NOTE 10 Interest bearing liabilities and liquid assets

Castellum must maintain a low level of financial risk, meaning a medium- to long-term LTV ratio of less than 50 % and an interest coverage ratio of not less than 200 %.

Interest bearing liabilities

At the end of the year, Castellum held credit agreements totalling MSEK 60,604 (56,358) of which MSEK 49,433 (45,962) were long-term and MSEK 11,171 (10,396) were short-term. Of the utilized borrowing facilities at the end of the year, MSEK 30,233 (30,862) was long-term and MSEK 10,420 (9,253) short-term.

After deduction of cash of MSEK 173 (243), net interest-bearing liabilities were MSEK 40,653 (40,115), of which MSEK 27,512 (21,599) were MTNs outstanding and MSEK 5,136 (5,360) commercial paper outstanding (nominal MSEK 27,589 and MSEK 5,138 respectively).

During the year bank credit facilities of approximately MSEK 7,800 were extended, approx. MSEK 1,600 terminated and the framework amount of Castellum's MTN program was raised to MSEK 20,000. Castellum was also active in the Swedish bond market during the year and bonds with a nominal value of MSEK 3,300 matured while new issues amounted to MSEK 4,100 as part of Castellum's Swedish MTN program. Moreover, a nominal amount of MNOK 850 was issued with a ten-year tenor and MEUR 400 was issued with a seven year tenor under Castellum's EMTN program.

Most of Castellum's bank credit facilities are revolving bank credit facilities, which gives great flexibility. Bonds issued under the MTN/EMTN programs and commercial papers broaden the funding base, and comprise the majority of the utilized facilities. At the end of the period, the fair value of liabilities essentially corresponded with the carrying amounts. Long-term loan commitments in banks are normally secured by pledged property deeds. Issued commercial papers and bonds are unsecured. Undertakings to meet specific financial ratios are included as covenants under certain financing agreements including the EMTN program.

Of net interest-bearing liabilities totalling MSEK 40,653 (40,115), MSEK 7,249 (12,400) was secured against property deeds and MSEK 33,404 (27,715) was unsecured, which means that approximately 18 % (31 %) of loans outstanding were secured. Castellum's share of unsecured assets at the end of the year was 57 % (53 %). Secured borrowing in relation to total assets was 7 % (13 %).

The financial covenants stipulate an LTV ratio not exceeding 65 %, an interest coverage ratio of at least 150 % and for EMTN also that the share of secured borrowing may not exceed 45 % of the Group's total assets, which Castellum fulfils with comfortable margins:
43 %, 502 % and 7 % respectively. The average duration of Castellum's credit agreements was 3.8 years (3.6). Margins and fees for credit agreements are established with an average duration of 3.2 years (3.0). The debt ratio at the end of the period was 10 (11).

Castellum has an official credit rating from the credit rating institute Moody's. The credit rating was upgraded in June 2019 to investment grade level at Baa2 with a stable outlook. The rating is expected to result in further improvements to financial flexibility for Castellum by supporting both Castellum's relative funding cost and access to loan capital over time.

CREDIT MATURITY STRUCTURE 12-31-2019

	Credit agreements	Utilized in		
	MSEK	Bank	MTN/CP	Total
0 – 1 year	11,171	2,036	8,384	10,420
1 – 2 years	6,962	2,011	4,951	6,962
2 – 3 years	8,735	842	3,243	4,085
3 – 4 years	18,539	1,628	7,561	9,189
4 – 5 years	1,609	11	1,598	1,609
> 5 years	13,588	1,477	6,911	8,388
Total	**60,604**	**8,005**	**32,648**	**40,653**

Interest rate maturity structure

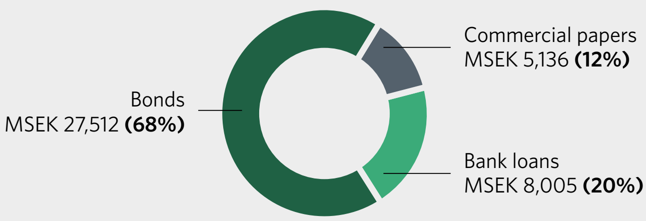
In order to secure a stable and low net interest cash flow the interest rate maturity structure is distributed over time. The average fixed interest term was 3.3 years (3.1). The average effective rate at Dec 31, 2019 was 1.82 % (1.91 %) excluding unutilized credit agreements, and 1.99 % (2.05 %) including unutilized credit agreements. Castellum utilizes interest rate derivatives to achieve the desired interest rate maturity structure. Interest rate derivatives is a cost efficient and flexible way to achieve the desired fixed interest term.

In the interest rate maturity structure, interest rate derivatives are accounted for in the earliest time segment in which they can mature. Credit margins and fees are distributed in the table by reported underlying loans, while credit fees are reported in the segment for 0 – 1 year.

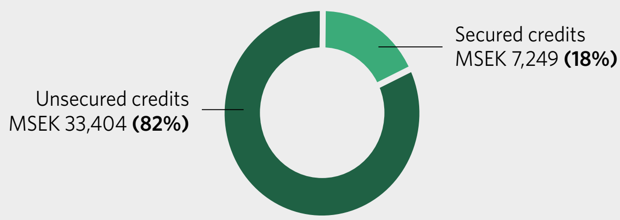
Currency

Castellum owns properties in Denmark and Finland with a value of MSEK 7,247 (6,895), which means that the Group is exposed to currency risk. The currency risk is primarily related to when income statement and balance sheet in foreign currencies are translated into Swedish kronor.

DISTRIBUTION OF INTEREST BEARING LIABILITIES 12-31-2019



SECURED CREDIT FACILITIES 12-31-2019



INTEREST RATE MATURITY 12-31-2019

	Interest-bearing credit volume, MSEK	Average interest rate	Interest- and cross currency interest rate derivatives: Volume payable interest, MSEK	Closed payable interest	Volume receivable interest, MSEK	Closing receivable interest	Closing interest rate**	Average interest rate
0 – 1 year	22,882	1.1 %*	5,323	1.1 %	– 14,719	0.2 %	2.19 %	0.2 year
1 – 2 years	4,550	1.4 %	1,350	0.0 %	–	–	1.11 %	1.4 years
2 – 3 years	1,148	2.1 %	1,600	0.0 %	–	–	0.89 %	2.5 years
3 – 4 years	5,959	2.1 %	4,600	2.6 %	– 4,766	2.2 %	2.39 %	3.8 years
4 – 5 years	300	2.3 %	900	0.4 %	–	–	0.90 %	4.5 years
5 – 10 years	5,814	1.4 %	10,958	1.8 %	– 5,246	1.3 %	1.80 %	7.7 years
Total	**40,653**	**1.4 %**	**24,731**	**1.5 %**	**– 24,731**	**0.8 %**	**1.82 %**	**3.3 years**

** Including applicable credit-agreement fees and net premium/discounts on issued MTNs*
*** Calculated on the net volume of interest-bearing credits and derivatives*

NOTE 11 Interest rate and currency derivatives

Castellum utilizes interest rate derivatives to achieve the desired interest rate maturity structure. At the end of June 2019, the derivative portfolio was restructured to correspond with a deficit value of MSEK 215. In accordance with the IFRS 9 accounting standard, derivatives are subject to market valuation. If the agreed interest rate deviates from the market interest rate, notwithstanding credit margins, a theoretical surplus or deficit value arises in the interest rate derivatives, where changes in value not affecting the cash flow are recognized in profit or loss. At maturity, a derivative's market value is dissolved in its entirety and the change in value over time has thus not affected equity. Castellum also holds derivatives in order to hedge currency fluctuation in its investments in Denmark and Finland as well as to manage currency risk and adjust its interest rate structure in connection with borrowing in the international capital market. As for currency derivatives, a theoretical surplus/sub value occurs if the agreed exchange rate deviates from the current exchange rate, where the effective portion of value changes is accounted for in other total income.

To calculate the market value of derivatives, market rates for each term and, where appropriate, exchange rates, as quoted on the market at the closing date are used. Interest rate swaps are valued by discounting future cash flows to present value while instruments containing options are valued at current repurchase price.

As of December 31, 2019, the market value of the interest rate derivatives portfolio amounted to MSEK – 592 (– 689) and the currency derivative portfolio to MSEK – 123 (– 27). All derivatives are, as at previous year, classified in level 2 according to IFRS 13.

CASTELLUM'S FINANCIAL POLICY AND COMMITMENTS IN CREDIT AGREEMENTS

	Policy	Commitment	Outcome
Loan-to-value ratio	Not exceeding 50 %	Not exceeding 65 %	43 %
Intererst coverage ratio	At least 200 %	At least 150 %	502 %
The share of secured borrowing/total assets		Not exceeding 45 %	7 %
Funding risk			
– average capital tied up	At least 2 years		3.8 years
– proportion maturing within 1 year	No more than 30% of outstanding loans and unutilized credit agreements		11 %
– average maturing credit price	At least 1.5 years		3.2 years
– liquidity reserve	Secured credit agreements corresponding to MSEK 750 and 4.5 months upcoming loan maturities		Achieved
Interest rate risk			
– average interest duration	1.5 - 4,5 years		3.3 years
– proportion maturing within 6 months	No more than 50%		31 %
Credit and counterparty risk			
– rating restriction	Credit institutions with high ratings, at least S&P BBB+		Achieved
Currency risk			
– translation exposure	Shareholders' equity is not hedged		Not hedged
– transaction exposure	Handled if exceeding MSEK 25		Less than MSEK 25