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Nykredit

Nykredit
bank

totalcredit

To Nasdaq Copenhagen
and the press

4 February 2016

Nykredit plans stock exchange listing

Nykredit's Management has for some time been exploring the long-term strategic scope for future-proofing the Nykredit Group. Against this backdrop, the Boards of Directors of Foreningen Nykredit ("Nykredit Association") and Nykredit Holding A/S as well as Nykredit's Group Executive Board all unanimously recommend that Nykredit take steps towards being listed on the stock exchange.

The Committee of Representatives of the Nykredit Association has discussed the deliberations about a stock exchange listing. The Committee is expected to make a final decision on the matter on 10 February 2016. Specifically, it is recommended that Nykredit Holding ("Nykredit"), which is the holding company for the entire Nykredit Realkredit Group apply for admission to trading and official listing of its shares on Nasdaq Copenhagen. The Nykredit Association today owns 89.8% of Nykredit. It is intended that the Nykredit Association maintains its controlling interest after a listing.

The recommendation to list Nykredit on the stock exchange is rooted in the challenge that Nykredit is facing in terms of the new and stricter capital requirements under way from international authorities. The forthcoming requirements are not final yet, but their scope is expected to be significant. In the absence of fundamental changes, these requirements, even in a minimum version, will pose a substantial challenge for Nykredit with its current structure. A challenge that Nykredit, as a responsible, systemically important financial institution, must address and strive to resolve now.

– The expected capital requirements leave Nykredit at a crossroads. We can either raise new capital through a stock exchange listing or we could raise prices significantly and cut back activities and lending drastically. The latter would have a detrimental impact on our core business: Danish homeowners, business owners and farmers would experience sizable price rises and deteriorating credit options. This is not a desirable scenario. We therefore recommend that Nykredit start a new chapter in its 165-year-old history by being listed on the stock exchange, says Nykredit Chairman Steen E. Christensen.

A listing would require Nykredit to deliver risk-adjusted returns consistent with market levels. Over the past two years, Nykredit has improved its profitability significantly, especially through efficiencies and costs reductions. A price rise on mortgage loans is scheduled to improve profitability further and to bolster Nykredit's capital position (see appendix). The price rise is smaller than the price rise Nykredit would have been forced to implement without a stock exchange listing.

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KundeKroner

In turn, a stock exchange listing of Nykredit would take its mutual ownership into a new era with clear and cash customer benefits, while the long-term focus on underpinning growth and stability in the Danish economy is maintained.

The Nykredit Association expects to return a significant part of the dividends received from the listed Nykredit to the companies of the Nykredit Group, including Totalkredit, for the benefit of the customers. Returning the capital would enable the companies to award cash benefits to customers. This is a model we call "KundeKroner" (see appendix).

– Nykredit could become a unique mutually-controlled listed financial services group, and customers would feel the impact of this in cash. *We pledge to our customers to get up every day and make every effort to maximise their cash benefits.* We could go to work finding great motivation in the fact that the better our performance, the more we can return to homeowners and businesses across the country, says Group Chief Executive Michael Rasmussen.

As a listed group, Nykredit can also make a pledge to Denmark.

– Nykredit and Totalkredit will be present in every district, city or town in Denmark to provide loans to homeowners and businesses. A listed Nykredit should serve to support growth in Denmark – not abroad. We are today Denmark's leading credit provider. 94% of our lending is today completely domestic. We expect this percentage to be even higher, says Group Chief Executive Michael Rasmussen.

Prospering core business

Nykredit's transformation is already well under way. In recent years, the Group has worked intensely to become a more profitable, more efficient and more customer-relevant business. This has fed through to results for 2015, which are Nykredit's best to date.

– Over the past two years, we have reduced our costs and plan to cut them further over the next three years. We have become fewer people in 2014 and 2015, and our headcount will continue to reduce in 2016, 2017 and 2018. We have decided to sell the properties housing our headquarters in order to relocate to a much less expensive and more efficient domicile outside central Copenhagen. Our cost:income ratio is already today one of the lowest in the industry, and it will become even lower, says Michael Rasmussen.

– At the same time we will maintain our strong customer focus. We have streamlined and upgraded our product offering to housing and business customers with the introduction of new bespoke banking programmes for homeowners and businesses. We have also launched a new private banking programme. The Totalkredit alliance, which is a cornerstone of Nykredit's strategy, is in better shape than ever and has recently been expanded to include business mortgages. At the same time, we are currently investing heavily in digitisation, says Michael Rasmussen.

Preparations for stock exchange listing

Nykredit is expected to be ready for a stock exchange listing within a period of 12-24 months, but the final timing of a stock exchange listing depends on market conditions and whether sufficient clarity is achieved about the coming international capital requirements. Nykredit's Board of Directors and Group Executive Board have appointed Rothschild, a global financial advisory group, as independent financial adviser for the purpose preparing for a potential stock exchange listing. Furthermore, an Advisory Board has been appointed comprising five intercompany board members and two independent external advisers. Another 1-2 external members are expected to be appointed during spring.

As part of our preparations for a potential stock exchange listing, Nykredit will start the process by renewing its corporate governance structure (see appendix). The first steps towards a more distinct separation of the Nykredit Association and Nykredit will thus be taken now. This entails separating the chairmanships of the Nykredit Association and Nykredit.

Steen E. Christensen, who is today Chairman of both the Nykredit Association and Nykredit, and Jens Erik Udsen, who is a Member of the Boards of Directors of the Nykredit Association and Nykredit, will retire from both Boards as a result of the age limit applying to board members.

Nina Smith is nominated as Chairman of the Nykredit Association and Steffen Kragh as Chairman of Nykredit. Per W. Hallgren, CEO of Jeudan, and Helge Leiro Baastad, CEO of Gjensidige Forsikring, are nominated as new Members of the Board of Directors of Nykredit.

Nykredit will hold a press conference where Michael Rasmussen and Nina Smith will attend at 11.00 CET, at Kalvebod Brygge 1, DK-1780 Copenhagen V. All press conference attendees must register with hwk@nykredit.dk.

A teleconference will be held for analysts at 13:00 CET in Danish and at 15:00 CET in English. Please register for the teleconference with Investor Relations by emailing investor_relations@nykredit.dk

Tomorrow on 5 February at 8:30-9:30 CET Michael Rasmussen will answer questions from customers or other interested parties on Nykredit's Facebook page.

For more information, please contact Nykredit Press Relations at +45 30 44 00 54.

Appendix 1 – Financial highlights 2015

Nykredit today publishes financial highlights from its Financial Statements for 2015. Our results confirm that Nykredit's core business continues recent years' earnings growth.

Group Chief Executive Michael Rasmussen says:

- We are continuing our journey towards becoming a more customer-centric, efficient and profitable business. The areas within our control are moving in the right direction, and this means that our core business is performing very favourably.
- We are aware that part of our performance was supported by the extraordinarily high activity early in the year as well as very low impairment losses. We cannot rely on these trends to continue in 2016. Nor can we expect to deliver quite the same results this year as in 2015.
- We will maintain focus on improving all the areas within our own control. According to Nykredit's Business Plan 2018, which is implemented within the remit of Nykredit's Winning the Double strategy, we expect to reach our target of a return on equity of 11% before tax by 2018 at the latest.

Nykredit Realkredit A/S, financial results

DKK million	2015	2014	2013	2012	2011
Income from core business	11,373	10,703	9,613	9,539	9,190
Costs of core business	(5,066)	(5,103)	(6,047)	(5,594)	(5,967)
Impairment losses on loans and advances	(920)	(2,351)	(2,764)	(2,149)	(1,414)
Profit from core business	5,387	3,249	802	1,796	1,809
Goodwill and value adjustment of swaps	(1,555)	(4,214)	(775)	(1,095)	(642)
Investment portfolio income	853	779	1,887	2,444	179
Profit (loss) before tax	4,685	(186)	1,914	3,145	1,346

Income from core business: Total core income excluding value adjustment of interest rate swaps.

Costs of core business: Total costs excluding amortisation of goodwill and fixed-term rights.

Return on equity before tax, excluding goodwill amortisation, in 2015 was 10.7%.

Including profit for the year, the Nykredit Group's Common Equity Tier 1 capital, which is the key measure relative to capital targets and requirements, increases to DKK 60.5bn. Furthermore, the cost:income ratio has dropped to being among the lowest in the industry.

Common Equity Tier 1 capital and cost:income ratio

	2015	2014	2013	2012	2011
CET1 capital, DKKm	60,525	55,559	54,666	51,720	48,238
Cost:income ratio, %	41.9	44.3	57.9	54.7	64.9

New capital adequacy rules entered into force on 1 January 2014. Determined according to the new rules, CET1 capital at end-2013 was DKK 55,228m.

The Nykredit Group has a target of a minimum Common Equity Tier 1 capital of DKK 70bn by the beginning of 2019. Further capital targets have not been defined, but considering the requirements under way from international authorities, Nykredit expects that Common Equity Tier 1 capital of much more than DKK 70bn will be required.

Nykredit will publish its full Financial Statements for 2015 on 11 February 2016 as scheduled.

Appendix 2 – KundeKroner

Nykredit could become a unique mutually-controlled listed financial services provider. And customers would feel the impact of this in cash.

When Nykredit is to pay dividends to shareholders in future, the majority will be paid to the Nykredit Association.

The Board of Directors of the Nykredit Association is of the stance that the majority of the dividends received by the Association may be redistributed as a capital contribution to the Nykredit Group for the benefit of customers.

Nykredit may redistribute the capital to the customers of the Nykredit Group.

This profit-sharing model is called "KundeKroner".



Nykredit is still working on the final model for KundeKroner and has for example not determined yet how to distribute the funds to customers. Nykredit is currently having talks with the Danish tax authorities with respect to the structure of the model.

Appendix 3 – New governance structure

The Nykredit Association today owns 89.8% of Nykredit Holding, which is the holding company for the entire Nykredit Realkredit Group. Today there are many interlocking directors on the Boards of Directors of the three entities.

A stock exchange listing of Nykredit Holding will entail a number of changes to the governance structure including a more distinct separation of the Board of Directors of the Nykredit Association and the Boards of Directors of Nykredit Holding and Nykredit Realkredit. The Boards of Directors of Nykredit Holding and Nykredit Realkredit will continue to have a large number of interlocking directors.

At the annual meeting of the Committee of Representatives on 16 March, Steen E. Christensen and Jens Erik Udsen will retire from the Board of Directors of the Nykredit Association as a result of the retirement provisions of the Articles of Association. They will also retire from the Boards of Directors of Nykredit Holding and Nykredit Realkredit.

The Board of Directors will propose that Nina Smith, Professor in Economics at Aarhus University, and that Hans Bang-Hansen, Farmer, be appointed new Chairman and new Deputy Chairman, respectively, of the Board of Directors of the Nykredit Association.

Further, the Board will propose that Steffen Kragh, CEO of Egmont, and Merete Eldrup, CEO of TV2/Danmark, be appointed new Chairman and new Deputy Chairman, respectively, of Nykredit Holding and Nykredit Realkredit, and that Nina Smith, as new Chairman of the Association, also join the chairmanship of Nykredit Holding and Nykredit Realkredit as Deputy Chairman, to maintain two deputy chairmen on each of the two Boards.

Per W. Hallgren, CEO of Jeudan, will be nominated as a new Member of the Boards of Directors of Nykredit Holding and Nykredit Realkredit.

In addition, Helge Leiro Baastad, CEO of Gjensidige Forsikring, will be nominated as a new Member of the Boards of Directors of Nykredit Holding and Nykredit Realkredit. Helge Leiro Baastad has a long-standing management experience in the financial sector and as group CEO he has headed up the stock exchange listing of Gjensidige, which has a similar mutual ownership structure and profit-sharing model.

Appendix 4 – Price adjustments

From 1 July 2016 the administration margins for all existing and new Totalkredit loans will be raised. Only personal customers with Totalkredit loans will be affected by the changed administration margins, including customers whose loans have been granted via Nykredit.

The administration margin increase is implemented in step with the objective of the Supervisory Diamond of the Danish Financial Supervisory Authority, which aims to ensure a limited use of interest-only loans, highly interest rate sensitive loans and loans with frequent refinancing.

As a result, customers with long-term fixed-rate repayment loans will experience the smallest increase, whereas customers with so-called F1, F2, F3 and F4 loans (ARMs with 1-4-year interest reset) will experience the highest increases.

Administration margin rates on maximum LTV mortgages as at 1 July 2016:

Private residential 0-80%	Repayment loans					Interest-only loans				
	Fixed-rate	Rente-Max	F-kort	F5-F10	F1-F4	Fixed-rate	Rente-Max	F-kort	F5-F10	F1-F4
Adm margin %	0.74	0.88	0.90	0.88	1.18	1.06	1.20	1.23	1.20	1.50

For more customer information on the administration margin increases, please visit Totalkredit.dk/bidragssatser or nykredit.dk/bidragssatser.

Before the end of February, personal customers affected by the margin increases will receive notification from Totalkredit, describing the effect on their monthly payments of the administration margin increase.