011 school year we launched the three-round K&H Ready, Steady, Money! nation-wide knowledge competition for primary school children that runs all through the school year. In the first year of the programme we received applications from 600 pupils, representing 150 teams from 89 schools. In the 2011/2012 school year we continued the initiative, and this time 3-5 strong teams of primary school children could apply for participation in one of 4 categories (classes 1-2, 3-4, 5-6, 7-8). This time three times as many (539) teams applied as in the previous year, from 226 different school, and the number of pupils participating in the competition grew four-fold, with 2 700 children elaborating tasks in the first round of the competition. The best teams could compare their skills in the regional semi-finals launched in March, 2012 in Zalaegerszeg, Győr, Miskolc, Szeged, Budapest, Pécs, Debrecen and Kecskemét, while the finals took place in May, in Budapest. In the competition K&H Group awarded prizes not only to pupils but also to schools and teachers.

reorganisation of the arts portfolio

K&H still maintains its previously defined objective of continuing to build up its art collection titled 'Art for a better and more meaningful world'. In 2011 we added another 7 works of art to the collection. The portfolio, similarly to the entire collection, reflects all of the values K&H as a company stands for: dynamism, the ability of rejuvenation, sensitivity towards social development, as well as striving for creating long-term value and reliability.

Based on the recommendation of the art advisory board involved, one work of art was added from each of three artists: László Révész, Zsuzsi Csiszér and Zsolt Ferenczy.

In 2011, under K&H's creative sponsorship programme, painter Hajnal Miklós received a monthly allowance of 125 000 HUF for a period of 6 months. As a new component in the programme, K&H G purchased one work of art from each of three additional artists: József Csató, Mátyás Misetics and Petra Klára Szabó, with a view to supporting young artistic talent. In conclusion of the previous sponsorship period, one painting of artist Judit Navratil was also added to the collection.



IV. responsibility towards employees

Suitably trained and motivated colleagues are an essential ingredient in the company's high-standard operation in the long term. When developing our corporate strategy, we always keep our colleagues' interests in mind, providing them with numerous training opportunities to promote their professional development. As a result, our colleagues are well-prepared and have high-standard system- and product-knowledge.

The establishment of attractive workplaces is a strong focus point within our sustainability strategy.

→ current employees

→ development of human resources, knowledge management

We offer a wide range of training opportunities to colleagues, to promote their career progression. They have access to managerial, language, skill enhancement and professional training sessions alike. To our local representatives we offer mandatory training courses and examinations required by the authorities to allow them to perform financial and insurance activities. On top of that, we offer product training and sessions to enhance their sales skills. Our most popular programmes are held by our own specialists, giving a bank-specific edge to general market knowledge and information.

In 2011, there were 476 types of training sessions available to bank colleagues. We organised a total of 1 003 training sessions (compared to 1164 in 2010). In 2011, colleagues from the insurance company could participate in 23 different types of training courses (compared to 28 in 2010).

In 2011, the number of per capita training days in the Bank (9) did not change relative to the previous year. However, we managed to make savings in terms of the funds spent on such trainings, spending a total of 434 million HUF (compared to 480 million HUF in 2010). The annual average per capita amount was 124 thousand HUF (compared to 131 thousand HUF in 2010). In 2011, the quality of training remained in focus. The participants' level of satisfaction stood at 96.7%.

In addition to our own training sessions, we also announce applications for study contracts twice a year. Under the programme we take over the financing of school type training or courses offering professional qualifications, subject to the conclusion of a study contract. In 2011 we could support the studies of 134 colleagues in total, including 47 new applicants.

→ career planning and development

The objective of our career development programmes is the selection and development, beyond regular training programmes, as well as the rotation of talented colleagues with management potential who put in excellent performance. This is essential for succession planning and also to ensure that managers are available to fill Top 100 managerial positions as well as key positions in the network. These objectives are underpinned by our KBC Talent Bank and K&H Network Manager programmes, in which 74 and 15 colleagues participated respectively in 2011. Of them, 7 colleagues have been appointed to Top 100 positions, and 2 to Branch Manager positions.





In 2011 a total of 238 people participated in career development programmes; 22 more than in 2010, with K&H Group spending a total of 49.2 million HUF for this purpose. This compares to 105.4 million HUF in 2010, due to the Management Academy organised for the senior management.

→ **pleasant work environment**

In 2011, the construction of K&H Group's new head office was completed, offering an up-to-date, modern and healthy work environment to approximately 2 500 employees. Beyond the modern offices, workstations and meeting rooms, the convenience of our colleagues is further served by changing rooms for cyclists, fitted with showers, additional showers on each level and a restaurant with panoramic views. In the offices cooling/heating ceiling panels are ensuring correct working temperatures. In the garage a car wash facility is also available to colleagues.

The internal furnishings of offices are attractive, comfortable, yet practical. We have taken measures to offer safe and ergonomically conscious working conditions. As an additional component, in 2011 we updated 300 workstations under the GLOW Workstation programme, and we have been gradually replacing monitors for a number of years. This year we replaced 850 monitors with 22" LCD monitors. This way, by the end of 2011 the ratio of traditional monitors reduced to 0.47%. In 100 specialist areas we supplied employees with double-22" monitors. In 2012 we plan to continue the upgrading of our equipment fleet.

→ **benefits**

To ensure that we have a satisfied and motivated workforce, in 2011 we also paid special attention to the recognition of outstanding performance. We also kept the retention of workplaces in focus, and, to facilitate this, we limited our annual salary increase programme to colleagues in the lower salary brackets.

In 2011, colleagues working for the Insurance Company in administrative and less generously remunerated specialist positions enjoyed an average 3% salary increase granted in a differentiated manner. From April 1, we introduced a general, 3% salary increase package in the Bank, subject to individual differentiation in view of the results of the competency evaluation exercise and our salary position compared to the rest of the market, for colleagues in subordinate, specialist and lower management positions. In 2011 we did not increase the salaries of top management.

There were no changes in the Bank's remuneration system; however, the restructuring of the internal grading system was given special focus.

→ **healthier colleagues**

Healthy colleagues are essential to the company's operation, and, for this reason, we pay special attention to ensuring that colleagues participate in regular health checks. In 2011 close to 600 more people attended health checks than in 2010. In 2011, K&H Group spent 28.5 million HUF on health protection and health services.

Regular exercise is also a crucial part of a healthy lifestyle, and, for this reason, the services of the fitness and gym hall operating in the new head office's vicinity can be used by our employees at discounted prices.

In 2011 we also organised flu jabs, and 99 colleagues used the opportunity to get immunised.



number of colleagues participating in health checks				
	2008	2009	2010	2011
health and safety checks in Budapest	2 285	1 584	1 800	2 399
specialist health checks	1 612	1 625	1 930	1 506
health checks run at countryside sites	1 059	1 120	1 280	1 560

In addition to the figures featuring in the table, approximately 100 colleagues also participated in health checks offered at the K&H Olympics, the Group's sports day for employees.

→ programme for young mothers

4 years ago we launched a programme for mothers on maternity leave, under the banner of 'K&H welcome back'. In 2011, 488 young mothers participated in the programme. Insurance managed to re-employ 100% of returning mothers (10 lady colleagues). 89 people indicated their intention to return to the Bank, of which 62 could be employed again, representing a re-employment ratio of 69.66%, which is better than the year 2010 result (67%). Following their return, young mothers can apply for part-time jobs both in the Bank and the Insurance Company, while on occasion, subject to individual agreement, the Bank can also offer part-time employment from home.

→ employee statistics

employee composition statistics				
gender, working time and age distribution of the Group organizational structure	2008	2009	2010	2011
senior management level / of which female employees	133 / 44	137 / 44	127 / 43	147 / 57
expert level, junior, middle and senior level / of which female employees	2560 / 1678	2545 / 1676	2183 / 1546	2176 / 1511
subordinate level / of which female employees	2156 / 1859	2019 / 1737	2078 / 1775	1931 / 1660
indefinite term	4 831	4 689	4362 / 3345	4222 / 3210
fixed term	18	12	26/19	32 / 18
active	4 400	4 261	3 956	3 798
inactive	449	458	491	456
male	1 269	1 244	1 024	1 026
female	3 580	3 457	3 364	3 228
full-time employee (100%)	4 756	4 599	3423 / 2506	3693 / 2711
part-time employee 80%-100%	6	68	8 / 5	8 / 5
part-time employee < 80 %	87	53	82 / 73	97 / 87
total number of active employees	4 400	4 261	4 400	3 798

- average age: 38.5 years
- average time of employment by company: 9.6 years
- ratio of women in managerial positions: 38.8%

reasons for missed days, number of missed days per reason specified				
	2008	2009	2010	2011
accident	463	646	571	499
illness	39 391	38 617	37 673	28 103
maternity leave	89 285	81 812	98 282	94 270
other paid leave (including ordinary leave)	113 157	118 752	118 126	119 231
other unpaid leave	7 670	6 289	2 997	5 304
total	249 966	246 116	257 649	247 407

fluctuation data (in %)				
Bank	2008	2009	2010	2011
total turnover (employee exit ratio)	12	3.9	8	13.5
voluntary turnover	7	3.6	3.6	4.1
K&H Insurance	2008	2009	2010	2011
total turnover (employee exit ratio)	9.4	6.6	6.4	6
voluntary turnover	7.5	4.7	5.6	7

At K&H employees have the opportunity to fill out a so-called Exit Sheet, which allows them to explain the reasons of their exit and they can share which sector and company they are joining. In 2011, 80% of exiting employees took advantage of the opportunity.

In 2011, as a result of the adverse economic conditions that have been prevailing for several years, K&H was forced to rightsize its workforce. The Bank Group reduced its headcount by 215 employees, Insurance terminated 22 employees in the first half of the year.

During the whole year the Bank Group let 331 employees go (nr. of terminated employment contracts) in total, from which 126 persons went to pension. Moreover 86 colleagues went to maternity leave. The Insurance terminated 52 employees altogether.

In 2011, a total of 71 persons took advantage of the services offered by the caring dismissal programme. With our outplacement and dismissal consulting services we helped our employees handle their problems and prepared them for a successful re-entry into the labour market. The success of our programme is proven by the fact that 88.8% of the participants managed to find a position on the labour market.

→ occupational safety, bank security

In 2011, we organized a bank security e-learning course for every employee. Considering the success of the e-learning initiative, we switched over to e-learning in the occupational security topic as well.

4374 employees took part in our fire protection training and 4103 employees attended the occupational safety training. Bank security audits and trainings were conducted in 49 branches, i.e., roughly 21% of the branches were involved in the process.

In 2011, there were 13 reported instances of workplace accidents. K&H Group holds trainings in order to avoid further accidents, during which employees are educated about eventual sources of danger and common causes of accidents.



→ internal communication

K&H Group's publication Csoportkép is published twice a month and it is distributed to the employees electronically.

In 2011, the internal communication of K&H focused on the strategy of K&H, the effects of the continuously changing economic environment, our move into the new Headquarters and HR policy.

We continued the "Chat with the CEO" programme throughout 2011 as well. The informal chats organized in every region and Headquarters attracted a total 600 employee — 15% of all the employees — attendees.

Colleagues also had the opportunity to ask questions at the kick-off events at the beginning of the year: The Country Team of K&H held presentations at 4 venues around the country, and afterwards the employees were allowed to ask questions from management. These events had 1100 attendees, representing around 30% of all the employees of K&H.

In order to improve the flow of information about our move into our new Headquarters we launched an electronic newsletter with 13 issues published in 2011. In addition, our colleagues also had the opportunity to ask questions about the move via a central email address and a dedicated online forum about the New Headquarters. A total of 150 questions were posted at the forum.

→ K&H employee sports day

In 2011, 982 colleagues participated at the K&H employee sports day, called K&H Olympics, organized for the 23rd time. Our colleagues had the opportunity to compare their sporting abilities in 17 different sports, and they also had access to free of charge health screenings.

→ trade union

The Trade Union of K&H currently represents the interests of 1450 employees and 950 retirees personally or — if necessary — before the law in legal proceedings. The trade union is engaged in talks with the company about the benefits and wages of employees as well as the social framework agreements and other annual agreements. In 2011, the trade union was able to provide social and placement related support to 1030 persons. The trade union was able to reach three important agreements with the company in 2011. These agreements related to increasing the prevailing probationary period, introducing flexitime employment and a new job grading system.

The K&H chapter of the other trade union: PSZDSZ (Free Trade Union of Financial Sector Employees) has a membership of 5.9%. The delegates of the trade union attended the negotiations held with K&H about the wages and benefits of the employees. They have held discussions with K&H about the issue of probation as well as the new job grading system, thereby assessing the effects of these measures on the employees. They have also made recommendations about the budget available for the grants allocated by the Social Committees to employees in need.

There is a Central Works Council, an Occupational Safety Committee, a Wages Committee, a Social Committee, a Social Aid Committee and a Collective Bargaining Committee at K&H. The Central Works Council has 13 members and has the right to make recommendations and provide an opinion about any material work reorganization and organizational structure issues. The Occupational Safety Committee has 5 members and has the power to take action in connection with work related issues. The Central Works Council and the Occupational Safety Committee both had two meetings each in 2011.





potential employees, recent graduates, and students majoring in finance

K&H organizes 6-15 week professional practical trainings for university and college students in order to find talented future employees and in order to keep in touch with potential recent graduates.

In 2011, the 6-week professional training programme attracted 119 students, and we had an additional 12 places for students within the framework of our 15-week training programme. Therefore, the number of students who attended our practical training programme overall increased compared with the previous year.

K&H had 4 positions open for recent graduates in 2011, who could familiarize themselves with and learn about the different departments of K&H Group during the 9-12-month rotation programme. Currently, all four of these recent graduates are employed by K&H Bank, holding positions such as Junior Marketing Manager, Junior Process Manager, Junior Corporate Strategic Advisor and Retail Portfolio Analyst.

K&H student cup

2011 marked the third time K&H has organized the bank simulation competition for college and university students. The increasing popularity of the competition is further proven by the fact that while in 2009 there were 456 participants, in 2010 the competition attracted 713 participants, and in 2011 the number of attendees reached 743, all competing in teams of three. The prize of the winning team was a 3-day professional training trip to Brussels, which included a visit to KBC Bank HQ.



V. responsibility to clients

In order to serve clients better, K&H is continuously developing its electronic and over the phone services, and has an e-bank service and a well-trained customer service centre at the disposal of its clients. In 2011, building on the success of our e-bank service, we introduced an e-post service as well, which allows us to handle certified documents electronically, which facilitates and speeds up the administration process for our clients.

→ helping clients

In 2011, we strove to ease the burdens of our clients who have been hit hardest by the economic crisis and to find a solution to their problems. Notwithstanding, thanks to the prudent lending policy of K&H in the years leading up to the crisis, the non-performing loans ratio of K&H Bank Group is better than the industrial average.

Our retail clients were provided with several different types of payment easement alternatives: foreign currency conversion, loan redemption in a foreign currency, repayment holidays, delayed payment, repayment easement, loan tenor extension, loan re-financing, payment in instalments, and the fixed repayment exchange rate and fixed exchange rate loan redemption scheme created by the government.

In 2011, a total of 4069 clients received some form of payment easement from K&H Group, and 1976 clients were able to extend the tenor of their loan. 28% of our clients took advantage of the preferential loan redemption scheme. This scheme reduced the before tax profit of K&H Bank Group by HUF 33.5 billion.

We pay special attention to properly informing our clients before they take out a loan, and we also make it a point for ourselves to assess any risk factors and share them with our clients. Through the information pamphlets available in the branches and on the Internet, we inform our clients on a regular basis about the possible arrangements they can apply for, if they find themselves in a situation where their monthly repayments become an issue.

There have been a few instances of evictions resulting from foreclosures. In 5 cases these evictions were initiated by the Bank and in 8 cases the evictions were requested by a third party, independent of K&H.

In 2011, 4-5 civil society organizations got in touch with K&H at a total of 40 times in connection with a non-performing client or a terminated contract. The two organizations that initiated contact with K&H Bank most frequently were the Financial Arbitration Board and the Association of Banking Clients Injured by Bank Loans.

→ ensuring accessibility

In 2011, 81% of our branches were fully accessible, and we have installed a speaker feature in 429 of our ATMs. This allows our physically disabled, blind or visually impaired clients to use our branches and ATMs on their own, under safe conditions.





→ **K&H TeleCenter**

Client calls are received by a professionally trained customer service centre 24 hours a day. As a result of the success of our online customer service, the number of clients who choose TeleCenter has decreased. While there were 662 000 calls received by the TeleCenter in 2010, in 2011 the same figure dropped to 633 000. In 237 500 of the cases electronic identification was performed, which reduced K&H's exposure to fraud and improved the safety of our clients and partners. In 2011, we started automating the allocation of our resources to become more efficient and conform to our clients' needs better. This was achieved through increasing the availability of our over-the-phone bankers, system control of timetables and working hours, and the automation of the handling of incoming/outgoing calls.

Our clients have the ability to ask for a call-back at a pre-specified time on our website to book an appointment with a branch.

In 2011, the colleagues working in the K&H TeleCenter also took on the task of performing the administrative tasks related to the new Széchenyi Recreational Card.

→ **e-bank**

The popularity of the K&H e-bank service is increasing. The rate of utilization of the K&H e-bank increased by 18% among our retail clients, and by 17% among our SME clients.

In the interest of making our services even more convenient for our clients and in line with international trends, we have introduced an e-post service for our SME clients, which allows us to handle certified documents electronically. These electronic statements are equivalent to the traditional hard-copies and are accepted by the authorities. As a result, the amount of the paper we use was cut by 98.5 tons.

→ **complaints handling**

Our clients can submit complaints in a variety of ways. In 2011, we had 22 professionally trained colleagues working at the Complaints Handling Department. Moreover, every customer service department of the Bank handles complaints. In 2011, K&H Bank received 28 173 complaints. Most complaints related to bankcard transactions. K&H Leasing Group and K&H Insurance received 1120 complaints, all of which were resolved by the colleagues.

K&H Bank won third place at the "Excellence in Client service, 2011 competition" in the electronic client complaints category.

In 2011, the complaints' handling fleet module of Leasing received an excellent ISO rating. The after asking 120 clients, the customer service of the Corporate Division of K&H was rated 4.8 on a scale of 5.



the number of complaints handled by the complaint handling department broken down by business lines and category (pc)

business line	category	2008	2009	2010	2011
retail	total retail	19 543	25 375	18 575	15 901
	account	4 451	4 982	4 735	4 157
	deposit, investment	539	875	179	351
	bank card	11 529	16 107	10 710	8 143
	loans	1 056	1 426	1 493	2 002
	e-bank	1 682	1 574	960	809
	other	286	411	498	439
SME	total of SME	3 263	2 684	2 108	2 035
	account	801	817	1 506	769
	deposit, investment	18	13	9	22
	bank card	162	1 233	420	689
	loans	43	60	25	18
	e-bank	680	457	102	479
	other	101	104	46	58
corporate	total corporate	1 501	1 413	1 082	878
	account	531	373	523	227
	deposits, investments	33	26	34	23
	loans	210	22	10	3
	bank card	10	351	40	166
	e-bank	588	387	403	380
	other	129	254	72	79
other	other, not elsewhere classified	0	0	14 847	9 359
	K&H Leasing	N/A	N/A	N/A	1 130
	K&H Insurance	N/A	N/A	N/A	1 120
total processed		24 307	29 472	36 612	30 423

In 2011, 162 of the complaints lodged by retail clients were made in connection with the preferential loan redemption scheme.

→ products, services

→ socially responsible funds

In 2011, K&H Investment Fund Management managed 2 socially responsible funds and 2 additional funds have matured in the first half of the year. They are unique in that the underlying investment reflects the values of sustainable development and social responsibility.

The K&H fix plusz öko (fixed plus eco) fund is capital and yield guaranteed fund with HUF 1.6 billion in total assets managed. The fund guarantees the capital invested until August 16, 2013 and offers a 140% share from the shares of companies that work in the field of alternative energy. The fund has been continuously available in the past four years.





The K&H öko (eco) fund is a higher risk, open-ended equity fund, which is an optimal investment opportunity into the shares of companies, whose core activity revolves around alternative energy, water management and the reduction of the harmful effects of climate change. The underlying funds include KBC equity funds, the shares of which have also been rated as Socially Responsible Investments (SRI). The amount of the total assets managed by the fund is HUF 400 million.

The K&H társadalmilag felelős (socially responsible) fund matured on February 11, 2011 at HUF 1.1 billion. The investors of the fund received 15.4% yield, which represents a yield of 7.12% per annum.

The K&H fix plus öko (fixed plus eco) fund paid 15% yield at the end of the overall 3-year tenor, and after the end of the transition period, it was merged into the K&H háromszor fizető emlékező (three payouts memory 2) fund in July 2011. After the merger the fund is no longer considered a socially responsible fund.

→ **green loans**

In 2011, we introduced a so-called green loan for clients, who are looking for a loan to finance home upgrades to improve energy efficiency. We refund the fee payable for the energy certificate of the building, and our clients may access the loan in one sum before the planned upgrade, which significantly improves the implementation of these types of investments, because the initial costs of having to buy the necessary materials, machines and equipment significantly outweigh the cost of labour required for the fitting of these pieces of equipment, materials and machines.





VI. responsibility to suppliers

During 2011, we have taken significant care to ensure that we only work with subcontractors, who are aware of the effects of their activities on the environment. We had a total of 4213 active subcontractors.

Our Procurement Regulations and the “Mandatory Elements of Agreements and the General Contracting Terms and Conditions (GCTC) of K&H” have been amended by a declaration of social responsibility.

In 2011, the pre-rating criteria of our partners for legal services provided by lawyers and legal counsels have been supplemented by a special “Attorney Pre-rating”.

In 2011, every new agreement we enter into contains a “Declaration of Social Responsibility” drawn up in 2010, which covers areas such as ethical, environmentally conscious and socially responsible business activity, and requirements relating to anti-corruption, human rights and employment policy. As a result, 60% of our agreements in effect in 2011 already contained the declaration.





VII. responsibility to the public

We are aware of the importance of press relations, that is why our colleagues have responded to a total of 367 queries from the press and we held 15 press conferences during the year. We answered 5 questions posted on social media sites.

K&H Group continually strives to inform its clients about important news, events and changes, which are related to the life of the company.

We publish the press releases issued to the public and the representatives of the press on our website, which is updated regularly, so they can be found any time.



VIII. responsibility to shareholders and investors

→ relations with financial analysts

In 2011, we published reports on the performance of K&H Group every three months. We also published the half-yearly and annual results of K&H Group at the website of Magyar Tőkepiac, kozzetetelek.hu, and the website of K&H in a timely fashion and in accordance with the relevant statutory provisions.

→ financial data

The non-audited consolidated results of K&H in accordance with the International Financial Reporting Standards (IFRS):

→ K&H Bank (as at December 31, 2011)

- shareholders' equity: HUF 194 billion
- total assets: HUF 2874 billion
- profit after taxes: HUF 1.0 billion

→ K&H Insurance (as at December 31, 2011)

- shareholders' equity: HUF 6.8 billion
- total assets: HUF 103.7 billion
- insurance technical profit: HUF 2.2 billion
- profit after taxes: HUF 1.9 billion

IX. awards, prizes

→ **The Bank of the Year in Hungary, 2011**

Banker Magazine once again awarded the title of “The Bank of the Year in Hungary, 2011” to K&H for its results and innovative solutions. The renowned magazine made its decision after it evaluated the financial results, growth ratios and performance indicators of the contenders, and it also assessed whether the nominated banks were setting up new standards in the local economy through innovative, cost-effective business development or the introduction of new technologies. This is not the first time K&H has received this award, because it was awarded the same title in 2008 as well.

→ **silver EFFIE advertisement effectiveness award**

In 2011, the integrated communication and motor third party liability insurance (MTPL) campaign of K&H in 2010 received the silver EFFIE award in the area of advertisement effectiveness in the financial sector. The illustrious professional panel rewarded the campaign with high scores — but did not give out a gold award in the finance category — and this was the first time a silver EFFIE was awarded in the insurance sector in Hungary.

This award is one of the greatest measures of recognition in the field of advertisement and communication, as it recognizes the real goal of advertisements as well as their overall effectiveness and market results. In 2011, K&H Group received its seventh EFFIE Award to date.

→ **best in CSR programs in Hungary in 2011**

The online business portal Global Banking & Finance Review — specializing in financial and banking sector news — awarded the title “Best in CSR Programmes Hungary 2011” to K&H. The authoritative business portal— the readership of which includes the decision-makers of the companies, banks, financial institutions and central banks featured on Fortune Magazine's Fortune 500 list — rewarded institutions that do the most for their clients and their environment.

→ GRI – G3 index

FI – In Sustainability – Guiding Principles

FJ – In Sustainability Report 2011

GRI index	brief description	
1.	strategy and analysis	
1.1	statement about the relevance of sustainability to the organization and its strategy	FI 3, FJ 4
1.2	description of key impacts, risks, and opportunities	FI 3
2.	organisational profile	
2.1	name of the organisation	FI 4, FJ 5
2.2	primary brands, products, and / or services	FJ 22
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, 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 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 6, 26
2.9	significant changes during the reporting period regarding size, structure, or ownership	FJ 5
2.10	awards received in the reporting period	FJ 27
3.	report parameters	
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, FI 12
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 28
4.	governance, commitments and engagement	
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 6
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, FJ 4
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 6
4.10	processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance	FI 6, FJ 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 5
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
5.	management approach and performance indicators	

EC	economic performance indicators	
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 10-13, 15, 26
EC8	development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement	FJ 10
EC9	understanding and describing significant indirect economic impacts, including the extent of impacts	FJ 22
EN	environment performance indicators	
EN3	direct energy consumption by primary energy source	FJ 9
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 7,8
EN16	total direct and indirect greenhouse gas emissions by weight	
EN18	initiatives to reduce greenhouse gas emissions and reductions achieved	FJ 10
EN22	total weight of waste by type and disposal method	FJ 8
EN26	initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	FI 7, FJ 7-9
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
LA	labour practices & decent work	
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	FJ 15
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 18
LA7	rates of injury, occupational diseases, lost days, and absenteeism, and total number of workrelated fatalities by region	FJ 17
LA8	education, training, counselling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	FJ 15
LA11	programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	FJ 14,15
LA12	percentage of employees receiving regular performance and career development reviews	FJ 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
HR	human rights	
HR2	percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	FJ 24
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
S0	society	
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 10-13, FJ 20-21
S04	actions taken in response to incidents of corruption	FI 8
PR	product responsibility	
PR5	practices related to customer satisfaction, including results of surveys measuring customer satisfaction	FJ 21-22