Nya SFF

Credit Comment

- Nya SFF (nSFF) is basically a funding vehicle for the owners that offers investors secured lending through a highly resilient structure.
- We view Nya SFF as a BBB+ issuer, and we assign a stable outlook to our rating.
- All bonds issued by Nya SFF share securities in a pledged security pool.

BBB+ issuer rating with a stable outlook

Based on the underlying credit strength of the sponsors and the credit enhancement related to the structure, we assign a credit rating of BBB+ to Nya SFF. This is in line with our previous rating for SFF. Although we have identified a number of improvements in the general structure, some items are becoming weaker. On the positive side, we note, for example, the stronger sector and geographical diversification. On the negative side, we note, for example, that 100% mortgage certificates are not required at inception. As all pledged assets are pooled and any of these could be disposed of in a constraint situation, the effective rating is estimated to be BB+ in the pool, reflecting the two stronger sponsors. Adding the credit enhancement in the structure (e.g. mortgage certificates, cash reserve, guarantees, springing lien and shares in borrowers) a three notch upgrade is motivated.

Five Nasdaq OMX companies as sponsors

Fabege (BB+) is one of the largest listed property companies in Sweden with a clear focus on central Stockholm. Retail and offices are the main components of the real-estate portfolio. Wihlborgs (BB+) is entirely focused on the Öresund region. Its properties are mainly offices. Both companies have relatively modest LTVs of about 60%. Platzer (BB-) is one of the largest commercial-property companies in Gothenburg with a concentration of office properties, including some governmental lease contracts. Diös (BB) is active in northern Sweden with a clear focus on major regional cities, and on office and residential properties. Catena (B+) owns and manages mainly logistic properties located in major hubs in southern Sweden.

Major restrictions and covenants in the structure

A significant number of restrictions and covenants are included in the structure, both on the property level and on the portfolio level. LTV is to be maintained within certain limits depending on the property type, and no borrower (sponsor) may account for more than 50% of total outstanding secured loans. The financing vehicle (nSFF) must have an equity ratio of no less than 10% and possess a cash reserve of minimum 4.75% of the secured loans.

Important information

Swedbank has been appointed joint lead book runners in a possible Nya SFF capital markets transaction. This report is not to be viewed as a buy, sell or hold recommendation of existing or future financial instruments. The analysis is based on public information only.

Credit strengths

- Bonds backed by properties without other encumbrances and backed by the sponsors (owners).
- Adequately strong sponsors and borrowers in the structure with long histories and market experience. They are also listed on Nasdaq OMX.
- Favorable real-estate market conditions and good funding conditions at the moment.
- Significant sector and geographical diversification, and thus low concentration risk.
- Proven market access through SFF, which issued its first secured bond in December 2011.

Credit weaknesses

- Legal and operational risks related to the design of the secured structure.
- Potential exposure to less-attractive market areas and properties outside larger cities.
- Stand-alone credit quality among sponsors is typically in the broader BB category.
- Sensitivity to a (severe) downturn in the Swedish real-estate market and increases in interest rates.
- At inception, 100% mortgage certificates are not required. Recovery risk with regards to springing lien.

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Nya SFF credit risk profile

Our rating view of BBB+ reflects the combination of owners' (sponsors') underlying credit strength and the credit risk enhancements as defined by the structure itself and the various restrictions and covenants that apply to it. To a large extent, Nya SFF (nSFF) mirrors the proven and resilient structure of SFF. Our outlook is stable. Note that the rating only refers to the issue (bond) rating, as this is a structured deal.

Rating rationale

Nya SFF is jointly owned by five well-established real-estate companies

Nya SFF is an indirectly owned joint venture (JV) among Fabege, Wihlborgs, Platzer, Catena and Diös, each of which hold 20% of the common stock in nSFF. The fundamental stand-alone credit strength of these companies ranges from BB+ to B+, in our view. All of these companies are listed on Nasdaq OMX and thus have proven capital-market access, including the bond market in some cases. The five sponsors (owners) offer adequate sector and geographical diversification, which is stronger than for the previous SFF (which had three owners). We also note the low country risk (Sweden with a rating of Aaa/AAA) and the relative stability of the real-estate industry. The relatively low concentration risk partly mitigates the potential negative effects of any regional (idiosyncratic) downturn. Properties are also sufficiently distributed among various types, ranging from offices in central Stockholm to logistics properties located at road/railroad hubs.

High degree of debt protection for bond holders

All bonds issued by nSFF share securities in a pledged security pool, which is basically the heart of the nSFF structure. Apart from the minimum 50% mortgage certificate at inception, a high degree of debt protection for the bond holders lies in the pledged shares in the property-holding company (the company holding the pledged property); the issued guarantee from the sponsor; the springing lien mortgage, which is triggered at 70%/75% LTV; and the issued promissory notes. Pledged properties are without other encumbrances. The guarantee also means that bonds are ultimately backed by the general capacity of the sponsors. Altogether, therefore, there are a number of defense lines, as defined by the structure that must consecutively fail in order to inflict a credit loss for a bondholder. In the previous structure (SFF), a 100% mortgage certificate was required at inception. Notice that an alternative route to liquidation is divestment of the shares, which is quicker in a normal situation. In several respects, nSFF can be viewed as a bank lending to its sponsors.

Nya SFF constrained by various covenants

The financing vehicle itself (nSFF) is also constrained by a number of financial covenants. A minimum equity ratio of 10% applies, as do dividend restrictions – no dividend distributions are allowed without prior Security Agent approval. Nya SFF is initially capitalized with only SEK 5mn. Nya SFF should hold a minimum 4.75% of cash based on total outstanding secured loans, and investments are restricted to highly liquid and creditworthy securities, such as Swedish benchmark covered bonds (rated AAA) or Swedish government benchmark bonds. When compared with SFF, the constraints on nSFF are somewhat looser. Notice, however, that nSFF is designed to be income and cash-flow neutral.

Portfolio restrictions apply

On the portfolio level, several restrictions apply. No single borrower may account for more than 50% of total outstanding secured loans. Properties judged as higher risk, such as storage properties, hotels and restaurants, are not allowed to correspond to more than 5% of loans (20% concerning tax code 4XX). A minimum of 65% of office properties must be located in Stockholm, Gothenburg and/or Öresund. Only certain geographical areas are permitted otherwise.

Regular valuations and compliance checkpoints

Valuations of properties are to take place on a regular basis. They are to be carried out both by external agencies and by the sponsors themselves. Full market valuations and desktop valuations will be performed on a rolling basis. On a quarterly basis, compliance certificates are to be submitted to the Security Agent on a quarterly basis. A general three-month remedy period applies for most restriction/covenant violations.

Country and general industry risk

Low country risk

Nya SFF operates in Sweden (Aaa/AAA), which is positive from a country risk perspective. Standard & Poor's ranks Sweden as 1 (i.e. very low risk) in its country-risk assessment framework. Key strengths include the competitive economy, prudent economic policies, the low government-debt burden and modest inflation.

Relatively low industry risk

We view industry risk in the real-estate sector as relatively low, mainly because most business is conducted under long-term, non-cancellable leases. Even if leases are cancellable (i.e., in residential real estate), demand characteristics tend to be favorable and typically support cash-flow stability. Urbanization is a strong trend in Sweden due to high immigration and a birth surplus, which makes the demand for housing high in most large cities. At the same time, Sweden's level of investment in housing is one of the lowest in Europe, which explains the lack of vacancies in larger cities.

Sensitivity to economic cycles and potential market bubbles

Key industry risk factors include sensitivity to economic cycles and potential market bubbles arising from the overvaluation of assets. Moreover, competition for tenants and properties can be intense. Given the significant amount of capital needed to develop, acquire and maintain properties, the sector is sensitive to funding conditions and interest-rate fluctuations. The real-estate sector is scored as a 2 (low risk) under Standard & Poor's industry-risk framework. Other low-risk sectors found in this category include health-care equipment, pharmaceuticals and branded non-durables. We also notice the tax issues under new proposed changes in Swedish regulations (law).

The structure

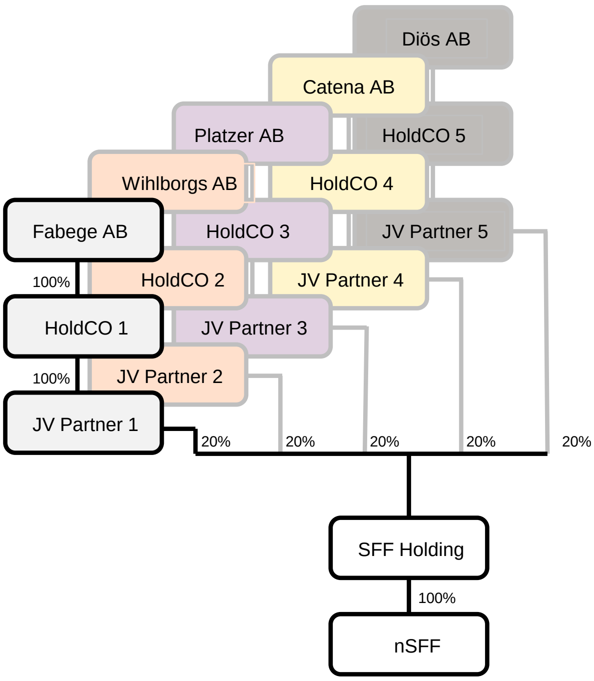
In general, the setup aims at effective capital-market access and optimized risk mitigation with flexibility for the potential borrowers (sponsors). Basically, the financing vehicle, nSFF, will act as a bank for the owners, thereby broadening their spectrum of financing opportunities. Thus, the credit risk is defined by the fundamentals of the owners and the credit-enhancement features built into the structure.

Group structure

Nya SFF is a joint venture among five Swedish real-estate companies

Nya SFF is an indirectly owned joint venture (JV) among Fabege, Wihlborgs, Platzer, Catena and Diös, each of which hold 20% of the common stock in nSFF. These five companies are well established on the Swedish real-estate market. SFF Holding is an SPV solely set up for the ownership of nSFF. nSFF is initially capitalized with SEK 5mn but should always keep a minimum equity ratio of 10% with capitalization in connection with transactions.

The general structure



Source: Swedbank

All borrowers are 100%-owned subsidiaries of sponsors

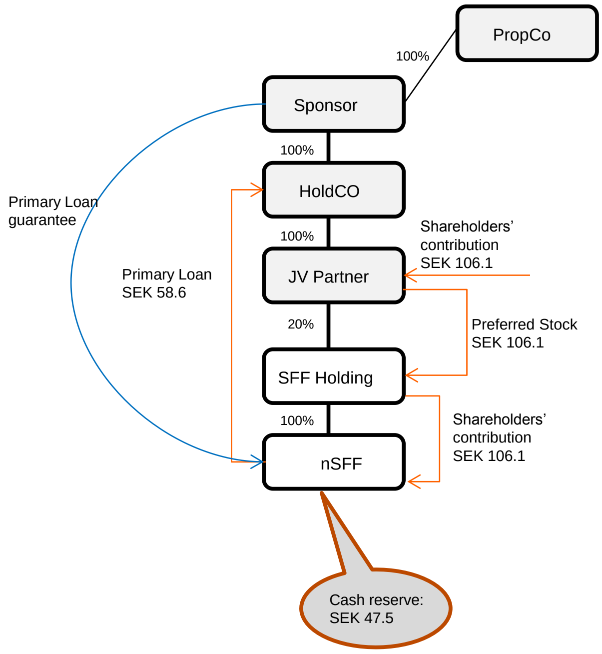
Operations in nSFF are limited to lending to the five HoldCos in the structure and the funding of these operations in the capital markets. The HoldCos pass on funds to the ultimate borrowers, all of which are 100%-owned subsidiaries of the sponsors. All lending is secured with promissory notes, existing mortgage certificates, a springing lien, shares in the ultimate borrower and an on-demand guarantee from the relevant sponsor. Operations are limited by a significant number of covenants and compliance restrictions, which are to be followed up regularly by the Security Agent. There are no employees in nSFF, as all related administration is outsourced to service suppliers. Note also that nSFF is a newly formed entity (SPV) with no formal prior history. It has been established only with the aim of operating the MTN program.

Transaction structure – preparation for a bond issue

All revenant entities capitalized before a bond issue

At a specific bond issue in the structure, the relevant JV partner is capitalized. In the figure below, the case of a SEK 1,000mn bond issue is illustrated – all other numbers refer to that size. SFF Holding issues preferred stock, which is subsequently acquired by the relevant JV partner. SFF Holding then makes a correspondingly large capital contribution to nSFF, ensuring at least a 10% equity ratio. Thereafter, nSFF extends a primary loan to the relevant HoldCo that corresponds to the difference between the shareholder's contribution and the minimum cash reserve of 4.75% in nSFF. Cash may be invested only in low-risk instruments: on-demand bank accounts, Swedish benchmark covered bonds (AAA), Swedish government benchmark bonds, Swedish municipal bonds/CP (AA-) and benchmark Kommuninvest bonds.

Preparation for a bond issue of SEK 1,000mn



Source: Swedbank

Primary loans and corresponding guarantees

In favor of nSFF for the primary loan, the ultimate sponsor issues a guarantee. When the bond matures, the primary loan is repaid and the funds, as well as the cash reserve, are used to repurchase the outstanding preferred stock. However, this only occurs after full repayment of the relevant bond. Note that the primary loans are merely of theoretical interest, and that they are significantly smaller in nSFF than in SFF with its stipulated capital ratio of more than 30% in the financing vehicle (instead of more than 10%).

Transaction structure – a bond issue

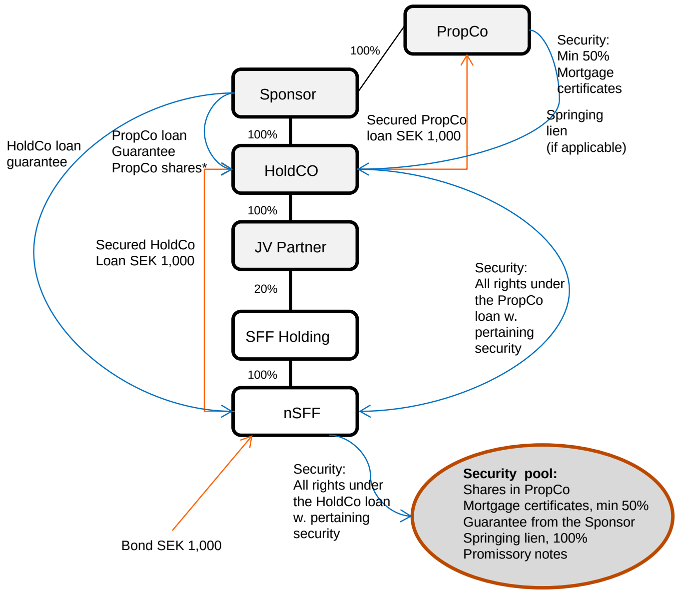
Strong security package

When a bond is actually issued by nSFF (still assumed to be SEK 1,000mn in all figures), the company extends a secured loan to the relevant HoldCo of the same size. The HoldCo then extends a secured loan to the relevant PropCo, which is the sponsor-owned entity owning the property to be financed by the bond issuance. The sponsor issues a guarantee in favor of the HoldCo for the PropCo loan, and the sponsor pledges 100% of the shares in the PropCo to the HoldCo. In the next step, the sponsor issues a guarantee in favor of nSFF for the HoldCo loan. The PropCo must pledge mortgage certificates covering at least 50% of the PropCo loan to the HoldCo. However, if there are already mortgage certificates (potentially more than 50%), they should be pledged so that the 50% is only a minimum requirement.

Springing liens 100%

The PropCo must prepare applications for mortgage certificates covering the outstanding PropCo loan and submits the applications to the HoldCo (springing lien), if applicable (to be held by the security agent). The HoldCo pledges all rights under the PropCo loan and the pertaining security to nSFF, and nSFF pledges all rights under the HoldCo loan and the pertaining security to the Security Agent to form the security pool. In the event that a PropCo pledges mortgage certificates that cover 100% of the PropCo loan, the sponsor will not be required to pledge the shares in the PropCo. Instead, the corresponding cash reserve is increased by 1 p.p. from 4.75% to 5.75%. In a bankruptcy situation, a receiver may claim recovery of collateral not pledged in connection with the loan transaction if the pledging occurs more than three months before the bankruptcy, which is basically a recovery risk with regard to springing mortgages. Mitigations in this regard include the negative pledge, as there are no other material creditors and no remedy because mortgage certificates are registered as soon as the LTV trigger is violated and the fact that the shares in the Propco are pledged and can be accelerated.

Transaction structure for a bond issue of SEK 1,000mn

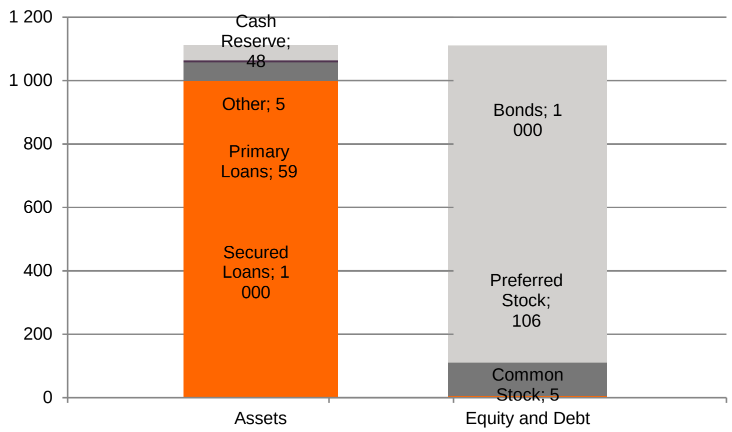


Source: Swedbank

The balance sheet of nSFF is rather artificial

nSFF's balance sheet following a SEK 1,000mn bond issuance is displayed in the figure below. The asset side is primarily the secured loans in addition to the primary loans and the cash reserve. The equity and liabilities side is primarily the bond and the preferred stock. Once again, we stress that the formally rather weak balance sheet and general financial profile of nSFF are not key credit concerns in the structure (compare with the balance sheet of a bank).

nSFF's balance sheet following a bond issue of SEK 1,000mn



Source: Swedbank

Stress test of the structure

In order to test the general resilience of the structure, we performed a stress test. The resilience test basically evaluates the residual credit (capital) loss risk for an investor in the structure, or the likely negative outcome if losses materialize, which is the very core of credit risk analysis. Parameters stressed include, for example, the haircut at disposals of assets, Stibor levels, number of borrowers in payment default or guarantees not being fulfilled.

Resilient structure limits potential credit losses

Harsh assumptions in our stress case

In our stress case, we assume a total of SEK 8,000m in outstanding bonds and we assume that sponsors have borrowed pro-rata (i.e., 20% each). The initial weighted LTV is assumed to be 67.5%, which is basically the maximum allowed LTV. The initial cash reserve is SEK 380m, which is 4.75% of the outstanding secured debt, which is probably on the low side. The three-month STIBOR is set at 100bp, and we assume a 25bp spread on primary loans and excess cash. The spread on outstanding bonds is set at 100bp on average. An effective tax rate of 22% is applied.

Three borrowers out of five in default

The time period from default to actual asset disposal is assumed to be five quarters, where the default is assumed to take place at the end of Q1 in the model and asset disposal at the end of Q6. Three of the five borrowers (i.e., 60%) are in payment default in our stressed scenario. In addition, we assume that sponsor guarantees are not fulfilled.

Haircut in market value applied

The LTV at the time of asset disposal is set at 78%. We apply a 25% market value (MV) haircut at disposal. Effectively, this means that market values are assumed to fall by 35% from inception to disposal. The annual rolling costs (nSFF) are estimated at SEK 3m.

Cash flow in our stressed scenario

Cash Flow	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Interest income	40,0	16,0	16,0	16,0	16,0	16,0	16,0	16,0
SG&A	-0,8	-0,8	-0,8	-0,8	-0,8	-0,8	-0,8	-0,8
Interest and fee expense	-40,0	-40,0	-40,0	-40,0	-40,0	-40,0	-16,0	-16,0
Cash flow from Security Lending before CEI*	-0,8	-24,8	-24,8	-24,8	-24,8	-24,8	-0,8	-0,8
Interest income Primary Loans	1,59	0,64	0,64	0,64	0,64	0,64	0,64	0,64
Interest income cash				4,5				2,4
Paid tax	-0,18	0,00	0,00	0,00	0,00	0,00	0,00	-0,5
Cash flow before CEI and Financing activities	0,7	-24,1	-24,1	-19,6	-24,1	-24,1	-0,1	1,8
Income from security disposal due to bankruptcy	0,0	0,0	0,0	0,0	0,0	4 615,4	0,0	0,0
Change in funding from security disposal	0,0	0,0	0,0	0,0	0,0	-4 800,0	0,0	0,0
Dividends/new share issues	-0,7				0,0			
Cash flow from CEI and Financing activities	-0,7	0,0	0,0	0,0	0,0	-184,6	0,0	0,0
Cash flow for the period	0,0	-24,1	-24,1	-19,6	-24,1	-208,7	-0,1	1,8
Opening balance cash and cash equivalent	380,0	380,0	355,9	331,8	312,2	288,1	79,3	79,2
Closing balance cash and cash equivalent	380,0	355,9	331,8	312,2	288,1	79,3	79,2	81,0
* Credit Event Items								

Source: Swedbank

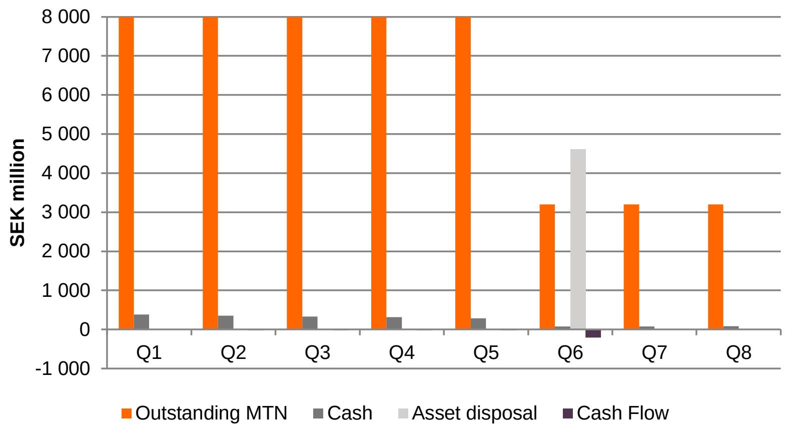
No capital loss or suspended coupons

Under the assumptions outlined above, nSFF can accommodate a 60% payment default and a haircut of more than 35% in MW, which is equivalent to more than SEK 4.1bn of the SEK 11.8bn collateral value, without capital loss or suspended coupons for the investors.

Compatible with a BBB+ rating

We acknowledge that one can always argue for more aggressive assumptions to be implemented in a stress case. These might include a three-month STIBOR of 8%, all borrowers in default or a 50% dip in market values. It should also be notice that the cash reserve increase by one percentage unit should 3m STIBOR be above 300bp, with yet one percentage unit should 3m STIBOR be above 600bp and finally another percentage unit should 3m STIBOR be above 900bp. However, the rating should basically reflect the extent to which assumptions must be aggressive in order to inflict a credit loss for the investor. The more aggressive the assumptions need to be, the stronger the rating (a type of "distance to default"). Our proposed BBB+ rating takes this into account.

Our stressed case over time



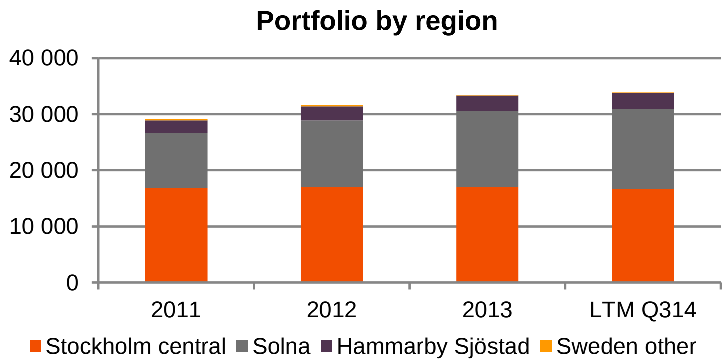
Source: Swedbank

Sponsors

The five sponsors are all real-estate companies listed on the Nasdaq OMX, and they all have significant track records. The fundamental stand-alone credit strength of these companies ranges from BB+ to BB-/B+, in our opinion. Operations cover several regions, including Stockholm City and Gothenburg, as well as several property types, ranging from offices to specialized logistic properties.

Fabege (SWB: BB+)
Fabege is one of the largest listed property companies in Sweden with a market portfolio value of SEK 33.9bn. It owns and manages 87 properties. Fabege is large in size, but it has a high market concentration, as it is solely focused on the central Stockholm market area. Submarkets include central Stockholm, Solna, Hammarby Sjöstand and some other areas located near central Stockholm. On the positive side, Stockholm has a lower vacancy risk than other cities, even though market value can be volatile. Fabege focuses predominantly on offices and, to a lesser extent, on retail and industrial warehouses. Fabege's operations revolve around large development projects in the Stockholm area, which increases the development and concentration risks. The company's share of development accounts for about 8% of total market value, which is still relatively comfortable. The company has relatively high vacancy rate of 8% and a short weighted average lease period of three years.

Geographic distribution of Fabege's portfolio over time



Source: Company reports, Swedbank

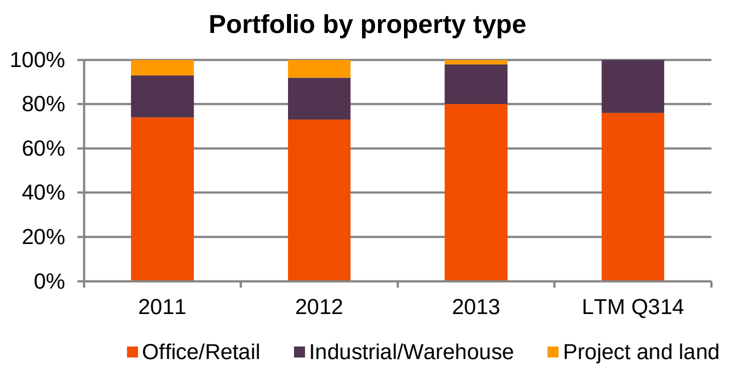
Fabege has a high leverage, an LTV of 59.5% and debt/debt plus equity of 61%. The EBITDA/interest coverage is adequate at 2.0x. The debt maturity of 3.8 years is still above average, but the interest maturity is quite short, in our opinion. We also view the proposed new tax regime and future increases in interest rates as threats. Increased interest rates would affect Fabege more than other companies due to its relatively short interest binding.

Wihlborgs (SWB: BB+)
Wihlborgs was founded in 2005 and has been listed on NASDAQ OMX since May 2005. Wilhborgs is a medium-sized listed real-estate company with a combined market value of its properties of SEK 23.5bn. The company owns and manages 271 properties, and it focuses on offices and retail. It also has some industrial/warehouse properties. When Wihlborgs was separated from its parent company, Fabege, it focused on the Öresund area, while Fabege focused on the Stockholm area. Wihlborgs is geographically diversified among Malmö, Lund, Helsingborg and Copenhagen. The large holdings in Malmö imply some market concentration. However, these are strong and stable submarkets in the Öresund region. Project developments elevate the risk in Wihlborgs' portfolio (including

MaxLab) and are estimated to about 13%, which is a significant share. The company has relatively high vacancy rate of 9% and a short weighted average lease period of 3 years.

The company has high debt leverage. At the end of September 2014, LTV was about 63% and debt/debt plus equity was about 69%. The EBITDA/interest coverage is high at 3.7x. Wihlborgs' financial targets include interest coverage of at least 2.0x, an LTV of a maximum of 60% and solidity of more than 30%. As for many real-estate companies, we view the proposed new tax regime and future increases in interest rates as threats. Increased interest rates would affect Wihlborgs, but by slightly less than peers, as the company has somewhat longer interest binding (5.0 years). Debt maturity is average at 4.0 years. Financial flexibility is adequate.

Portfolio by property type for Wihlborgs



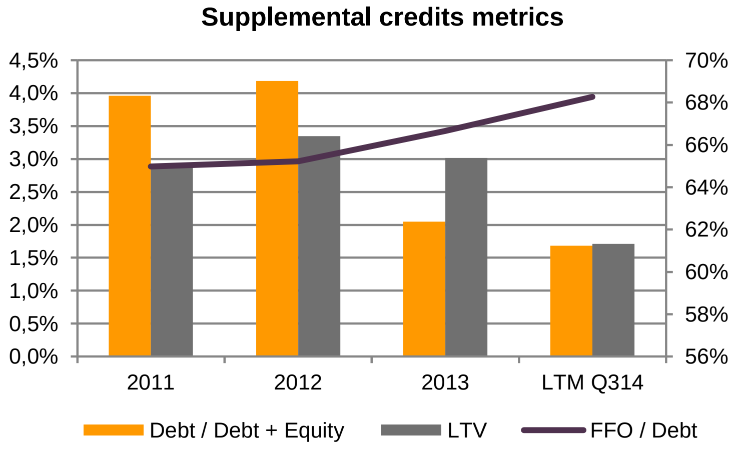
Source: Company reports, Swedbank

Platzer (SWB: BB/BB-)

Platzer is a small, listed real-estate company with a portfolio of SEK 7.4bn. Platzer is purely focused on the Gothenburg area, which implies low diversification and concentration risk. The company owns, manages and develops 54 properties with a lettable area of 380,000sqm (as of the end of September 2014). However, most of its property is located in the central and western parts of the city. Platzer has a dominant market position in the areas Northern Gårda and Högsbo.

Platzer has a total of 600 tenants. The largest 20 tenants represent 32% of the total rental value, which indicates good tenant diversification, especially given the relatively small sized portfolio (SEK 7.4bn). Governmental lease contracts include Länsförsäkringar, Domstolsverket and Migrationsverket. Platzer focuses on commercial properties and the larger part of its portfolio consists of office properties. Platzer is actively developing its properties by rebuilding and by building new properties. This is viewed as a risk, as Gothenburg is a city in which many developments are taking place. Currently Platzer is involved in larger projects in Northern Gårda, Högsbo and Lilla Bommen. The company's vacancy rate is 7%, which is average relative to peers. The average remaining lease period of 3.6 years is relatively short.

Selected credit metrics over time for Platzer



Source: Company reports, Swedbank

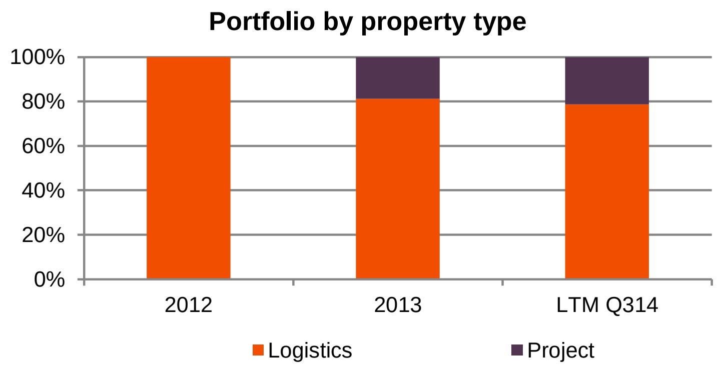
Plazer has high leverage. At the end of September 2014, the company had an LTV of 63%, debt/debt plus equity of 62% and debt/EBITDA of about 13x. The EBITDA/ interest coverage is average at 2.3x. However, Plazer's financial targets include coverage of 1.5x, which is weak for a commercial property company. Financial flexibility is adequate.

As for many real-estate companies, we view the proposed new tax regime and future increases in the interest rates as threats. Increased interest rates would affect Plazer similarly to peers, as the company has about 3.8 years in interest fixing. Debt maturity is short at 2.6 years. Financial flexibility is adequate.

Catena (SWB: BB-/B+)

Catena AB was listed on Nasdaq OMX in April 2006, after being distributed to the shareholders of its original owner Bilia. In 2010-2011, Catena divested almost all of its property stands, except a development project in Solna consisting of 40,000 sqm of lettable area. In 2013, Catena bought 100% of the equity shares in Brinova Logistics AB. In the same year, operating locations were established in Stockholm, Gothenburg and Öresund to bring the company closer to its desired tenant groups. Today, the company also operates in these area's strong and stable submarkets.

Portfolio per property type for Catena



Source: Company reports, Swedbank

Catena is a small property manager, managing 47 properties, most of which are logistics properties, with a market value of SEK 5.6bn. Its properties have a lettable area of 760,000 sqm. The company has a strategic focus on logistic, warehouse and industrial properties in important locations. Catena focuses on medium- to high-risk properties, and it operates in A-locations. Due to the small size, there is no meaningful diversification. The company's vacancy rate is 6%, which is average relative to peers. The average remaining lease period of 4.2 years is relatively for a logistics property company. The company has a significant share of project development. Catena owns a large project property located adjacent to the well-recognized and quickly expanding “Arenastaden” in Solna, which is being developed by Fabege. In September 2014, Catena and Peab AB together invested SEK 240m through a jointly owned company in a new terminal for DHL Freight in Sunnanå (outside Malmö). The lease covers 10 years and will yield an annual rental income of SEK 18.5m.

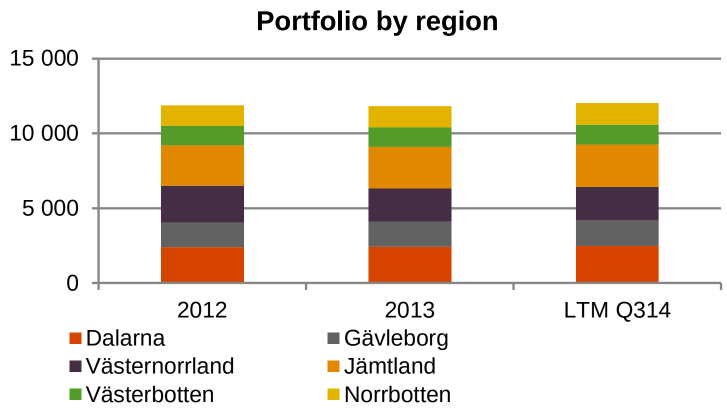
The company has high debt leverage. At the end of September, it had an LTV of about 64%, debt/debt plus equity of about 67% and debt/EBITDA of about 12x. The EBITDA/interest coverage is high at 2.9x. The company has a financial policy of EBITDA/interest coverage of 1.75x, which is weak for a commercial property company. The company most likely has limited financial flexibility due to the large share of private ownership.

As for many real-estate companies, we view the proposed new tax regime and future increases in interest rates as threats. Increased interest rates would affect Catena by slightly less than peers, as the company has somewhat longer interest fixing (5.0 years) than most peers. Catena introduced an interest-rate security in December 2014 through a 10-year swap at 1.39%. This leaves Catena with a loan-portfolio interest rate secured at 60%. Debt maturity is average at 4.0 years.

Diös (SWB: BB/BB-)

Diös Properties was founded in 2005, and it has been listed on Nasdaq OMX since 2006. The company is a relatively small property company with a market value of SEK 12bn, which consists of 365 properties and a lettable area of 1,425,000 sqm. Diös has a diversified portfolio with regard to property types and geographical operating areas. The main areas for Diös are located in northern Sweden, including the stable regional city submarkets of Dalarna, Gävleborg, Västernorrland, Jämtland, Västerbotten and Norrbotten. The submarkets include Luleå, Umeå, Sundsvall, Östersund, Gävle, Falun and Borlänge. We view the large holdings in these parts of Sweden as slightly negative, as the risks related to vacancies and liquidity on the market are higher than for other areas, such as Stockholm, Gothenburg and Malmö. A positive credit element is the relatively high share (20%) of governmental tenants. However, the vacancy rate is high at 10.5% and the weighted remaining lease period is short at 3.6 years.

Portfolio by region for Diös



Source: Company reports, Swedbank

The company has high debt leverage. At the end of September 2014, LTV was about 68%, debt/debt plus equity was about 72% and debt/EBITDA was 12x. The EBITDA/interest coverage is average at 2.3x. Diös financial targets include interest coverage of 1.8x, which is weak. Financial flexibility is adequate.

As for many real-estate companies, we view the proposed new tax regime and future increases in interest rates as threats. Increased interest rates would affect Diös the most, as the company has a very short interest fixing (1.0 years) relative to peers, which represents elevated risk. Debt maturity is low at 2.4 years.

Information to the customer

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The analyst(s) responsible for the content of this report hereby confirm that Information to the customer

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