

Corporate Responsibility Report 2018

BANK **NORDIK**

Corporate Responsibility Report

Company Profile

As a trusted financial partner through more than 100 years, BankNordik's hallmark has been its close relationship with its customers and its strong local commitment. In 2007, two thirds of the Bank's share capital was sold and the shares were listed in a public offering. In the following years, the Bank implemented an expansion strategy in the North Atlantic region and significantly increased its international activities. In conjunction with the expansion, the Bank modernised its brand and changed its name to BankNordik (previously Føroya Banki) to foster a stronger identity throughout its geographical footprint.

Today, the Group provides financial services to individuals, corporations and public institutions across the North Atlantic region.

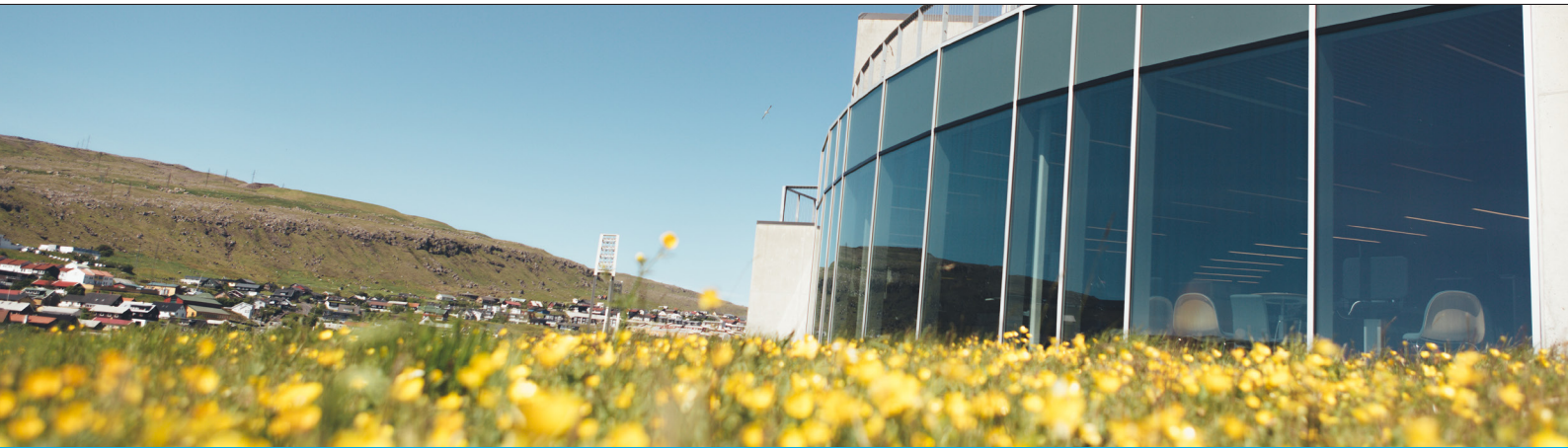
- Banking, pension and insurance in the Faroe Islands
- Banking and pension in Denmark and Greenland

In addition to the overarching BankNordik brand, the Group operates insurance activities under the brands of Trygd and NordikLív, as well as a real estate brokerage under the brand of Skyn in the Faroe Islands.

19
Branches across
3 countries

10
DKKbn in lending

393
Full-time
employees



Our philosophy

At BankNordik, we strive to build a relationship-centric bank that places the customer at the centre of business, provides tailored financial advice and makes the banking experience less complex. Our commitment to conduct responsible business revolves around a set of values consisting of 'Competence, Commitment and Drive', which form the backbone of our efforts to create sustainable and shared value for the Group's stakeholders. In addition to economic value creation through responsible business conduct; through the benefits that our products bring to our customers; and through banking expertise, the Group aims to create social value through community involvement. As such, BankNordik's approach is centred on its customers, employees and the local community.

Corporate sustainability approach

Given the Group's historically strong commitment to community involvement and the desire to make a positive difference for our customers and employees, BankNordik's approach rests on these three pillars: our customers, our employees, and the local community.

Customers



There are thousands of reasons why our customers are at the core of our corporate responsibility agenda. Finance matters to the well-being of individuals and we work hard to be their trusted partner.

Employees



For BankNordik to remain agile and adaptive in response to a changing and ever more competitive business landscape, a qualified, motivated and happy workforce is the most important ingredient.

Local community



Engaging in and supporting local initiative has always been an integral part of the Group's business model. That is how we create real sustainable and shared value.

The guiding principles of UN Sustainable Development Goals

Even though BankNordik's activities are locally placed, we consider ourselves a part of the global community and take upon ourselves a responsibility to contribute to creating a better and more sustainable future. We therefore support the UN Sustainable Development Goals – a collection of 17 global goals to be addressed by 2030 – and choose to focus our efforts on goals no. 4 (quality education), 8 (decent work and economic growth) and 11 (sustainable cities and communities).



Strengthening the quality of our customer relationships

The financial industry is currently being reshaped by digital transformation and a fast pace of change in consumer behaviour. This provides both challenges and opportunities for financial institutions in their attempt to gain a competitive advantage in a changing business landscape. In spite of this undergoing paradigm change, we believe that maintaining and nurturing personal relationships remains paramount to continued success. To create real value for our customers, we need to listen to and understand their needs. BankNordik's responsibility efforts therefore converge naturally with our customer-centric approach. We hope this will contribute, over time, to building confidence in our way of conducting business.

Customer satisfaction on the rise

It has become evident in recent years that the Group has been facing a challenge concerning personal customer satisfaction in the Danish market. Ongoing third-party surveys carried out in the Danish market typically rank BankNordik at the low end of its Danish peer group. It should be noted that these issues are only prevalent in Denmark – not in the Faroe Islands or Greenland, where BankNordik enjoys high customer satisfaction ratings. The Bank has scrutinised the root causes of the subpar performance in Denmark, and a pattern of disparity amongst different customer segments has emerged. As it turns out, a notable share of dissatisfied customers belong to the peripheral sphere of BankNordik’s customer base - typically customers with low banking volumes or activity and customers who had not actively selected BankNordik, but were part of the Group’s acquisitions in 2010 and 2011. In numbers, these customers amount to a great many, but they make up a relatively small share of BankNordik’s overall business volume. Having acknowledged the issue at hand, BankNordik reached out to over 10,000 customers within this category in 2018 to establish more personalised relations. In some instances, relationships have been restored and strengthened. In others, expectations have been managed on a personal level and disgruntled customers have been addressed in a constructive manner.



Momentum for continued progress

Taking the above-mentioned initiatives to improve the customer experience into consideration, it is no coincidence that the Group's satisfaction ratings improved in 2018. Surveys carried out by third party research firms as well as the Group's own Net Promoter Score system confirm a general improvement in BankNordik's customer satisfaction rates. In 2018, the Group's aggregate NPS score improved by 11 index points on a scale from -100 to +100. On Trustpilot, an online user review platform, BankNordik has received more than a thousand reviews from customers familiar with the Bank. See BankNordik's reviews on Trustpilot [here](#).

Given BankNordik's commitment to strengthening its relationships and improving the customer experience, it is encouraging to note that these efforts are now leading to improved customer feedback and ratings. This provides reassurance that BankNordik is on the right path and adds momentum for continued progress.

Limiting the use of banking jargon

A common challenge facing financial institutions in today's user-friendly digital environment is the need for banks to communicate in a simple and more comprehensible manner. This transformation is long overdue, as banks have been struggling to keep up with other industries. At the centre of this development is the need for traditional banking institutions to alter their ways of communicating, as consumers are ever more inclined to demand providers of financial services to convey their messages in clear and concise terms.

Acknowledging the need to reconsider the ways in which we interact with our customers, BankNordik has been working to make the banking experience less complex by cutting out banking jargon. The Group's entire written communication, such as marketing materials, legal papers, guidelines, etc. are currently being reviewed and, where applicable, alterations are being made to simplify paragraphs, eliminating what may appear to be banking gibberish. Internally, there has been great emphasis on the benefits of improved communication and employees have cultivated an awareness of reducing the use of banking lingo when communicating with customers in person.

Going forward, simplicity will remain an integral component of our objective to deliver an improved customer ex-



The fictitious BankNordik employee, Lars, at an anti-jibberish workshop.

perience, not only by eliminating the use of complex parlance but also in terms of improved relevance, preferred methods of communication, less hassle and easier access to the right body of knowledge for more complicated financial issues.

The design of BankNordik's new website, launched in April 2018, is also intended to minimise the distance between the Bank and the consumer. Rather than focusing only on presenting the entire product range, we take a more holistic approach by providing guidance on typical life situations that are relevant to consumers seeking financial advice and services. This transmits to anything from starting a family, buying a home, planning for retirement or even providing financial guidance relating to various hardships in life. The well-rounded combination of layout and content quality is what creates value for our customers and contributes to strengthening the customer experience.

As an additional new feature on the Group's website, visitors are encouraged to place what they believe to be banking gibberish in a digital trash bin visible in the bottom-right corner. Financial terms and sentences submitted are reviewed and, if viable, revised to more comprehensible and explicative concepts.



Guidance on interest rate risk

Faroese households have historically funded their housing by way of traditional bank loans. These loans carry variable interest rates, which change as market interest rates change. As a result, monthly payments will vary depending on the interest rate level. In contrast, a fixed-interest mortgage loan contributes to stable monthly payments for as long as the terms dictate. Which option is preferable to the other depends on several factors, including interest rate levels, expectations, duration, consumer preferences, disposable income, etc.

The traditional bank loan is indeed more convenient due to its flexible nature – the debtor can easily engage with BankNordik to adjust the payment schedule or refinance the loan. When dealing with mortgages, on the other hand, the terms are set in stone from start and cannot be changed unless the borrower redeems the loan. This partially explains Faroese consumers' preference towards traditional bank loans.

Household debt is relatively low in the Faroe Islands and the proportion of variable rate loans is therefore unproblematic. Higher housing prices have also contributed to a rise in household equity, amplified by the strong propensity and willingness of households to amortise their loans. The average Faroese household is therefore in good financial shape.

For first-time buyers, however, typically young families having recently entered the job market, recent years' rising house prices have required buyers to make larger investments and



assume more debt. This segment is therefore vulnerable to interest rate increases.

The intent behind BankNordik's most recent Faroese marketing campaign has therefore been to raise household awareness of potential interest rate vulnerability. The idea was to provide genuine notice to customers with high debt and long duration loans to evaluate their choice of funding and contemplate re-mortgaging to fixed interest. A fixed-rate mortgage loan offers insurance not only against rising instalments, it can also protect against negative equity if housing prices head lower due to rising interest rates. Although the current interest rate outlook does not indicate higher levels in the foreseeable future, buying a fixed-rate mortgage when interest rates are historically low could prove valuable just in case of changing circumstances.

This campaign is part of BankNordik's strategy to promote responsible financial behaviour because we know that healthy personal finances are important to an individual's well-being. When our customers take financial responsibility, both parties benefit, and the community becomes more resilient.

Compatible with goal no. 11



Employee development and satisfaction

For BankNordik to remain agile and adaptive in response to a changing and ever more competitive business landscape, having a qualified and motivated workforce is the most important ingredient. We recognise the importance of building a working environment that aligns to the needs of the individual with the importance of maintaining a healthy work-life balance. In addition, the Group seeks to arrange employee development programmes, social events, and other initiatives on a regular basis that will contribute to strengthening our corporate culture and nurturing better business performance.

Compatible with goal no. 4 and 8



Empowering employees to expand the Group's collective capabilities

At the BankNordik Group, we understand that employee development is critical to achieving – and repeating – successful business results. We therefore constantly work to develop our human resources and improve the future potential of our employees. Each year, BankNordik invests in trainee programmes, enrolls employees in academic business courses, and arranges on-site training and team-building activities. In addition to strengthening the skills and creating a more dynamic workforce, our experience shows that these development efforts have a positive effect on our employee retention rate.

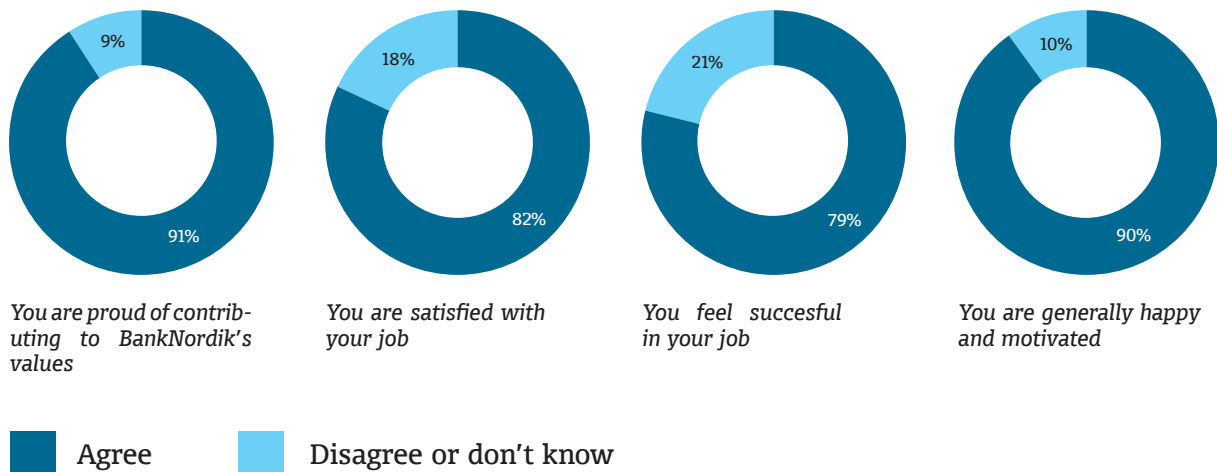
At year-end 2018, we had:

- 16 bank and insurance trainees enrolled in a two-year programme at BankNordik covering all areas of regular banking and insurance products and services;
- 14 employees enrolled in academic business programmes.

Employee satisfaction

An important part of this process to attract and retain a highly motivated and skilled workforce is to build a high level of overall job satisfaction amongst our employees. BankNordik's annual employee engagement survey, which encourages respondents to provide feedback on a series of organisational parameters, indicated that overall satisfaction remained flat in 2018 compared to 2017. The survey, which was carried out by an independent third party, provides meaningful insights into the strength of our corporate culture and values. It also points to areas within the organisation that should be prioritised going forward. In 2018, BankNordik scored 4.14 on a scale of 1 (lowest) to 5 (highest) compared to a score of 4.15 in 2017.

Figures from the 2018 employee satisfaction survey





Nurturing an inclusive workplace culture

The Group's main consideration in relation to appointments to management positions is to ensure they are filled by people who possess the best qualifications within their respective fields. It is therefore paramount to uphold equality of opportunity to be able to fully utilise the entire talent pool and support a diverse workforce in the pursuit of better business performance. As such, each of BankNordik's employees, regardless of gender, is encouraged to leverage his or her skills and freely seek career advancements with equal opportunities. In an industry where gender balance is a general challenge, a total of 31% of the Group's leadership positions were held by women at year-end 2018. This is a step backwards compared to 2017 when 37% of leadership positions were held by women as the centralisation of investment management activities in 2018 involved the severance of two female managers.

BankNordik's ambition is to not underrepresent either gender by a wider margin than 40% vs. 60%, emphasising that this is an area for continued development.



NordikCompetence

NordikCompetence is an internal employee programme that combines employee development and innovation to foster new ways of doing business. The program is created as a platform for talented employees to join forces and generate innovative solutions that may unlock value through efficiency enhancements or contributions to top-line growth. This could be everything from improved customer experience to product enhancements or process streamlining. Each year, new teams are established and employees from different areas and levels of the organisation become involved in activities that speak to their interests for the purpose of generating new ideas that can evolve into real solutions. The 2018/2019 program extends over 12 months and comprises a quarterly tuition programme facilitated by external consultants in order to leverage the outcome of the project assignments.

Community development

BankNordik has been strongly anchored in our local communities throughout its more than 100-year history, contributing to the social, cultural and economic development. With the expansion of the Group's operations in the Nordic region, we are as committed today to continue our strong local presence across the regions in which the Group operates. In 2018, we dedicated a great deal of our responsibility efforts to educational initiatives. Education empowers people and lays the groundwork for growth and prosperity. It removes barriers for opportunity and builds confidence. Indeed, we as a financial institution are completely reliant upon the outcome of education to remain competitive in a modern world and create value for our stakeholders in the future.

Direct Economic Impact

	DKK m
Total income, excl. non-recurring items	708
Salaries and benefits	-269
Supplier spend	-185
Corporate tax paid to government	-61
Payment to providers of equity	-70
Community investment	-2
Economic value retained	120

Compatible with goal no. 4 and 11



Education

Ensuring easy access to children's literature

BankNordik, in cooperation with Smyril Line, is partnering with the Faroese Teachers Association's Publishing Company (BFL) to improve accessibility of Faroese literature to children of expats in Denmark. BFL is a publishing company specialised in children's literature.

It is vital for the Faroese people and its culture to preserve the Faroese language in face of global influences. Beside the approximate 51.000 inhabitants of the Faroe Islands, an estimated 25.000 people living in Denmark speak the Faroese language. Easy access to Faroese literature is therefore a key aspect in protecting and developing the Faroese language. However, the cost of transportation between the Faroe Islands and Denmark has been a restraining factor in the distribution of literature to children of Faroese expats. In some instances, transportation costs would exceed the price of the book. The agreement between BankNordik, Smyril Line and BFL grants children in Denmark access to Faroese literature for prices equal to that of the locals.



Silja Aldudóttir, sales and marketing at BFL, Turið F. Arge, Chief Commercial Officer at BankNordik, and Niels Jákup Thomsen, managing director at BFL.

"It's very pleasing to see that our contribution has had a positive impact on the distribution of literature to children of Faroese expats in Denmark. Knowing that reading stimulates children's language skills, it is important to enhance their exposure to Faroese literature while residing in Denmark. As such, we are proud of our contribution to improving the language skills of Faroese children living in Denmark," said BankNordik Chief Commercial Officer, Turið F. Arge.

"Research has revealed that Faroese children are not reading enough books. That is why our collaboration is such an important initiative in the effort to change this course. The accessibility to Faroese literature is a vital step in this process, which is why I am particularly satisfied with the new partnership," said BLF Managing Director, Niels Jákup Thomsen.

BankNordik partnering with international high-school programme

BankNordik has entered into an agreement with Nordatlantisk Gymnasieklasse (NGK) to provide two grants of DKK 150,000 for students entering their 3-year cross-border educational programme.

The NGK-programme starts in August when a group of high-school students from across the North Atlantic region will embark on a journey to attain their degrees while studying in the Faroe Islands, Denmark, Iceland and Greenland. The BankNordik grant secures an annual funding of DKK 50,000 for two students over a period of three years to cover accommodation and travel expenses.

“The NGK-programme is a new and exciting concept, which will contribute to strengthening relations across the North Atlantic and give the participants invaluable lessons in natural science and intercultural skills. We are very pleased with the BankNordik grant, which will be a great help to the students, as they are responsible for their own board and lodging,” said Páll Isholm, Dean of Kambsdal College.



The BankNordik Grant to Greenlandic students

The BankNordik Grant is a financial aid programme for Greenlandic students enrolled in higher education who have BankNordik as their primary bank connection. Grants of DKK 25,000 each are awarded to two students twice a year for a total of DKK 100,000 in annual grant contributions.

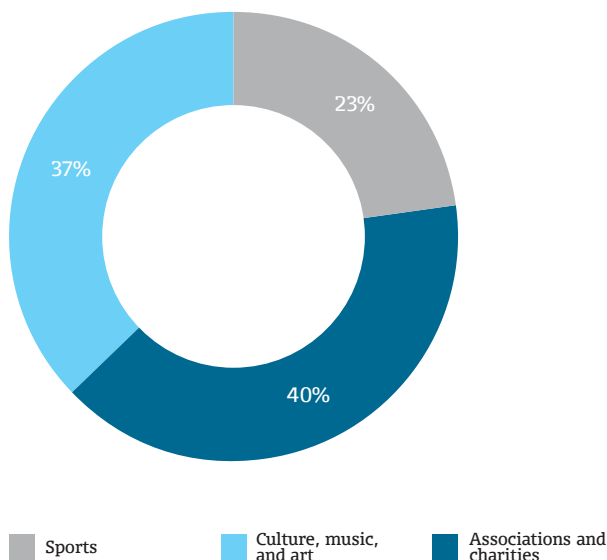
The Greenlandic government has an objective to increase educational attainment and lift labour force qualifications in order to raise the nation's economic potential. This is a worthy cause for BankNordik to support as we strongly believe in the power of education for both the individual and for society as a whole.

The condition of eligibility to receive the grant is enrolment in an academic or professional educational programme, either in Greenland or abroad. In return for the grant, the awardees are asked to contribute to producing a piece of content for BankNordik's website and social media.

Contributions and local sponsorships

In recognition of the crucial role associations, sports institutions, and cultural activities play in a cohesive community, BankNordik has historically been a strong supporter of initiatives related to community development. BankNordik prefers to support and sponsor initiatives that have a broad appeal, include people of all ages, and that are beneficial to both parties. More importantly, the purpose must be compatible with our own values. In 2018, the Group contributed DKK 2.1m to local initiatives distributed as illustrated below.

Sponsorships and contributions in 2019



Progress on UN Sustainable Development Goals



BankNordik’s commitment to empower its workforce and the communities in which we operate through education is compatible with SDG no. 4 on quality education, specifically indicator 4.3 to ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university and 4.3.1 on participation rate of youth and adults in formal and non-formal education and training in the previous 12 months, by sex.

Impact

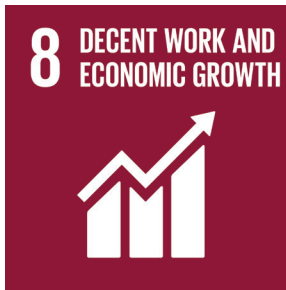
- Contributing to and promoting higher education in local communities
- Supporting lifelong learning within our own company

Status

- + Grants have been established for upper secondary educational programmes and higher education.
- + Supporting children of expats in acquiring Faroese language skills
- + 16 trainees and 25 employees at BankNordik enrolled in academic business programs

Plan

- Continue promoting increased educational attainment
- Contemplating to support schools in teaching children the basics of personal finance



BankNordik’s commitments to developing its human resources for continued successful results and to drive growth through efficient allocation of capital is compatible with SDG no. 8 on decent work and economic growth, specifically indicator 8.3 to promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services

Impact

- Making sure capital is efficiently and sustainably allocated to drive economic growth
- Acting with integrity and competence to allow customers to realise their fullest financial potential
- Building up a skilled, motivated and happy workforce

Status

- + High employee satisfaction
- + Healthy growth in financial volumes
- ÷ Employment retention ratio not satisfactory
- ÷ Public appreciation of the role of financial institutions and the understanding of the underlying regulatory regime is low

Plan

- Preserve pertinent and ethical credit policy guidelines and act accordingly
- Continue to improve BankNordik’s standing as an exemplary intermediary of capital
- Raise operational efficiency and create productive jobs
- Improve employee turnover



BankNordik’s historical contribution to the social, cultural and economic development of the local community is compatible with SDG no. 11 on sustainable cities and communities, specifically indicator 11.3 to enhance inclusive and sustainable urbanization and capacity for participatory, integrated and sustainable human settlement planning and management in all countries, as well as indicator 11.4 to strengthen efforts to protect and safeguard the world’s cultural and natural heritage.

Impact

- More than 100 years of commitment to the local community
- Creating shared value by being an active and engaging member of the communities we serve
- Financing local initiative and smaller businesses
- Putting the customer’s interests first for long-term prosperity and well-being
- Encouraging healthy finances and promoting responsible financial behaviour

Status

- + Financially supporting hundreds of individuals and organisations within the fields of art, music, sports, charities, associations, etc.
- + Social media strategy to produce quality content that adds real value for customers
- ÷ Need to improve customer experience and satisfaction within certain segments of the Group’s customer base

Plan

- Continue contributing to strengthened social cohesion in the communities we operate in
- Planning to increase focus on sustainability and environmental impact
- Working hard to deliver improved bank experiences for all of our customers and to raise their loyalty and satisfaction

Policies and standards

The Group has not formally incorporated environmental or human rights policies as part of its CSR-programme. These issues, nonetheless, remain an integral part of the Group's general business practices. We do, however, support the UN Sustainable Development goals and choose to focus our efforts on goals no. 4, 8 and 11.

