

Investor Info

New simplified redemption model for Danish callable bonds

- **Danish covered bond issuers are introducing a new, simplified model to handle redemptions of callable bonds**
- **The model will dismantle the co-called drawings**
- **First impact will be from 22 May 2015 introducing expected redemption rates**
- **First redemptions and payments starts from the due date 1st October 2015**

Nykredit and all other Danish covered bond issuers are introducing a new, simplified model to handle redemptions of callable bonds with annuity cash flows. Nykredit has issued callable bonds denominated in DKK and EUR.

The current model splits investor holdings into two separate holdings, so-called drawings, six weeks before the due date. This take place on the publication date.

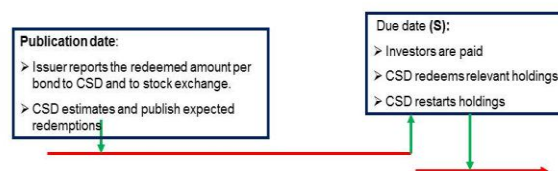
In the new model there will be no split of investor holdings. Redemption will take place on the due date when payments will also be processed as in the current model. Investors will no longer have to handle two separate holdings of the same bond at the same time. This will simplify the practical and technical handling of Danish covered bonds. Several international investment banks and I-CSDs (International Central Securities Depositories) have already stated that the simplified redemption method will pave the way for more international investors.

The new model is based on the EU Corporate Actions standards and the fact that securities must comply with the EU Corporate Actions standards to be compatible with the coming pan-European settlement platform, TARGET2 – Securities (T2S).

The new redemption model requires only one corporate action step. On the due date, which is the settlement date (S) of the corporate action,

part of the holding will be redeemed, and investors will be paid at the same time, just like under DvP settlement. It should be straight forward to handle this corporate action, even when omnibus accounts are used. Redemptions and payments can be distributed by standard pro rata method. Figure 1 illustrates the new model.

Figure 1. New redemption model



From the publication date, it is possible for investors to make forecasts of redeemed holdings. Each day from the publication date to the due date, estimated redemption amounts are calculated by the issuer's CSD and published by the stock exchange where the bonds are listed. All Nykredit's callable bonds are currently listed on Nasdaq Nordic in Copenhagen

Since the so-called drawings disappears, we will also see that the ex-date will move to two (T+2) days before the due date. On and after the ex-date, trading prices will be without the redeemed part, and the price of the new holding will differ from that of the old holding in which the redeemed holding was included.

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