NOTE 10 Interest bearing liabilities and liquid assets

Castellum must maintain a low level of financial risk. In April 2018, a decision was made to adjust the LTV policy, meaning a medium- to long-term LTV ratio of less than 50% (previously 55%). The interest coverage ratio remained at not less than 200%.

Interest bearing liabilities

At the end of the period, Castellum had credit agreements totaling MSEK 54,683 (57,240), of which MSEK 33,714 (45,120) was long-term and MSEK 20,969 (12,120) short-term. Of the utilized borrowing facilities at the end of the period, MSEK 26,074 (26,904) was long-term and MSEK 14,572 (11,119) short-term. In 2018, the volume of secured bank credit facilities was reduced by terminating credit agreements of MSEK 6,500. Bank credit facilities of approximately MSEK 7,100 have been renegotiated and extended, which has resulted in more favorable financing terms. In addition, a MEUR 75 loan agreement with the European Investment Bank (EIB) was utilized. The loan carries a nominal value of MSEK 756 and runs for five years. At the beginning of the year, the framework amount in Castellum's MTN program was raised to MSEK 18,000 and MSEK 10,000 in the commercial paper program. Castellum was active in the bond market in the third quarter as well, while the volume of certificates outstanding was further reduced from previous record levels current at the beginning of 2018.

During the first nine months of the year, bonds at a nominal value of MSEK 1,550 matured while new bonds for MSEK 4,375 were issued. Additional bonds of MSEK 200 were issued after the end of the period.

After deduction of cash of MSEK 51 (203), net interest-bearing liabilities were MSEK 40,646 (38,023), of which MSEK 16,992 (14,162) were MTNs and MSEK 8,239 (7,994) commercial paper outstanding (nominal MSEK 17,000 and MSEK 8,242 respectively).

Most of Castellum's bank facilities are revolving credit facilities, which means great flexibility. Bonds issued under the MTN program and commercial paper broaden the funding base, and comprise the majority of the utilized borrowing 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 paper and bonds are unsecured. Undertakings to meet specific financial ratios are included as covenants under certain financing agreements.

Net interest-bearing liabilities amounted to MSEK 40,646 (38,023), of which MSEK 14,659 (15,867) was secured against property deeds and MSEK 25,987 (22,156) was unsecured, which means that approximately 36% of loans outstanding were secured. The proportion of secured financing, with the addition of commercial paper outstanding backed by secured bank credit commitments, used was thus 26% of the properties' value. Castellum's unsecured assets totaled 43% at the end of the period. The financial covenants stipulate an LTV ratio not exceeding 65% and an interest coverage ratio of at least 150%, which Castellum fulfils with comfortable margins: 46% and 451% respectively. The average duration of Castellum's credit agreements was 2.7 years (2.7). Margins and fees on long-term credit agreements had an average duration of 2.2 years (2.2).

At the end of April, Castellum announced an official credit rating from Moody's. The rating, which is an Investment Grade rating, is Baa3 with a positive 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 09-30-2018

		Utilized in		
Credit agreements	MSEK	Bank	MTN/Cert	Total
0 - 1 year	20,969	2,834	11,738	14,572
1 - 2 years	5,833	1,996	3,547	5,543
2 - 3 years	11,872	2,020	2,552	4,572
3 - 4 years	8,611	4,620	3,941	8,561
4 - 5 years	4,890	2,637	2,253	4,890
> 5 years	2,508	1,308	1,200	2,508
Total	**54,683**	**15,415**	**25,231**	**40,646**

Interest rate maturity structure

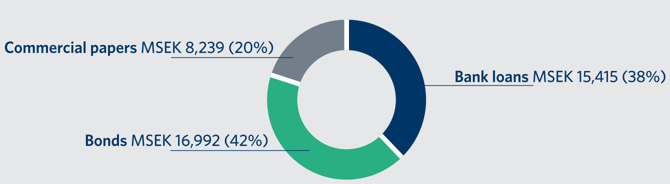
In order to secure a stable and low net interest cash flow the interest rate maturity structure is distributed over time. The average fixed interest term was 2.3 years (2.4). The average effective interest rate as per of Sept 30, 2018 was 2.1% (2.4%). Castellum utilizes interest rate derivatives to achieve 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.

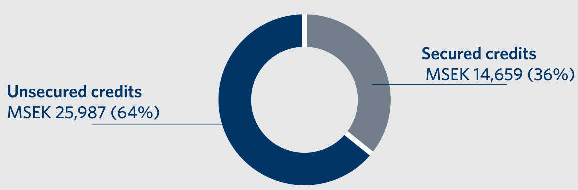
Currency

Castellum owns properties in Denmark and Finland with a value of MSEK 6,833 (5,671), 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 09-30-2018



SECURED CREDIT FACILITIES 09-30-2018



INTEREST RATE MATURITY 09-30-2018

	Credit, MSEK	Closing average interest rate	Derivatives: Volume fixed interest rate, MSEK	Derivatives: Closed fixed interest rate**	Derivatives: Volume variable interest rate MSEK***	Derivatives: Closing variable interest rate***	Closing interest rate	Average fixed interest rate term
0 - 1 year	32,297	0.9%	2,350	1.5%	– 19,455	– 0.2%	2.3%	0.2 years
1 - 2 years	1,900	1.3%	4,255	1.6%	–	–	1.5%	1.6 years
2 - 3 years	3,901	1.4%	2,750	2.5%	–	–	1.9%	2.5 years
3 - 4 years	1,500	2.1%	2,450	1.1%	–	–	1.5%	3.4 years
4 - 5 years	749	1.7%	2,300	2.8%	–	–	2.5%	4.5 years
5 - 10 years	299	2.3%	5,350	2.4%	–	–	2.6%	6.8 years
Total	**40,646**	**1.0%**	**19,455**	**2.0%**	**– 19,455**	**– 0.2%**	**2.1%**	**2.3 years**

** Including credit-agreement fees and exchange rate differences for MTNs*
*** Castellum pays fixed interest rates*
**** Castellum receives interest rates*

NOTE 11 Interest rate and currency derivatives

Castellum utilizes interest rate derivatives to achieve the desired interest rate maturity structure. According to the accounting standard IFRS 9, derivatives are subject to market valuation. If the agreed interest rate deviates from the market interest rate, notwithstanding credit margins, there is a theoretical surplus or sub value in the interest rate derivatives where the non-cash-flow affecting changes in value are reported in the income statement. 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 has derivatives in order to hedge currency fluctuation in its investment in Denmark and Finland. 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 September 30, 2018, the market value of the interest rate derivatives portfolio amounted to MSEK – 1,091 (– 1,299) and the currency derivative portfolio to MSEK – 35 (- 53). 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%	46%
Interserst coverage ratio	At least 200%	At least 150%	451%
Funding risk			
– average capital tied up	At least 2 years		2.7 years
– proportion maturing within 1 year	No more than 30% of outstanding loans and unutilized credit agreements		29%
– average maturing credit price	At least 1.5 years		2.2 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 - 3.5 years		2.3 years
– proportion maturing within 6 months	No more than 50%		33%
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 secured		Not secured
– transaction exposure	Handled if exceeding MSEK25		Less than MSEK 25