SBP Kredit II AB Participating Debenture

Swedish Real Estate Construction Loan Portfolio

Ratings

Instrument	Credit Rating	Notional (SEKm)	LTV[1]	Interest rate	Term (years)
Participating debenture	(P) BBB-$_{SF}$	[500.0]	44%	[x] + 3M Stibor	5.0

This Credit Rating is assigned based on factual information provided by the party initiating the Credit Rating up to the [24] October 2021. Scope's Structured Finance Ratings constitute an opinion about relative credit risks and reflect the expected loss associated with the payments contractually promised by an instrument on a particular payment date or by its legal maturity. See Scope's website for further details about Credit Ratings.

Transaction details

Purpose	Leverage financing
Issuer	SBP Kredit II AB
Arranger/sponsor/asset manager	Svensk BostadsPartner AB
Closing date	[23] November 2021
Amortisation	Interest-only

Rating rationale (summary)

The credit rating is for an up to SEK 1,000m participating debenture issued by SBP Kredit II AB, which finances the lending activity of sister fund SBP Kredit AB, a publicly listed Swedish company. SBP Kredit focuses on small bridge loans granted to Swedish real estate companies to develop and manage residential real estate. Most of SBP Kredit's securities are first-lien mortgage certificates or shares. Svensk BostadsPartner AB (SBP) is the main shareholder of SBP Kredit and SBP Kredit II as well as the asset manager.

The secured pool as of 30 September 2021 consists of 38 loans to 32 developers and sponsors for a total committed notional of SEK 1,345m, including SEK 801m drawn and currently fully financed by pari-passu and junior debts to the rated instrument. Credit enhancement stands at [36]%. The portfolio loan-to-gross-developed value stands at 58.4% while the current portfolio drawn loan-to-value (LTV) stands at 49.5% and the covenanted look-through LTV at [31]%[2]. The current weighted average remaining time to maturity is 11.6 months with a 9.46% weighted average margin.

The rating benefits from the relatively granular portfolio and developer base, with the top loan representing 9.6% of the total committed portfolio, the short-term financing with an eight-month portfolio weighted average life, significant excess spread of approximately 5.6% and a covenanted look-through LTV of 50%.

The rating is constrained by the exposure to construction risks and second-lien securities, lax replenishable portfolio guidelines and a rundown portfolio mechanism, a liquidity reserve that covers only six months of secured debt servicing, and the ability of SBP Kredit II to leverage up, which would result in a compression of the look-through LTV and credit enhancement to [50]% and [27]% respectively. Indeed, SBP Kredit II may tap the issued participating debenture to up to SEK 1,000m, and SBP Kredit may leverage with up to 10% of super senior debt and up to SEK [20]m of unsecured shareholder debt.

[1] Scope LTV calculated as SBP Kredit's portfolio day-one LTV (49.5%) multiplied by SBP Kredit' secured debt divided by SBP Kredit's credit loan portfolio drawn notional.
[2] Covenanted look-through LTV calculated as SBP Kredit's portfolio day-one LTV (49.5%) multiplied by SBP Kredit II's day-one indebtedness ratio ([64%]).

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Related Methodologies

CRE Security and CMBS Rating Methodology, Aug. 2021

General Structured Finance Rating Methodology, Dec 2020

Methodology for Counterparty Risk in Structured Finance, Jul 2021

Related Research

Sweden real estate sets trend for Nordic hybrid issuance: investor scrutiny grows, December 2020

What ill the CRE sector look like when the dust settles? May 2020

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Bloomberg: RESP SCOP

Rating drivers and mitigants

Positive rating drivers

Granular portfolio of short-term real estate financing (positive). The portfolio is composed of around 40 loans with an approximate expected life of eight months. The top loan exposure must not be larger than 20% of the total committed portfolio while the total number of loans must not fall below 10, limiting idiosyncratic risks.

Conservative look-through leverage (positive). The eligible loan portfolio's day-one LTV upon completion must be below 70% and SBP Kredit's look-through LTV must be below 50% at all times. The credit enhancement this provides mitigates loss risks in low rating scenarios. The current LTV upon completion of 49.5% results in a covenanted look-through LTV for SBP Kredit of around 31%.

Limited speculative developments (positive). Most of the loan financing already has an exit scenario, through either long-term bank financing or pre-commercialisation. Exit solutions may or may not be binding.

Significant credit enhancement (positive). A junior SEK 412m profit-sharing loan provides [36]% of credit enhancement at issuance.

Significant excess cash (positive). Excess interest cash of approximately 5.7% benefits the rated notes in ramp-down scenarios, providing an additional source of recovery.

Negative rating drivers and mitigants

Portfolio exposed to construction risks and second-lien securities. The secured portfolio is mostly exposed to construction loans sponsored by small sponsors and operators with only few second-lien securities. Above-average default risk and below-average recoveries are possible.

Replenishable portfolio with lax investment guidelines. Principal proceeds from repaid loans are used to invest in new eligible loans. Investment guidelines are lax (i.e. first or second lien), few in number and only tested at the date of a loan's insertion in the portfolio.

Leveraging option. SBP Kredit is entitled to leverage with up to 10% of debt that ranks senior to the outstanding rated participating debenture (super senior debt) and with up to 75% of the indebtedness ratio. As a result, the credit enhancement may reduce to around 27% from [36]%.

Corporate and debt structure. The issuer's non-bankruptcy remoteness exposes it to its shareholder's credit quality. The existence of unsecured shareholder debt not governed by the intercreditor agreement raises risks of its repayment ahead of the secured debt. Both elements are respectively and partially mitigated by the pledge of the secured assets, the absence of other shareholders' assets other than those of SBP Kredit and SBP Kredit II, and the capping of shareholder debt at SEK [20]m.

Maturity risk. There is no minimum buffer period between the maturity of the credit loans and the maturity of the participating debenture, exposing the issuer to maturity mismatch. Additionally, a repayment at maturity embeds a premium, implying a potential loss (i.e. repayment at above par value at maturity).

Absence of default covenants on loans (negative). There are no default covenants on the underlying loans, limiting the sponsor's ability to quickly undertake an enforcement process.

Upside rating-change drivers

Tighter and standardised underwriting standards. An insertion of default covenants, the standardisation of cash trap covenants and/or the exclusion of second-lien securities would benefit the portfolio's credit profile.

A larger and more diversified portfolio would reduce the weight of idiosyncratic loan risks

Downside rating-change drivers

Releveraging. Drawings under super senior debt, the shareholder debt facility and/or pari-passu senior headroom would reduce credit enhancement for the rated participating debenture.

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Swedish Real Estate Construction Loan Portfolio

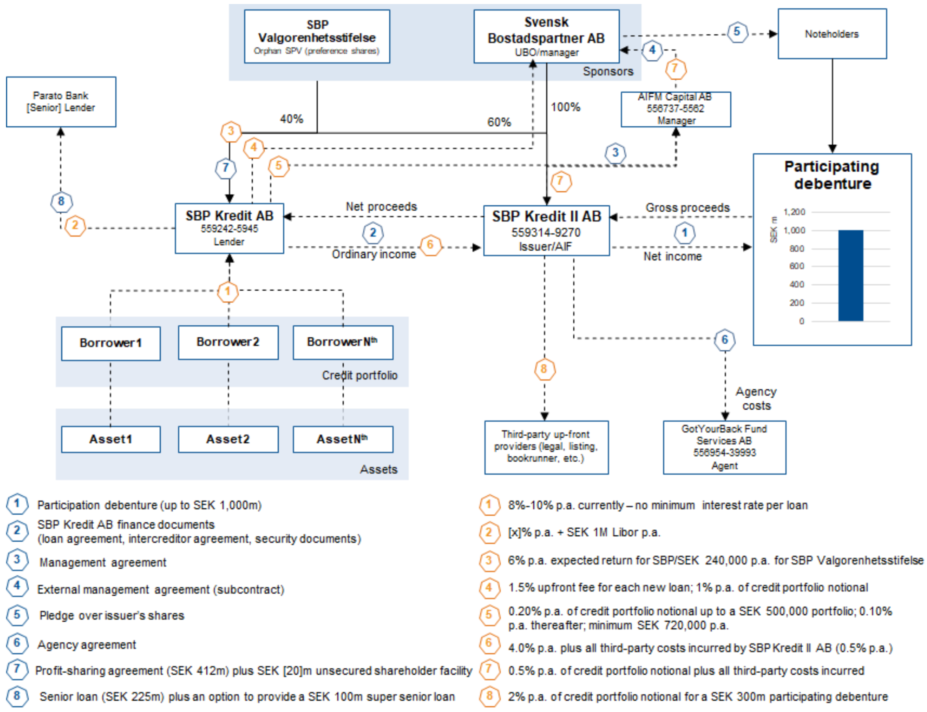
Table of contents

1. Transaction summary

The up to SEK 1,000m rated senior participating debenture issued by SBP Kredit II will finance the real estate lending of sister fund SBP Kredit AB. SBP is the main shareholder of SBP Kredit and SBP Kredit II as well as the asset manager.

SBP Kredit's corporate debt structure includes an up to SEK 100m super senior facility, a SEK 225m pari-passu loan, up to SEK 1,236m of pari-passu debt including SBP Kredit II's loan, a SEK 412m junior profit-sharing loan and an up to SEK [20]m unsecured shareholder facility from SBP.

Figure 1. Simplified corporate structure



Source: Transaction documents, Scope

Figure 2. Transaction summary

Loan details			Structural enhancement		
Notional (SEK m)	[500]		Senior credit enhancement[4]	36.0%	
Loan type	Senior		Senior liquidity reserve (# IPD senior loan)	2.00x	
Margin	[x]%		Interest rate hedging type (% hedged/strike rate)	N/A	
Interest rate type (reference rate)[1]	3-month Stibor				
RTM[2] (years)	5.00				
Life time amortisation rate (p.a.)	0.00%				
Transaction metrics	**Current[3]**		**Financial covenants[3]**	**Soft covenant**	**Hard covenant**
Portfolio loan-to-market value (%)	49.5%		Portfolio loan-to-value upon completion	N/A	70%
Look-through loan-to-market value (%)	32.0%		Look-though loan-to-value upon completion	N/A	50%
Interest coverage ratio (% NRI)	2.40x		Interest coverage ratio (% NRI)	N/A	1.50x
Collateral details	**Current[3]**	**SEK /sqm**	**Micro location**	**Market value (%)**	**GLA % (sqm)**
Properties (#)	36		Stockholm	74.2%	49.5%
Units (#)	93		Other Sweden	10.2%	11.4%
Total collateral market value (SEK m)	2,545.4	34,358.7	Gothenburg	8.2%	14.8%
Net floor area (sqm '000s)	74.1		Malmö	7.4%	24.3%
Freehold properties	33				
Single-tenant let properties	1				
Asset type (market value %)	**Market value (%)**	**GLA % (sqm)**	**Macro location**	**Market value (%)**	**GLA % (sqm)**
Residential	84.9%	61.7%	Sweden	100.0%	100.0%
Office	6.1%	31.9%			
Industrial	4.7%	6.4%			
Development	4.3%				
Transaction parties					
Issuer	SBP Kredit II AB			Borrower	SBP Kredit AB
Sponsor/asset manager	Svensk Bostadspartner AB			Security agent	GotYourBack AB

[1] Floor at 0%. [2] Remaining term to maturity. [3] As at cut-off date. [4] Credit enhancement= 1 – (super senior debt + rated debt) / total debt).

2. Sponsor and business plan analysis

SBP is the main sponsor of the transaction and the asset manager of SBP Kredit and SBP Kredit II. SBP focuses on granting small short-term bridge loans to Swedish real estate companies that cannot access bank loans until their projects have stabilised. This provides SBP the opportunity to expand its balance sheet because traditional banks have withdrawn from this niche market due to the intensive work requirements and the high constraints on regulatory capital. The issuance proceeds will also provide SBP with the necessary flexibility to finance larger projects at a lower financing cost.

Despite a launch in 2016, SBP board members each have more than 15 years of experience in the Swedish real estate market. In addition, SBP's chairman was the former CEOs of Catella AB and SBP's CEO is managing director at Gillesvik.

SPB relies on Swedish credit reference agency UC, a part of Enento Group, to provide a credit view on borrowers. UC's risk class ranks companies and their insolvency risk at 12 months from 1 (highest risk) to 5 (lowest risk). Insolvency risk is measured using co-variation risk (i.e. statistically significant variable changes). We gave no credit to these scores because they reflect a credit change and not a fundamental credit view.

SBP has never had overdue outstanding payments or credit losses since its creation in 2016.

2.1. Economics

Excess spread reaches 5.7%, providing a cushion to the rated instrument

SBP's lending business generates a net margin (excluding interest costs on the pre-profit-sharing loan) of around 5.7%. This provides a cushion to the rated instrument in case of market downturns or difficulties for SBP to source new loans.

Figure 3. Economics

Interest, costs and fees	Up-front	Recurring (p.a.)
Loan portfolio	2.0%	9.6%
Senior expenses	0.0%	-0.5%
Credit management fee	-1.5%	-1.0%
AIF management fee		-0.1%
Super senior debt		-0.3%
Senior debt		-2.1%
Total	**0.5%**	**5.7%**

3. Asset analysis

As at the cut-off date, the portfolio consists of 38 loans to 32 Swedish developers and sponsors for a total committed notional of SEK 1,345m, including SEK 801m currently drawn. The current weighted average remaining time to maturity is 11.6 months for a 9.46% weighted average margin. Swedish valuers[3] performed synthetic valuations ahead of any financings.

The macro locations have a good overall profile, with 74% of the collateral assets located in Stockholm's region (49.5% gross leasable area – GLA), 8.2% in Gothenburg's region (14.8% GLA) and 7.4% in Malmo's region (24.3% GLA). Nevertheless, the micro locations of these assets are mostly in the outskirts of Sweden's largest cities.

Residential projects represent 85% of the portfolio

The portfolio has 85% of residential assets in development and three assets that are already operating. The remaining secured portfolio is composed of office developments

[3] Including among others Forum Fastighetsekonomi AB, Fagergrens Fastighetsbyra, Croisete Real Estate Partner, Lansforsakringar Fastighetformedling

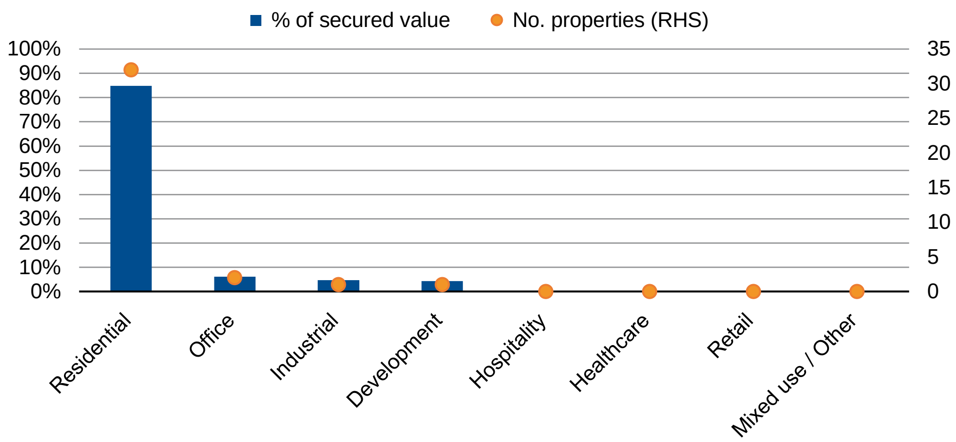
(6% of secured value), industrial developments (5%) and pure development sites including land with building rights for residential assets (4%).

34 assets are held on a freehold basis and two assets on leasehold with remaining terms of 31/12/2044 and 31/12/2025 respectively. We didn't apply further haircuts to these assets' market value in our quantitative assessment because ground leases are with Swedish local authorities and non-extension risks are considered remote.

No prerequisite to perform valuations each year

Collateral valuations are performed before underwriting and there is no prerequisite to perform annual valuations thereafter. This is partially mitigated by the short nature of most financings (below one year).

Figure 4. Asset location



4. Securitised loan portfolio analysis

The portfolio consists of mainly first-lien senior loans (30 loans summing up to 90.1% of the allocated loan amount – ALA) and eight second-lien loans (summing up to 9.9% ALA of second-lien junior loans advanced at an average of 58.7% of total debt to collateral value upon completion).

The underlying loans benefit from real estate mortgages (92.5% of ALA) and a pledged share or equivalent securities (7.5%).

Bidding exit agreements represent 44.1% of the ALA

Most of SBP's financed projects have an upfront repayment schedule via either a portfolio sale or a long-term bank loan, including 44.1% of ALA with a bidding agreement.

Borrowers are either special purpose vehicles or Swedish companies that may have employees. Consequently, the foreclosure process is generally lengthened and recovery rates negatively impacted.

Figure 5. Loan portfolio overview

Terms	Content
Loan type (% ALA)	Construction residential loans (80.0%) Commercial real estate loans (14.7%) Land with building rights for residential (5.3%)
Lien (% ALA)	First lien (90.1%) Second lien (9.9%)
Principal amortisation (% ALA)	Interest only (100%)
Security package	Property mortgages (92.5%) Pledged shares (7.5%)

Terms	Content
Margin (weighted average)	9.51%
Cash trap covenants (% ALA)	Loan-to-value (91.9%) Loan-to-cost (80.8%) Cost overruns (81.7%) Completion delays (82.1%)
Exit scenario (% ALA)	Binding forward purchase agreement: 44.1% Non-binding forward purchase agreement: 3.2% Non-binding forward purchase refinancing: 5.7% No agreement: 47%
Covenanted collateral	Condominium value: 50.1% Rental value: 40.8% Building rights value: 9.1%
Portfolio leverage	Loan-to-value: 49.5% Committed debt to collateral value upon completion: 58.7% Loan-to-cost: 64.7%

4.1. Eligibility criteria

Portfolio replenishment is allowed during the financing tenor and subject to loan eligibility criteria and loan portfolio covenants.

Figure 6. Eligibility criteria for underwriting real estate loan financings

Terms	Content
Borrowers	Companies with a purpose to finance real estate projects and real estate companies in Sweden
Interest	Fixed rate; mostly capitalised
Principal amortisation	None
Security package	First- or second-ranking legal mortgage over properties or share pledges in holding companies No security over rental income, insurance policies, obligor bank accounts, shares in obligors or intra-group receivables.
Key events of default	Non-repayment
Financial covenants	No obligation to implement financial or cash trap covenants However, most of the underwritten loans have covenants for the loan-to-cost, loan-to-value or cost-to-time ratios.
Bank accounts	Borrowers' signing right over all loan borrowers' accounts.

Calculation and application of loan portfolio default covenants considered weak

Financial secured portfolio covenants guarantee a minimum diversity and a maximum portfolio LTV and top obligor exposure. However, the diversification covenant is weak compared to more advanced diversification covenanted metrics like the Herfindhal-Hirschmann index. These covenants do not apply during the ramp-down phase ahead of the maturity of the participating debenture.

Figure 7. Loan portfolio default covenants

Terms	Content
Number of loans	Higher than 10
Top obligor	< SEK 100m and <20% of total portfolio notional
Portfolio LTV	< 70%

5. Liability analysis

5.1. Corporate debt structure

Via this rated issuance, SBP seeks to increase its balance sheet and liquidity position, extend its debt maturity profile and lower financing costs.

SBP Kredit II's rated instrument of up to SEK 1,000m finances the lending of sister fund SBP Kredit. SBP Kredit benefits from a SEK 225m pari-passu loan granted by Parato. It also benefits from a SEK 412m junior preferred debt via a profit-sharing loan from its shareholder SPB with a maturity in [September 2026].

Parato's pari-passu loan benefits from a pledge over SBP Kredit shares and a SEK 100m parent guarantee from SPB. The loan will mature in March 2023 and yield one-month Stibor plus [x]%.

SBP Kredit can significantly leverage up

SBP Kredit is also entitled to raise additional debt: i) a SEK 100m super senior facility to finance short-term working capital needs; ii) up to SEK 1,236m of pari-passu debt via a top-up of the SBP Kredit II participating debenture or similar debt; and iii) an up to SEK [20]m unsecured shareholder loan.

SEK [20]m unsecured shareholder debt can be repaid ahead of senior creditors

An intercreditor agreement regulates the respective rights and ranking of the super senior and senior creditors. However, shareholder SPB is not party to this agreement. This means the unsecured shareholder loan is excluded from the agreement and can therefore be repaid ahead of super senior and senior debt.

SBP Kredit, the ultimate beneficiary of the rated instruments, is bounded by fixed financial covenants as described below. We consider the look-through LTV formula to underestimate the real LTV by up to 2 percentage points because the indebtedness ratio factor disregards the capital allocation to the transaction costs and liquidity reserve.

Figure 8. SBP Kredit financial covenants

	LTV*	Interest coverage ratio**	Indebtedness ratio***	Liquidity (in months)****
At all times	< 50%	> 1.5x	< 75%	> 6

* Look-through LTV calculated as portfolio LTV times indebtedness ratio.

** Calculated as 12-month forward-looking EBITDA to financial net payable

*** Calculated as total outstanding debt net of available cash and cash equivalents divided by total assets.

**** To be maintained at all times as an unutilised credit commitment and calculated as of 1.0x [six-month forward-looking senior interest servicing]

Figure 9. Sources and uses

SBP Kredit

Sources	SEK m
Equity	1
Profit-sharing loan	412
Parato loan	225
SBP Kredit II loan	[500]
Hedging debt	-
Super senior loan	-
Total sources	1,138

Uses	SEKm
Credit loans	801
Transaction costs	10
Bank	[327]
Total uses	1,138

SBP Kredit II

Sources	SEK m
Equity	1
SBP Kredit II AB loan	[500]
Total sources	511

Uses	SEK m
SBP Kredit II loan	[500]
Bank	1
Total uses	511

Svensk Bostadspartner

Sources	SEK m
Equity	27
Preferred equity	160
Total sources	187

Uses	SEKm
SBP Kredit shares	1
SBP Kredit II shares	1
Profit-sharing loan	185
Total uses	187

SBP (consolidated view)

Sources	SEK m
Equity and similar	27
Preferred equity	160
Profit-sharing loan	227
Parato loan	225
SBP Kredit II debenture	[500]
Hedging debt	-
Super senior loan	-
Total sources	[1,139]

Uses	SEKm
Credit loans	801
Transaction costs	11
Bank	[327]
Total uses	[1,139]

5.2. Key terms of participating debenture

SBP Kredit II's SEK [500]m participating debenture may be topped from the initial issuance amount to up to SEK 1,000m. The term of the loan is five years, with maturity in [November] 2026. The yearly interest rate is three-month Stibor with a 0% floor plus a [x]% margin, to be paid quarterly.

The absence of interest rate hedging exposes SBP Kredit II to interest rate risk. The short portfolio tenor and significant excess spread partially mitigates this risk.

Figure 10. Key terms of the rated instrument

Terms	Content
Interest	Three-month SEK + [x]%, quarterly payment
Principal amortisation	None – interest-only
Security package	First-ranking pledge over 100% of the shares in the Issuer
Key events of default	Customary for transactions of this nature, such as non-payment following an administrative error not cured within five business days, breach of default covenants, negative pledge, cessation of business, misrepresentation, cross-default, illegality, insolvency proceedings or financial indebtedness.
Bank accounts	Borrowers' signing right over all accounts before and after occurrence of an event of default.

5.3. Priority of payments

Agent, arranger and security agent fees rank senior to the loan's interest and principal payments in the priority of payments. Also ranking senior are amounts due under any headlease as well as interest and principal on any property protection loan, but no costs are currently associated with these.

Figure 11. Priority of payments and available funds

Pre-enforcement/pre-maturity priority of payments	Post-enforcement/at-maturity priority of payments
Available funds All issuer moneys including proceeds from interest, principal repayments and liquidity line	**Available funds** All issuer moneys including proceeds from interest, principal repayments, liquidity line and funds from liquidation of assets
1) Super senior interest 2) Hedging debt interest 3) Senior fees and expenses (credit management fee, senior expenses, AIF management fee) 4) Replenishment of portfolio 5) Pro-rata senior debt interest (participating debenture and Parato loan) 6) Profit-sharing debt interest	1) Senior fees and expenses (credit management fee, senior expenses, AIF management fee) 2) Super senior costs, expenses, accrued interest and outstanding principal repayment 3) Hedge debt costs, expenses, accrued interest and outstanding principal repayment 4) Senior debt costs, expenses, accrued interest and outstanding principal repayment 5) Surplus to the Issuer

5.4. Structuring elements

5.4.1. Credit enhancement

We consider the SEK 412m profit-sharing loan granted to Kredit AB as equity-like and to provide a first loss piece to the rated instrument. The day-one credit enhancement is [36]%.

5.4.2. Additional leverage option

Kredit AB may increase its portfolio LTV and its indebtedness ratios to respectively 70% and 75%. Ultimately, Kredit II's day-one look-through LTV may rise to 52.5% from 31%. This is partially mitigated by the look-through financial LTV covenant at 50%.

5.4.3. Liquidity reserve

SBP Kredit must maintain at all times a liquidity reserve in the form of an unutilised credit commitment corresponding to six months of secured debt interest servicing.

5.4.4. Voluntary total redemption

The issuer can fully repay the rated instrument ahead of its maturity date at par value plus a premium.

Figure 12. Voluntary total redemption release prices

Period	Release price
Issue date to first call date	100% of the outstanding nominal amount plus 50% of accrued loan margin less the management fee plus the remaining payments of ordinary income
After the first call date	100% of the outstanding nominal amount plus 50% of accrued loan margin less the management fee

5.4.5. Control event

A control event is triggered if a party acquires i) control over the issuer by an acquisition or control of 50% of the voting share; or ii) the right to appoint/remove a majority of members of the board of directors.

Noteholders can exercise their call option upon a 'Change of Control Event'. The repurchase price will be equal to 101% of the nominal amount together with accrued unpaid interest.

5.4.6. Controlling rights

Creditors owning more than 50% of the total debt of each debt class will be considered a 'Senior Representative' with voting and controlling rights. In the absence of a Senior

Representative, respective debt seniority debtholders shall agree on an enforcement strategy. We see this controlling rights process as potentially slow and inefficient.

5.4.7. Senior costs

The senior costs and fees correspond to a 1.5% upfront fee for each new loan and 1.6% yearly afterwards.

Figure 13. Senior fees

Senior fees and expenses	Debitor	Creditor	Fee level (p.a.)
Credit management	SBP Kredit	Svensk BostadsPartner AB	Upfront 1.5% of each new loan 1% p.a. of the credit portfolio notional
AIF management fee (% of asset under management)	SBP Kredit	AIFM Capital AB	0.20% of nominal amount up to SEK 500m credit portfolio notional (minimum SEK 720,000 p.a.) 0.10% p.a. if credit portfolio more than SEK 500m
Asset management (% of asset under management)	SBP Kredit II	AIFM Capital AB	0.5% p.a of the total nominal amount plus all agency costs incurred

6. Quantitative analysis

Our credit ratings are a function of the instrument's expected loss and weighted average life as per our idealised expected loss tables.

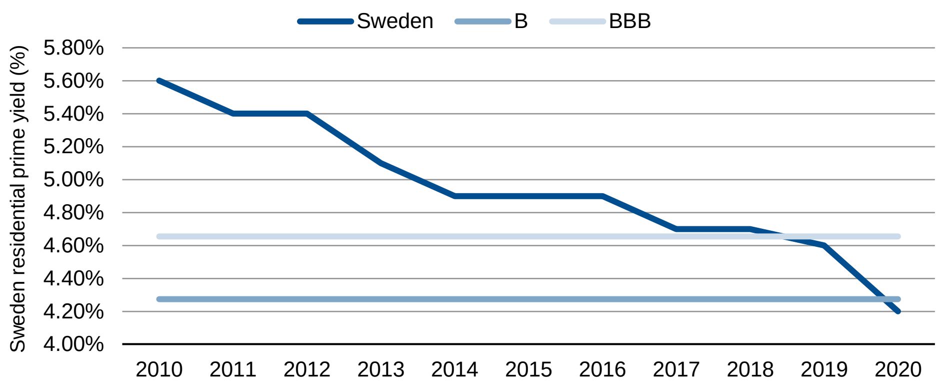
We relied on through-the-cycle Swedish real estate observations to determine our capitalisation rate and rental value haircut assumptions.

Our B level corresponds to the respective indications contained in the valuations plus a volatility buffer equal to half a standard deviation of the annual yield or rental change over a six-month period. AAA yields reflect a three-year downturn with capitalisation rates and rents falling at three times their historical annual standard deviation. We apply a linear interpolation between B and AAA levels for the assigned rating levels.

The respective collateral value was estimated to be equal to its rating-conditional gross developed value net of outstanding capital expenditures to be invested plus a 30% developer margin. A three-month leasing fee and void costs of 30% of the estimated rental value were also assumed.

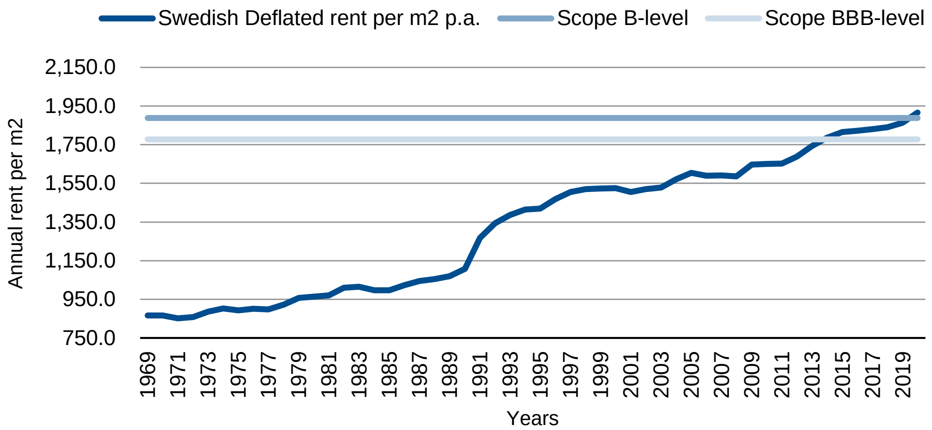
We considered the underlying soft loan covenants to be weak and therefore excluded them from the analysis. We simulated a default upon an LTV of more than 100% as well as a failure to refinance upon loan maturity followed by a collateral liquidation at its point-in-time expected value. We did not give credit to the sponsor's business plan given the portfolio granularity and limited information available on the sponsor. We also gave no credit to diversification scores because of the nature of SBP Kredit's business.

Figure 14. Sweden residential yield versus Scope's rating-conditional yields



Source: SCB, Scope

Figure 15. Sweden deflated rent versus Scope's rating-conditional rental value haircuts



Source: SCB, Scope

Figure 16. Key transaction-specific assumptions under the assigned credit rating category

Credit rating assumptions	Levels[4]
Sponsor benefit	N/A
Capitalisation rates	
Non-stabilised capitalisation rate	6.3% to 10% (weighted average[5]: 7.9%)
Stabilised capitalisation rate	3.9% to 6.2% (weighted average[6]: 5.8%)
Rental value haircut[7]	9.3%
Sustainable rental value haircut	0%
Structural vacancy	5.0%
Void period	Not applicable
Tenant credit quality	B
Property costs (yearly)[8]	
Asset manager fee (% net rental income)	3.0%
Non-recoverable operating expenditures[9] (% gross rental income)	30%
Maintenance capex (% market value)	0.50%
Void costs (% of operating expenses)	30%
Leasing commission (in months; of gross rental income)	3
Variable liquidation costs (% market value)	9%
Variable liquidation costs (% loan notional)	1.5%[10]
Foreclosure period (months)	13
Diversification score benefits	N/A

4 Stress levels are cumulative
5 Weighted by property market value
6 Weighted by property market value
7 Applies to all net revenues (during courses, during the summer, and to the others)
8 Based on our calculations of rental incomes and portfolio market value
9 On portfolio level, decreasing over time, based on the business plan
10 Capped at SEK 2m

7. Counterparty risk

7.1. Commingling risk from account bank

Commingling risk is immaterial for the rated instrument

We consider the risk of commingling losses to be immaterial for the rated instrument given the account bank's high credit quality and the required replacement of the bank within 30 days upon its credit rating downgrade below BBB.

Figure 17. Account bank ratings

Account bank	Required long-term rating	Current rating
Handelsbanken	BBB	AA- / Aa2

7.2. Commingling risk from paying agent

Euroclear is acting as calculation and paying agent

Scope considers the commingling risk to the paying and calculation agent Euroclear to be immaterial for the transaction. The exposure to Euroclear is only intra-day and for a maximum of three months collection. In addition, Euroclear's credit quality mitigates the commingling risk.

8. Legal and tax analysis

The Swedish legal opinion issued by Advokatfirman Svinge covers most of the expected legal points arising in mortgage-backed securitisations. However, we highlight that the issuer is not bankruptcy-remote from its shareholder SBP. SBP is the holding entity of the SBP group and is currently exclusively exposed to the credit risk of both SBP Kredit and SBP Kredit II. Consequently, we do not consider the absence of bankruptcy-remoteness to be a cap on the issued instrument. However, our view may change in the event of a diversification of SBP's business.

Absence of bankruptcy remoteness doesn't cap the rating of the instrument.

Figure 18. Scope of the legal opinion

Legal opinion	Participating debenture
Bankruptcy remoteness	⦸
Duly incorporated and validly existing	✓
Legal, valid, binding and enforceable obligations	✓
Capacity and authorisation of signatories	✓
Absence of insolvency proceedings	✓
Absence of conflicts with other obligations	✓
Enforceability of the secured assets	✓
Absence of commingling and set-off risks	⦸
Absence of non-petition risks	✓

9. Data provided and legal framework

We received the following documents from the party initiating the credit rating for the purpose of this analysis.

Figure 19. Data shared with Scope

Transaction package	Participating debenture
Term-sheet	✓
Structure chart	✓
Sponsor/asset manager presentation	✓
Facility agreement	✓
Intercreditor agreement	✓
Legal opinion	✓

Valuation reports	✓
Participating debenture	✓
Security package	✓
Pareto loan terms and conditions	✓

10. Sensitivity analysis

We tested the resilience of the credit rating based on the cash flow performance at closing. We applied credit rating-conditional stresses described below to the initial cash flows and the collateral value. This sensitivity analysis has the sole purpose of illustrating the sensitivity of the credit rating's levels to input assumptions and is not indicative of expected or likely scenarios.

It shall be noted that our credit ratings embed qualitative factors that are not considered in these robust quantitative results.

Figure 20. Sensitivity to deviations in main assumptions

Scenario	Deviation from assigned credit rating category
Higher rental value haircuts (+20%)	0
Higher structural vacancy (+20%)	0
Higher capitalisation rates (+20%)	0
Top 2 tenants' default	0
Foreclosure period (immediate recovery)	0

11. ESG considerations

Environmental, social and governance (ESG) aspects are considered in our analysis when we deem them credit-relevant. Commercial real estate loans and commercial mortgage-backed securities are generally subject to the following ESG elements such as the subject transaction.

11.1. Environmental

In this area, we focus on: i) the presence of asbestos; ii) abandoned underground storage tanks; iii) ground contamination; iv) water contamination; v) the presence of polychlorinated biphenyl; vi) lead paint; vii) capex plan in energy efficiency and retrofitting; viii) the borrower's climate change policies; and ix) the sourcing of plant and material.

We generally review capital expenditure plans, insurance liabilities, third-party technical environment reports, including Phase I and Phase II reports when available. We expect relevant reports to provide an estimated budget and time to resolve major findings. We expect major findings to be accounted for in the sponsor's business plan and reserved upfront.

We did not receive any environmental-related reports in relation to the loans granted by SBP Kredit. The sponsor informed us that they do review environment reports ahead of granting any new loan if they are available. The sponsor has also recently developed a framework for green financing which has been designed in line with both the Green Bond Principle and the Green Loan Principles.

11.2. Social

The social aspect analysis focuses on i) insurance liabilities against human-caused disasters like terrorism or wars; and ii) societal changes affecting consumer behaviour (e.g. e-commerce), demography and living preferences (e.g. employment and affordability).

We generally review insurance agreements and consider information on societal changes when available.

Real estate-related insurance is not pledged in favour of SBP Kredit. Most of the loans are secured by real estate mortgages or shares pledged over assets that will be built with a quality above the average of existing stock. The location of these projects responds to a demographic and living preferences.

11.3. Governance

The major focus for governance is determining the existence of: i) simple and transparent priorities of payment in allocating commercial real estate loan proceeds and losses; ii) standard and transparent financial covenant formulas and collateral valuation assumptions; iii) ESG-linked lending criteria; iv) rights, obligations, independence, and the alignment of interests and potential conflicts of interest among stakeholders; v) ramp-up provisions and investment guidelines; and vi) non-discretionary terms and conditions upon default.

We generally review commercial real estate loan agreements, servicing agreements, collateral management agreements, stakeholder liabilities and third-party reports when available.

Non-standard, non-simple transaction structure.

We notice that shareholder debt is not part of the intercreditor agreement. As a result, the unsecured shareholder loan may be repaid ahead of any senior debt. SBP Kredit can also leverage up via various instruments that result in a non-standard non-simple transaction structure.

Figure 21. Issued instrument credit-relevant ESG factors

Environmental	Social	Governance
• Absence of minimum energy performance certification • Absence of insurance against natural disasters	• Build-to-sale/build-to-rent financed loans	• Non-standard transparent and simple transaction structure • Absence of borrower ESG reporting

12. Monitoring

We will monitor this transaction on the basis of performance reports from the management company as well as other available information. The ratings will be monitored continuously and reviewed at least once a year, or earlier if warranted by events.

Scope analysts are available to discuss all the details surrounding the rating analysis

Scope analysts are available to discuss all the details surrounding the rating analysis, the risks to which this transaction is exposed and the ongoing monitoring of the transaction.

13. Applied methodology and data adequacy

For this credit rating, we applied our CRE Security and CMBS Rating Methodology (17 August 2021), General Structured Finance Methodology (14 December 2020) and Methodology for Counterparty Risk in Structured Finance (13 July 2021). All methodologies are available on our website, www.scoperatings.com.

14. Appendix 1 : Sovereign risk and real estate-related macro policies

On 5 November 2021, we affirmed Sweden’s credit rating at AAA with a Stable Outlook. The sovereign risk does not limit the rating.

Sweden’s real GDP fell sharply at the onset of the Covid-19 crisis but has since rebounded in line with that of its Nordic peers. The diversified economy, low level of public debt, strong institutional framework and stable governance provide a high level of resilience.

After Sweden’s economy contracted by 2.8% in 2020 (euro area -6.7%), we forecast real GDP growth at 4.0% in 2021 and 3.3% in 2022.

The unemployment rate is expected to gradually decline from 8.4% at end-2021 to 7.7% in 2022. While economic output is expected to reach its pre-pandemic level in 2021, frictions in the labour market mean that the unemployment rate is likely to stabilise slightly above its pre-pandemic level.

General government debt is set to reach 39.4% of GDP in 2022 (compared with Nordic peers Finland with 71%, Denmark with 43% and Norway with 41%). While this is a significant increase compared with the pre-pandemic level of 34.9%, it remains low when compared with other European sovereigns (euro area average of 101%).

Household indebtedness and the elevated risk of a housing market correction remain the two medium-term challenges facing Sweden. Household indebtedness has continued to rise to historically high levels of around 200% of household disposable income, while property prices have increased sharply, climbing by 12.4% over the past year. Swedish households are exposed to interest rate risks since 60% of mortgages have a floating rate.

Sweden’s financial supervisory authority introduced regulations for new real estate lending in 2018 to mitigate these credit risks. First, new mortgages with LTVs of over 70% have to be amortised by at least 2% of the total loan amount each year. Second, new mortgages with LTVs of over 50% have to amortise by 1% yearly until the LTV reaches 50%. The financial supervisory authority also decided against extending the temporary exemption from the amortisation requirement implemented during the pandemic.

15. Appendix 2 : Swedish real estate market

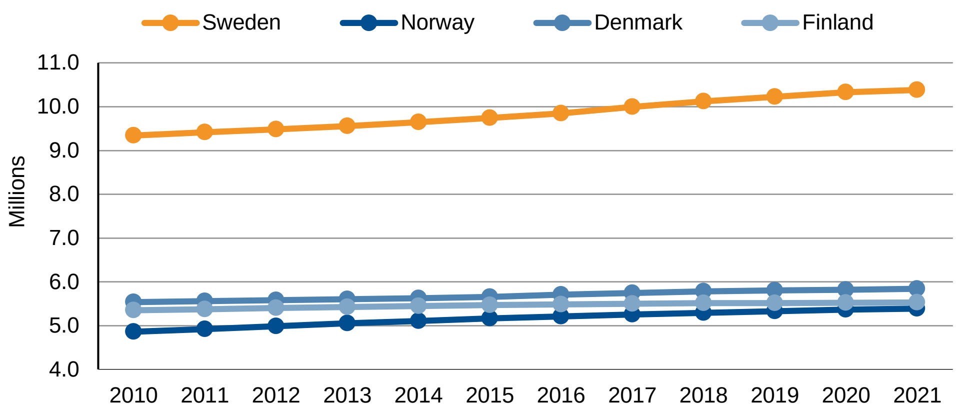
15.1. Macro drivers

Favourable demographic trend, strict regulations and an imbalance between supply and demand drive the Swedish real estate market

The Swedish residential real estate market has grown almost constantly for 30 years, driven by a favourable demographic trend, strict regulations and an imbalance between supply and demand.

Sweden's population reached 10.4m in 2021 from EUR 9.4m in 2011, corresponding to the highest 10-year compound annual growth rate for non-European city states.

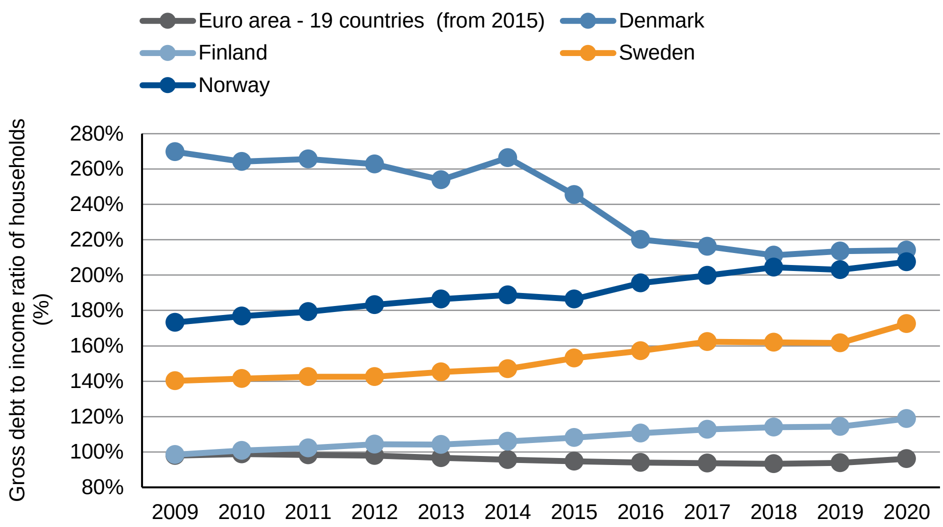
Figure 22. Sweden demographic evolution versus Nordic peers



Source: Eurostat, Scope

Of the 290 municipalities, 212 reported a housing shortage, especially for rental apartments[11]. The greater Stockholm, Gothenburg and Malmö regions account for around 76% of the total deficit. However, residential construction is hampered by high construction costs, strict lending requirements for construction companies and difficulties faced by private individuals in being granted loans.

Figure 23. Sweden debt-to-income ratio evolution versus peers



Source: Eurostat, Scope

[11] Boverket

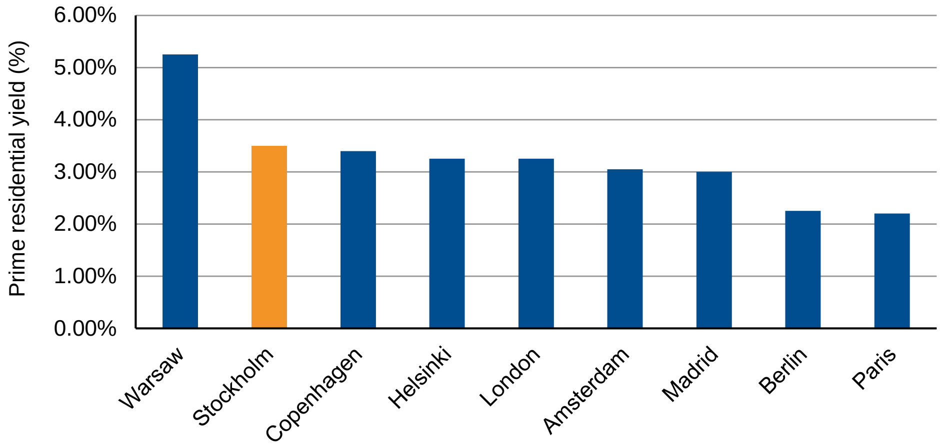
15.2. Residential outlook

The continuous increase in housing prices will likely increase the pace of residential construction in the medium term[12]. The Swedish government's plan to support the construction of affordable rental apartments ramped up to SEK 3.0bn in 2021.

Unlike many other asset types, the European multi-family segment experienced yield compression during 2020[13]. Despite yields moving down, prime yields in Sweden, especially in the Stockholm region, do not look overheated in a European context. Multi-family homes may see further yield compression in 2022 with investor interest for 'beds and sheds' expected to continue, especially if demand continues to surpass supply.

Some suburban markets are seeing an equilibrium in capital values between co-operative properties and multi-family rental properties, meaning current and planned development projects are likely to shift towards the latter.

Figure 24. Stockholm prime residential yield vs European capital peers



Source: CBRE, Scope

[12] IMF, Sweden: 2021 Article IV Consultation, IMF Country Report No. 21/61, March 2021
[13] CBRE, Nordic Real Estate market Outlook, Sweden, 2021 (link)

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