

18 April 2018

Merger between Nordjyske Bank and Ringkjøbing Landbobank

- The boards of directors of Nordjyske Bank and Ringkjøbing Landbobank are recommending to their shareholders that the two regional banks should merge. A merger agreement was entered into today.
- The merger will be implemented with an exchange ratio whereby shareholders of Nordjyske Bank will receive one Ringkjøbing Landbobank share for every two Nordjyske Bank shares held plus DKK 18 in cash. The shareholders of Nordjyske Bank will thus receive a share of the continuing value creation in the new bank.
- The merger is an attractive strategic match and will create an even stronger Jutland bank for the benefit of shareholders, customers, employees and the local communities.

Background

The boards of directors of Nordjyske Bank and Ringkjøbing Landbobank have entered into a merger agreement. The merger represents an attractive alternative to Jyske Bank's bid for Nordjyske Bank.

The board of directors of Nordjyske Bank has found it important that the merger shows a high degree of consideration for all of the bank's stakeholders, secures its shareholders a share of the continued value creation and offers real influence on the new bank.

The background for the merger between Nordjyske Bank and Ringkjøbing Landbobank is the desire to create an even stronger Jutland bank. A bank that will continue to play a decisive role in North Jutland and ensure that decisions continue to be made locally. The merger will create one of Denmark's most efficient banks with a solid capital base, strong products and highly competent employees to meet the customers' requests and requirements for high-quality services and advice.

Surviving company, name and head office

Ringkjøbing Landbobank will be the surviving company. It has been decided in connection with the merger to market the new bank under two brands: "Nordjyske Bank" and "Ringkjøbing Landbobank" – with Nordjyske Bank's torch as the common logo.

The head office will be located in Ringkjøbing with a regional head office in North Jutland.

The management of the merged bank

The shareholders' committee of Ringkjøbing Landbobank will be increased by 12 members from Nordjyske Bank's current board of directors and shareholders' committee. A local council will be established in North Jutland for Nordjyske Bank's entire current shareholders' committee. It has further been agreed that shareholders' meetings will be held in Frederikshavn, Hjørring and Nørresundby in future.

The new bank's board of directors will consist of eight members elected by the shareholders' committee; three will be from Nordjyske Bank and five from Ringkjøbing Landbobank. Martin Krogh Pedersen, the current chairman of the board of directors of Ringkjøbing Landbobank, will be chairman. In addition, there will be two deputy chairmen, viz. Mads Hvolby, the current chairman of the board of directors of Nordjyske Bank, and Jens Møller Nielsen, the current deputy chairman of Ringkjøbing Landbobank.

It has been agreed that the new general management will consist of four members with John Bull Fisker, the current CEO of Ringkjøbing Landbobank, as CEO and Claus Andersen and Carl Pedersen, the current CEO and deputy CEO of Nordjyske Bank respectively, and Jørn Nielsen, the current general manager of Ringkjøbing Landbobank, as general managers.

A natural merger

Nordjyske Bank and Ringkjøbing Landbobank have collaborated closely for more than 25 years. Today we use the same suppliers of products: Bankdata, Totalkredit, BankInvest, Letpension (PFA), Privatsikring and others.

Both banks are typical relationship banks with very high levels of customer satisfaction and a good reputation. In the latest major Voxmeter survey of image in Denmark the two banks were ranked best and third best among the twenty biggest banks in the country.

A strong strategic match

Nordjyske Bank has all its branches in North Jutland plus one in Copenhagen. Ringkjøbing Landbobank's branch network is in Central and West Jutland and with branches in Holte, Aarhus and Vejle. This means that the branch network will remain unchanged after the merger. The merger will also pave the way for new products to the total branch network. Examples are Ringkjøbing Landbobank's niche concepts and Private Banking concept and Nordjyske Bank's specialised functions in Fisheries etc. The bank will also cater for new customer segments in North Jutland.

Furthermore, the complementary branch network will add to our services to customers, with the possibility of new customers in Denmark's biggest cities – Copenhagen, Aarhus and Aalborg.

Both banks today use Bankdata and Totalkredit. This means that no extra costs will be incurred for exit charges to the IT centre, and commission from Totalkredit will continue to accrue to the new bank.

Reorganisation and synergies

We have quantified synergies from the merger of the order of DKK 60 million in the short term and an additional DKK 40 million in the medium term. Most of the synergies are attributable to head office functions in Nørresundby and to duplication of expenses. A range of functions will remain at the regional head office to support a quick decision-making process, competent advice and management of the North Jutland area.

The exchange ratio

Under the agreed exchange ratio, two Nordjyske Bank shares will be exchanged to one Ringkjøbing Landbobank share plus DKK 18 in cash. The majority of the payment is thus made by issuing shares in the surviving company. This will give both Nordjyske Bank and Ringkjøbing Landbobank shareholders a share of future synergies and the expected added value in the new common bank.

It will be proposed at the time of the merger to change the current maximum number of votes specified in Ringkjøbing Landbobank's articles of association from 2 to 3,000.

Since 2000, Ringkjøbing Landbobank has experienced a highly satisfactory price development which has made the share the best performer of bank shares in the Nordic countries. The merger will create cost saving synergies as well as many new opportunities which will contribute to continuing growth in earnings (earnings per share) and a positive development in the bank.

The merger will be tax-free. Except for the cash amount, the share exchange will not trigger any tax on private investors' untied funds. This enables individual investors to plan their tax positions.

Jyske Bank can sell to Nykredit

With the merger, Jyske Bank will become an 11% shareholder in Ringkjøbing Landbobank. Given that Jyske Bank owns 38.5% of the shares in Nordjyske Bank, the merger is of course subject to finding a solution with Jyske Bank. If Jyske Bank wishes to sell its payment in the form of Ringkjøbing Landbobank shares, this will be possible since Nykredit has offered to purchase the shares. The bid was made at a price that equates to the weighted average price of Ringkjøbing Landbobank shares in the period beginning Wednesday 11 April and ending Tuesday 17 April 2018.

In addition, Nykredit has guaranteed issue of tier 2 capital for the equivalent of DKK 800 million with terms of 10 and 12 years.

Buy-back programme

As part of the merger a further buy-back programme for own shares in Ringkjøbing Landbobank of up to DKK 300 million will also be recommended. This programme will be in addition to the DKK 170 million programme which has already been established. The share buy-backs are made in order to adjust the capital structure.

Ringkjøbing Landbobank's capital planning in recent years is expected to continue.

A new strong bank

The new bank will be a strong player:

- One of Denmark's most efficient banks with a low rate of costs of 42%, which will be decreased by the effect of synergies and will strengthen competitiveness further.
- A high earning capacity from special functions and competent advisers
- Good credit quality
- Individual solvency requirement of approximately 9.3%
- Estimated common equity tier 1 capital ratio of 14-15 at the end of 2018
- Estimated capital ratio of 18-19 at the end of 2018
- Estimated MREL capital ratio of 23-24 at the end of 2018
- Very robust stress tests

Mutual due diligence was carried out in preparation for the merger. The biggest risk in both banks are the loans portfolios. The conclusion to the examinations was satisfactory and no new impairment charges under the Danish FSA's new rules were found.

Budgets and financial figures

In the appendices we have published both banks' internal budgets for 2018 to supplement the banks' announced expectations to the stock exchange.

The year will be unusual because the financial figures for Nordjyske Bank will be included in Ringkjøbing Landbobank's figures from the effective date of the merger. There will also be extraordinary expenses for implementing the merger and provisions for reorganisations. These extraordinary items are currently estimated at up to DKK 125 million.

Preconditions and time schedule

The merger is subject to finding a solution with Jyske Bank. It is also subject to the relevant authority approvals and to adoption by general meetings of Nordjyske Bank and Ringkjøbing Landbobank.

The merger documents are expected to be published in May 2018 and general meetings to be held in June 2018.

Further information

You are welcome to contact the chairmen or CEOs of the two banks if you have any questions.

- Chairman of the board of directors of Nordjyske Bank, Mads Hvolby, phone +45 4053 2631
- CEO of Nordjyske Bank, Claus Andersen, phone +45 6161 4504
- Chairman of the board of directors of Ringkjøbing Landbobank, Martin Krogh Pedersen, phone +45 2025 0611
- CEO of Ringkjøbing Landbobank, John Bull Fisker, phone +45 2045 3550.

Appendices: Comparison of 2017 financial statements, and internal budgets for 2018

Appendix: Compilation of 2017 financial statements (DKK million)

Income statements				
Core earnings	Ringkjøbing Landbobank	Core earnings (pro forma)	Nordjyske Bank (pro forma)	Merged bank total*
Core income	1,019	Core income	905	1,924
Total expenses	334	Prime costs including payments to the Resolution Fund	532	866
Core earnings before impairment charges for loans	685	Core earnings	373	1,058
Impairment charges for loans and other receivables	-10	Write-downs on own lending	-60	-70
Core earnings	675		313	988
Result for the portfolio	+60	Holdings result	+16	+76
Profit before tax	735	Pro forma pre-tax result	329	1,064
		Pro forma regulations	10	10
		Pre-tax result according to the purchase method	339	1,074
Balance sheets				
	Ringkjøbing Landbobank		Nordjyske Bank (pro-forma)	Merged bank total*
Loans	19,351	Loans	11,822	31,173
Deposits	19,110	Deposits including pooled schemes	16,743	35,853
Equity	3,817	Equity	2,952	6,769
Balance sheet total	25,796	Total assets	20,527	46,323
Guarantees	3,184	Guarantees	4,675	7,859

*) This is a simple aggregation of the two banks' income statements and selected balance sheet items.

Appendix: Internal budgets for 2018

Profit budgets			
	Ringkjøbing Landbobank	Nordjyske Bank	Merged bank total*
Core income	1,091	942	2,033
Total expenses**	345	520	865
Core earnings before impairment charges for loans	746	422	1,168
Impairment charges for loans and other receivables	+26	-52	-26
Core earnings	772	370	1,142
Result for the portfolio	+52	+40	+92
Profit before extraordinary items and tax	824	410	1,234
Profit was computed without taking into account:			
- Amortisation and write-downs on intangible assets		22	
- Costs of the merger			
- Provisions for reorganisation			

*) This is a simple aggregation of the two banks' internal budgets. Expected results announced for the two banks continue to apply.

***) Excluding amortisation of intangible assets.