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CREDIT OPINION
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New Issue

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Borgo AB - Mortgage Covered Bonds

New Issue Report – Swedish covered bonds

Ratings

Exhibit 1

Cover Pool (SEK)	Ordinary Cover Pool Assets	Covered Bonds (SEK)	Rating
9,436,568,716	Residential Mortgage Loans	7,500,000,000	Aaa

All data in the report is as of 30 November 2021 unless otherwise stated
Source: Moody's Investors Service

Summary

The covered bonds issued by Borgo AB (Borgo, the issuer) under its mortgage covered bond programme are full recourse to the issuer and are secured by a cover pool of assets consisting entirely of residential mortgage loans (100.0%) in Sweden.

Credit strengths include the full recourse of the covered bonds to the issuer and support provided by the Swedish legal framework for covered bonds, which provides for the issuer's regulation and supervision.

Credit challenges include the covered bonds' high level of dependency on the issuer. As with most covered bonds in Europe, there are few restrictions on the future composition of the cover pool.

Our credit analysis takes into account the cover pool's credit quality, which is reflected in the collateral score of 5.0%, and the current over-collateralisation (OC) of 25.8% (on a nominal basis) as of 30 November 2021.

Credit strengths

» ***Recourse to the issuer***: The covered bonds are full recourse to Borgo AB (A3(cr)). (See "Covered bond analysis")

» ***The issuer is located in Sweden (Aaa, stable):*** Sweden's credit profile reflects its very high economic resilience. Furthermore, Swedish banking sector remains resilient to downside risks from high house prices and household debt, and its capitalization is robust. (See "Covered bond description")

» ***Support provided by the Swedish legal framework***: The covered bonds are governed by the Swedish covered bond legislation, which provides for the issuer's regulation and supervision and sets certain minimum requirements for the covered bonds and the cover pool. (See "Moody's related publications: Covered Bond Legal Frameworks" and "Covered bond description")

- ***High credit quality of the cover pool***: The covered bonds are supported by a cover pool of high-quality assets. The cover pool consists of single family housing loans (53.1%) and loans to tenant owner rights (46.9%), both backed by residential properties in Sweden. The collateral quality is reflected in the collateral score, which is currently 5.0%. Furthermore, by law, cover pools are stress-tested against falls of up to 30% in property values and loans backed by commercial property are not permitted to exceed 10% of the cover pool. (See "Cover pool analysis")
- ***Mitigants to refinancing risk*:** Following what we call a 'covered bond (CB) anchor event', refinancing risk would be mitigated by (i) the level of support expected for covered bonds in Sweden, (ii) the fact that the issuer can reset loan rates on floating rate residential mortgages (81.3% of the cover pool) on a quarterly basis (in the event of issuer's default, the insolvency administrator will be able to similarly reset the loan rates every three months), which improves the sales value of the cover pool, and (iii) all outstanding covered bonds under the programme are soft-bullet bonds with a 12 months maturity extension. A CB anchor event occurs when the issuer, or another entity within the issuer group that supports the issuer, ceases to service the payments on the covered bonds. (See "Covered bond analysis")
- ***Interest rate and currency risks are mitigated***: Similar to many Swedish covered bonds, investors are exposed to some degree of interest rate mismatch because 18.7% of the assets carry fixed interest rates, while 100.0% of the outstanding liabilities carry floating interest rates. However, there is no currency risk in the programme because both the assets and liabilities are entirely denominated in SEK. The issuer has also not entered into any swap arrangement with a swap counterparty that is part of the issuer's group or outside of issuer's group. (See "Covered bond analysis")
- ***Commingling risk is mitigated:*** The Swedish covered bond law requires that cover pool collections are held in a dedicated account. This should facilitate the identification and segregation of the issuer's funds relating to the cover pool following an issuer default. (See "Covered Bonds Description")

Credit challenges

- ***High level of dependency on the issuer:*** As with most covered bonds, before the insolvency of the issuer, the issuer can materially change the nature of the programme. For example, the issuer can add new assets to the cover pool, issue new covered bonds with varying promises and enter into new hedging arrangements. Also similar to most covered bonds in Europe, this programme has few restrictions on the future composition of the cover pool. These changes could affect the credit quality of the cover pool, as well as the overall refinancing and market risks. Further, if the quality of the collateral deteriorates below a certain threshold, the issuer would have the ability, but not the obligation, to increase the OC in the cover pool. The programme is, like the issuer itself, a start-up without capital market track record. Own operational and risk management capacities need to be built up and developed. The business plan foresees strong growth of the cover pool, which could lead to a deterioration of the asset quality. At the outset, this is mitigated by a cover pool that consists of prime Swedish residential mortgage assets, purchased from Bank of Aland (nor rated) which are well-seasoned and with a limited share (12.7%) of loans exhibiting a LTV above 80% of the property market value. (See "Covered bond analysis")
- ***Refinancing risk:*** Upon a CB anchor event we expect the cover pool assets will have a significantly higher weighted average life (WAL) than the outstanding covered bonds. (See "Covered bond analysis")
- ***Market risks***: Following a CB anchor event, covered bondholders may need to rely on proceeds that are raised via the sale of, or borrowed against, cover pool assets to make timely payments of the principal on the bonds. The market value of these assets may be subject to high volatility after a CB anchor event. (See "Covered bond analysis").
- ***Time subordination****:* After a CB anchor event, later-maturing covered bonds are subject to time subordination. Principal cash collections may be used on a first-come, first-served basis, paying earlier-maturing covered bonds before later-maturing covered bonds. This subordination could lead to the erosion of OC before any payments are made to later-paying covered bonds. (See "Covered bond analysis")

- ***Lack of liquidity facility*:** The programme would not benefit from any designated source of liquidity if cash flow collections are interrupted. (See "Covered bond analysis")
- ***Asset pooling*:** Borgo has started mortgage loan origination according to its own underwriting standards in December 2021. According to Borgo's business plan, the majority of assets in the cover pool will consist of assets purchased from its partner banks until 2024. Borgo's partner banks are Bank of Aland (not rated), ICA Banken (not rated), Ikano Bank (not rated), Söderberg & Partners (not rated) and Sparbanken Syd (baa1 deposits and senior unsecured rating, negative outlook; baa3 Baseline Credit Assessment). While Borgo and its owner banks share the mortgage interest income for newly originated mortgage loans, there is no obligation by its partner banks to buy back loans in arrears or defaulted assets originated through their individual origination channels. We expect the loan margin benefitting covered bond holders to be lower than for other Swedish covered bond programmes. (See "Cover pool description" and "Cover pool analysis")
- ***Economic uncertainty***: In our analysis, we have considered how the coronavirus pandemic has reshaped Sweden's economic environment and the way its aftershocks will continue to reverberate and influence the performance of residential assets. We expect the public health situation to improve as vaccinations against COVID-19 increase and societies continue to adapt to new protocols. But the virus will remain endemic, and economic prospects will vary – starkly, in some cases – by region and sector. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

Key characteristics

Exhibit 2
Covered bond characteristics

Moody's Programme Number:	497
Issuer:	Borgo AB
Covered Bond Type:	Residential mortgage covered bond
Issued under Covered Bonds Law:	Yes
Applicable Covered Bonds Law:	Swedish Legal Framework for Covered Bonds
Entity used in Moody's TPI analysis:	Borgo AB
CR Assessment:	A3(cr)
CB Anchor:	CR assessment +1 notch
Senior unsecured/deposit rating:	Baa2
Total Covered Bonds Outstanding:	SEK 7,500,000,000
Main Currency of Covered Bonds:	SEK (100.0%)
Extended Refinance Period:	Yes
Principal Payment Type:	Soft bullet
Interest Rate Type:	Floating rate covered bonds (100.0%)
Committed Over-Collateralisation:	2.0%
Current Over-Collateralisation:	25.8% (on a nominal basis)
Intra-group Swap Provider:	No
Timely Payment Indicator:	Probable-High
TPI Leeway:	1 notch

Source: Moody's Investors Service, issuer data

Exhibit 3
Cover pool characteristics

Size of Cover Pool:	SEK 9,436,568,716
Main Collateral Type in Cover Pool:	Single family (53.1%), Tenant owner (46.9%)
Main Asset Location of Ordinary Cover Assets:	Sweden
Main Currency:	SEK (100.0%)
Loans Count:	3,134 Single family, 2,965 Tenant owner
Number of Borrowers:	3,052 Single family, 2,846 Tenant owner
WA unindexed LTV:	55.5% Single family, 60.8% Tenant owner
WA indexed LTV:	n/d
WA Seasoning (in months):	24 Single family, 24 Tenant owner
WA Remaining Term (in months):	435 Single family, 440 Tenant owner
Interest Rate Type:	Floating rate assets (81.3%), Fixed rate assets (18.7%)
Collateral Score:	5.0%
Cover Pool Losses:	8.8%
Further Cover Pool Details:	See Appendix 1
Pool Cut-off Date:	30 November 2021

Source: Moody's Investors Service, issuer data

ESG considerations

Except with respect to the coronavirus outbreak, which we consider a social risk as described above under Economic uncertainty, In general, we consider ESG risks to be low for covered bonds. In our assessment of the programme's credit quality, we evaluate ESG risks as low. The covered bonds' dual recourse structure mitigates environmental, social and governance risks. Environmental and social risks are further mitigated by the diversified nature of the cover pool, while governance risk is largely mitigated by (i) the Swedish legal framework for covered bonds (ii) key programme participants' adherence to obligations; and (iii) the operational and substantive provisions of the programme documents. Please refer to General Principles for Assessing Environmental, Social and Governance Risks Methodology, 28 June 2021, which explains our general principles for assessing ESG Risks in our credit analysis globally.

» ***Environmental:*** Overall exposure to meaningful environmental risks is low in this programme as covered bondholders benefit from the issuer's liability to make payment on the covered bonds and the cover pool's geographical diversification within Sweden. (See Cover pool analysis - Environmental considerations)

» ***Social***: Overall exposure to meaningful social risks is moderate in this programme, mainly because social issues that affect lenders can also affect the cover pool. Social risks are mitigated by the covered bonds' dual recourse to both issuer and cover pool as well as the cover pool's diversification. In addition, we regard the coronavirus pandemic as a social risk under our ESG framework, given the substantial implications for public health and safety. (See Summary – Credit challenges and Cover pool analysis - Social considerations)

» ***Governance***: Overall exposure to meaningful governance risks is low in this programme due to: (i) covered bonds' dual recourse to both issuer and cover pool; (ii) the Swedish legal framework; (iii) key programme participants' adherence to obligations; and (iv) the operational and substantive provisions of the programme documents. (See Additional analysis - Governance considerations)

Covered bond description

The covered bonds issued under the mortgage covered bond programme of Borgo AB are full recourse to the issuer. Upon a CB anchor event, covered bondholders would have access to a cover pool of residential mortgage loan receivables.

Structure description

The bonds

The initial covered bonds under Borgo's covered bond programme had initially been issued by Bank of Aland, a bank based in Finland, which is also one of Borgo's owner banks. These bonds were issued with a change of ownership clause and have a soft bullet repayment at maturity, with an extension period of 12 months for the repayment of the bonds.

Issuer recourse
Following the transfer of the covered bonds to Borgo, the bonds are full recourse to Borgo AB. Therefore, Borgo is obliged to repay principal and pay interest on the covered bonds.

Recourse to cover pool and OC
If Borgo becomes insolvent, the covered bondholders would have priority claims over a pool of assets (cover pool). (See "Cover pool description" for the cover pool characteristics and "Cover pool analysis" for our analysis of the pool)

As of 30 November 2021, the level of OC in the programme was 25.8% on a nominal basis.

The current covered bond rating relies on an OC over and above the minimum legal requirements by the Swedish covered bond framework. According to the Swedish legal framework the OC must exceed the principal balance of the bonds by 2.0% on a nominal and an NPV basis. Based on data as of 30 November 2021, 6.0% of OC is sufficient to maintain the current covered bond rating. This shows that our analysis currently relies on OC that is not in committed form.

Although the issuer has the ability to increase the OC in the cover pool if collateral quality deteriorates below a certain threshold, the issuer does not have any obligation to do so. The failure to increase OC following a deterioration of the collateral could lead to a negative rating action.

Sweden and its banking system
Sweden's credit profile reflects its very high economic resilience, supported by fundamentally sound institutions and policy effectiveness, and a favourable government's fiscal position compared to peers. Sweden has a long-standing consensus on fiscal discipline, which includes a surplus target for general government finances and a debt anchor of 35% of GDP. (See Government of Sweden – Aaa stable, September 2021, for an update on Sweden's credit profile).

The outlook for Sweden's banking system is stable. The outlook reflects our expectation that Sweden's economy will recover fully over the next 12-18 months from a coronavirus-related contraction in 2020. Bank profitability will improve as provisioning expenses decline following a strong increase in 2020 to cover an expected coronavirus-related rise in credit losses. Asset quality will deteriorate moderately from a very high base as the government starts to phase out pandemic-related support. Swedish banks will remain strongly capitalized over our outlook horizon. (See Banking System Outlook Update - Sweden, March 2021)

Legal framework
The covered bonds are governed by the Swedish Covered Bond Issuance Act. There are a number of strengths in the Swedish covered bond legislation, including the regulation of the issuer by the Swedish Financial Supervisory Authority (SFSA or *Finansinspektionen*), as well as certain minimum requirements for the covered bonds and cover pool (see "Cover pool analysis - Additional cover pool analysis - Eligible assets"). A description of the general legal framework for Swedish covered bonds is available in Moody's covered bond legal framework report for Sweden. (See Covered Bonds: Sweden - Legal Framework for Covered Bonds, January 2018, for a description of the general legal framework for Swedish covered bonds)

Commingling risk
The Swedish covered bond law requires that cover pool collections are held in a dedicated account. This should facilitate the identification and segregation of the issuer's funds relating to the cover pool following an issuer default.

Covered bond analysis

Our credit analysis of the covered bonds primarily focuses on the issuer's credit quality, refinancing risk, interest rate risk and currency risk, as well as the probability that payments on the covered bonds would be made in a timely fashion following a CB anchor event, which we measure using the Timely Payment Indicator (See "Timely Payment Indicator").

Primary analysis

Issuer analysis - Credit quality of the issuer
The issuer's CR Assessment is A3(cr). (For a description of the issuer's rating drivers, see Credit Opinion, published January 2022)

The reference point for the issuer's credit strength in our analysis is the CB anchor, which for this covered bond programme under the covered bond law in Sweden is the CR Assessment plus one notch.

Issuer analysis - Dependency on the issuer's credit quality

The credit quality of the covered bonds depends primarily on the credit quality of the issuer. If the issuer's credit strength were to deteriorate, there would be a greater risk that a CB anchor event would occur, leading to refinancing risk for the covered bonds. Consequently, the credit quality of the covered bonds would deteriorate unless other credit risks were to decrease.

In the event that the CB anchor deteriorates, the issuer would have the ability, but not the obligation, to increase the OC in the cover pool. Failure to increase the level of OC under these circumstances could lead to a negative rating action.

Reasons for the high level of dependency of the covered bonds with the issuer also include exposure to decisions made by the issuer in its discretion as manager of the covered bond programme. For example, before a CB anchor event, the issuer may add new assets to the cover pool and remove assets from the cover pool, issue further bonds and enter new hedging arrangements. Such actions could reduce the value of the cover pool.

As with most covered bonds in Europe, there are few contractual restrictions on the future composition of the cover pool, which creates substitution risk. Nevertheless, cover pool quality over time will be protected by, among other things, the requirements of the Swedish covered bond framework. (See “Cover pool analysis - Additional cover pool analysis - Eligible assets” and “Moody's related publications: Covered Bond Legal Frameworks”)

Refinancing risk

Following a CB anchor event, the “natural” amortisation of the cover pool assets alone cannot be relied on to repay the principal. We assume that funds must be raised against the cover pool at a discount if covered bondholders are to receive timely principal payment. Where the portion of the cover pool that is potentially exposed to refinancing risk is not contractually limited, our expected loss analysis typically assumes that this amount is in excess of 50% of the cover pool.

After a CB anchor event, the market value of these assets may be subject to volatility. Examples of the stressed refinancing margins we use for different types of prime-quality assets are published in our Rating Methodology. (See “Moody's related publications - Moody’s Approach to Rating Covered Bonds”)

The refinancing-positive aspects of this covered bond programme include the following:

» The support provided by the Swedish legal framework. The bankruptcy administrator has the ability to enter into senior-ranking liquidity loans and other financial arrangements to mitigate refinancing risk following issuer default. We understand that the administrator would also have the power to sell assets under the general law.

» The relative size and depth of the Swedish market, its reliable domestic base and the importance of the covered bonds as a source of funding. These factors may incentivize existing market participants to acquire a cover pool at a better price.

» The ability of the issuer to reset and increase loan rates at the interest rate date. This right will also apply to any bankruptcy administrator in charge of the cover pool after an issuer default. This possibility to reset margins should materially reduce the level of refinancing risk compared with other markets where borrower’s interest rates are fixed for long periods.

» All outstanding covered bonds have a soft bullet repayment at maturity, with an extension period of 12 months for the repayment of the bonds.

The refinancing-negative aspects of this covered bond programme include the following:

» In line with other European covered bond programmes, upon a CB anchor event we expect the cover pool assets will have a significantly higher WAL than the outstanding covered bonds. While the WAL of the covered bonds is 4.5 years, the WAL of the loans in the cover pool is around 27.8 years, particularly long in Sweden. The main reasons are (i) loans usually have a very long life in Sweden, and (ii) around 37.5% of the loans in the cover pool are interest-only.

» The covered bonds do not benefit from liquidity reserves or structural alternatives such as a pre-maturity test.

» The day-to-day operation of the cover pool assets is exposed to above average operational risk because Borgo AB is a newly established mortgage lender with a limited number of employees.

Interest rate and currency risk

As with most European covered bonds, there is potential for interest rate and currency risks to arise from the different payment promises and durations of the cover pool and the covered bonds.

Exhibit 4
Overview of assets and liabilities

	WAL Assets (Years)	WAL Liabilities (Years)	Assets (%)	Liabilities (%)
Fixed rate	27.0	n/a	13.2%	0.0%
Variable rate	28.0	4.5	86.8%	100.0%

WAL: weighted average life; assets with a fixed rate period of less than 12 months are considered as variable rate assets
n/a: not applicable
Sources: Moody's Investors Service, issuer data

In the event of issuer insolvency, we currently do not assume that the insolvency administrator would always be able to efficiently manage any natural hedge between the cover pool and the covered bonds. Therefore, following a CB anchor event, our model would separately assess the impact of increasing and decreasing interest rates on the expected loss of the covered bonds, taking the path of interest rates that leads to the worst result. The interest rate and currency stresses used over different time horizons are published in our Rating Methodology.

Aspects of this covered bond programme that are market-risk positive include the following:

» The Swedish covered bond law requires issuers to consider market risks (including interest-rate and currency stresses) in the NPV asset coverage test if these risks are not mitigated by hedging arrangements.

» There is no currency risk in the programme, because all the assets and liabilities are denominated in SEK.

Aspects of this covered bond programme that are market-risk negative include the following:

» There is some interest rate risk in the programme as around 13.2% of the cover pool assets carry a fixed rate of interest, but all of the covered bonds carry a floating rate of interest.

» There are no swaps in the programme.

Timely Payment Indicator

Our Timely Payment Indicator (TPI) assesses the likelihood that timely payments would be made to covered bondholders following a CB anchor event, and thus determines the maximum rating a covered bond programme can achieve with its current structure while allowing for the addition of a reasonable level of OC. We have assigned a TPI of Probable-High to these covered bonds, in line with other Swedish mortgage covered bonds.

The TPI leeway measures the number of notches by which we might lower the CB anchor before the rating agency downgrades the covered bonds because of TPI framework constraints. Based on the current TPI of Probable-High, the TPI leeway for this programme is one notch.

The TPI-positive aspects of this covered bond programme include:

» The refinancing-positive aspects discussed in the “Refinancing Risk” section.

» The level of support expected for covered bonds in Sweden.

» The credit quality of the cover pool assets, which is evidenced by the collateral score of 5.0%. The Swedish covered bond law also requires minimum OC of 2.0% on a nominal and an NPV basis (at present, the cover pool has OC of 25.8% on a nominal basis).

» Covered bonds will benefit from an extension period for the repayment of the bonds of up to 12 months.

The TPI-negative aspects of this covered bond programme include:

- The refinancing-negative aspects discussed in the "Refinancing Risk" section.
- The covered bond programme does not benefit from any designated source of liquidity if cash flow collections are interrupted.

Additional analysis

Liquidity

The covered bond programme does not benefit from any designated source of liquidity if cash flow collections are interrupted. After an issuer default, the bankruptcy administrator has the ability to enter into senior-ranking liquidity loans to make timely payments on the bonds. Although not specifically addressed by the covered bond law, we understand that the administrator would also be empowered to sell cover pool assets under the general law.

Time subordination

After a CB anchor event, later-maturing covered bonds would be subject to time subordination. Principal cash collections may be used on a first-come, first-served basis, paying earlier-maturing covered bonds before later-maturing covered bonds. Such payments could result in the erosion of OC before any payments are made to later-paying covered bonds. If the law's matching requirements can no longer be met, the cover pool no longer has to be maintained as a unit and bondholders can be paid pari passu and in principle, at the same time. However, this may not prevent the erosion of OC before a determination that the matching requirements can no longer be met.

Governance considerations

Overall exposure to meaningful governance risks is low in this programme due to covered bonds' dual recourse to both issuer and cover pool and the consideration set out below.

The principal sources of governance for this programme are (i) the Swedish covered bond law; (ii) key programme participants' adherence to obligations; and (iii) the operational and substantive provisions of the programme documents. In this programme, there are control mechanisms in place that are designed to protect covered bondholders from mistakes, misallocation of cash flows and misappropriation of assets, and that promote compliance with the covered bond legal framework and operational and reporting requirements.

In particular, we note that (i) the issuer is a regulated entity and maintains the cover pool on its balance sheet, incentivising it to maximise cover pool value as owner and servicer; (ii) the cover pool monitor and any cover pool administrator are roles prescribed by the covered bond law and both owe duties to bondholders; (iii) the covered bond law contains provisions addressing treatment of ineligible and non performing assets and contains reporting requirements; and (iv) there is a high level of legal certainty over the segregation of the cover pool and the parties' respective rights to it.

Cover pool description

Pool description as of 30 November 2021

As of 30 November 2021, the cover pool consisted of residential mortgage loans backed by properties in Sweden.

On a nominal value basis, the cover pool assets total SEK 9.44 billion, which back SEK 7.50 billion in covered bonds, resulting in an OC level of 25.8% on a nominal basis. As of 30 November, all of the assets were originated by Bank of Aland plc (not rated) and sold to Borgo AB for inclusion in its cover pool. The 30 November 2021 pool of assets is calculated against an eligible LTV threshold of 70%, because Bank of Aland complies with Finish covered bond legislation. This compares to an eligible asset LTV threshold of 75% according to the Swedish covered bond act. Therefore, the current reporting allows for a subdued covered bond issuance amount all else equal. Following the transfer of the assets, we expect Borgo to report according to Swedish regulation.

Bank of Aland plc is one of five owner banks of Borgo, which Borgo will utilise as client facing financial institutions to distribute mortgage loans to private individuals. Borgo's other owner banks are ICA Banken (not rated), Ikano Bank (not rated), Söderberg & Partners (not rated) and Sparbanken Syd (baa1 deposits and senior unsecured rating, baa3 Baseline Credit Assessment).

In December 2021, Borgo started the origination of mortgage loans according to its own underwriting standards. According to Borgo's business plan, the volume of loans originated by Borgo will exceed the volume of loan portfolios purchased from its partner banks in 2024 (For Borgo AB's underwriting criteria, see “Appendix: Income underwriting and valuation”)

Single family housing loans

As Exhibit 5 below shows, residential mortgage loans backed by single family housing amount to SEK 5.01 billion (53.1% of the cover pool). All the properties backing these residential loans are located in Sweden with particular geographical concentration in Stockholms län (43.0%) region of Sweden. All assets in the cover pool are performing.

The weighted average unindexed LTV for single family housing residential loans is 55.5%.

Exhibits 5 and 6 show more details about the cover pool characteristics.

Loans to tenant owner rights

Individual apartments are usually not for sale in Sweden — only the right to reside in one (through becoming a member of a co-operative) can generally be purchased.

The co-operative owns the property (e.g. an apartment block) in which the tenant owner apartment is situated. The co-operative is an incorporated, non-profit association with limited liability whose members consist of the individuals living in the various tenant owner apartments within the co-operative's apartment block. The co-operative usually has a mortgage outstanding (the major part of which would have been taken out by the cooperative upon its establishment to purchase the apartment block), secured by mortgage deed (*pantbrev*) over its apartment block.

By becoming a member of the co-operative, the borrower is granted a perpetual right to reside in the relevant tenant owner apartment. The borrower funds the purchase of this right through a tenant owner right loan. Co-operative memberships together with these associated perpetual rights command a market value and can be bought and sold in the residential market. Also, the borrower will have to pay a monthly fee to the co-operative to cover a proportion of the servicing of any mortgage taken out by the co-operative and any on-going fees to cover maintenance of the co-operative's apartment block.

As Exhibit 7 below shows, residential mortgage loans backed by tenant owner rights amount to SEK 4.43 billion (46.9% of the cover pool). All the properties backing these residential loans are located in Sweden with particular geographical concentration in *Stockholms län* (64.9%). All assets in the cover pool are performing.

The weighted average unindexed LTV for the loans to tenant owner rights is 60.8%.

Exhibits 7 and 8 show more details about the cover pool characteristics.

Exhibit 5

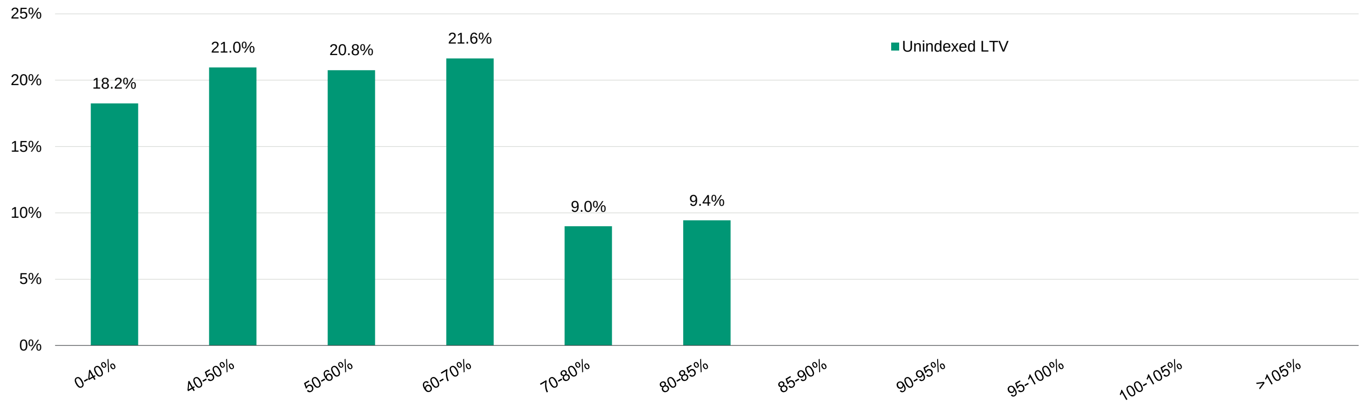
Cover pool summary - Single family housing residential assets

Overview		Specific Loan and Borrower characteristics	
Asset type:	Residential	Loans with an external guarantee in addition to a mortgage:	n/a
Asset balance:	5,009,164,732	Interest only Loans	41.3%
Average loan balance:	1,598,330	Loans for second homes / Vacation:	0.4%
Number of loans:	3,134	Buy to let loans / Non owner occupied properties:	n/d
Number of borrowers:	3,052	Limited income verified:	n/d
Number of properties:	1,927	Adverse credit characteristics (**)	0.0%
WA remaining term (in months):	435		
WA seasoning (in months):	24	**Performance**	
		Loans in arrears (≥ 2months - < 6months):	0.0%
Details on LTV		Loans in arrears (≥ 6months - < 12months):	0.0%
WA unindexed LTV (*)	55.5%	Loans in arrears (≥ 12months):	0.0%
WA Indexed LTV:	n/d	Loans in a foreclosure procedure:	0.0%
Valuation type:	Market Value		
LTV threshold:	70.0%		
Junior ranks:	n/d		
Loans with Prior Ranks:	0.6%		

(note *) may be based on property value at time of origination or further advance or borrower refinancing
(note **) Typically borrowers with a previous personal bankruptcy or borrowers with record of court claims against them at time of origination
Sources: Moody's Investors Service, issuer data

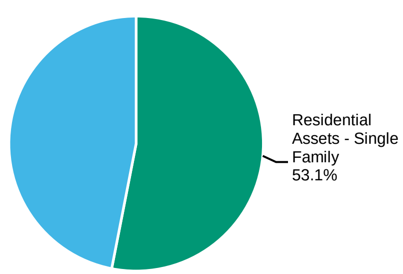
Exhibit 6
Cover pool characteristics - Single family housing

Exhibit A
Balance per LTV band



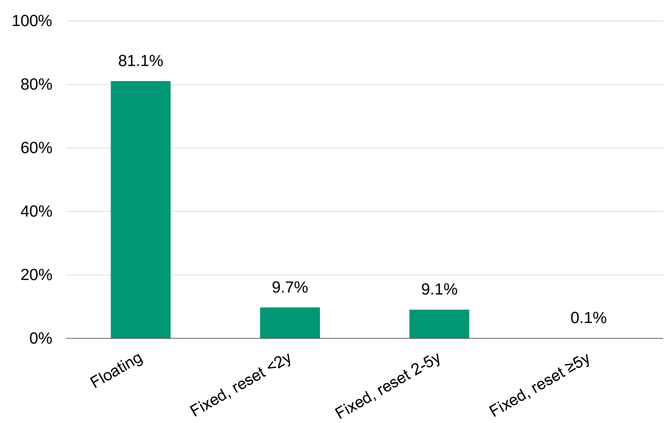
Sources: Moody's Investors Service, issuer data

Exhibit B
Percentage of residential assets



Sources: Moody's Investors Service, issuer data

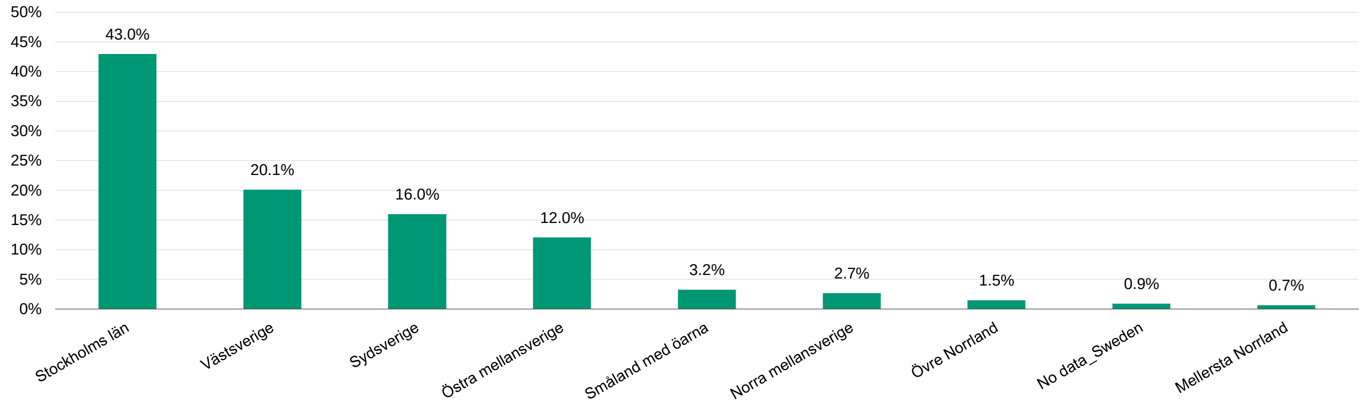
Exhibit C
Interest rate type



Sources: Moody's Investors Service, issuer data

Exhibit E

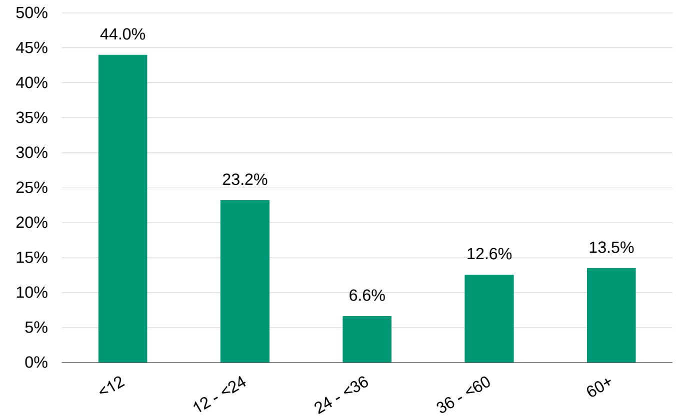
Main country regional distribution



Sources: Moody's Investors Service, issuer data

Exhibit F

Seasoning (in months)



Sources: Moody's Investors Service, issuer data

Exhibit 7

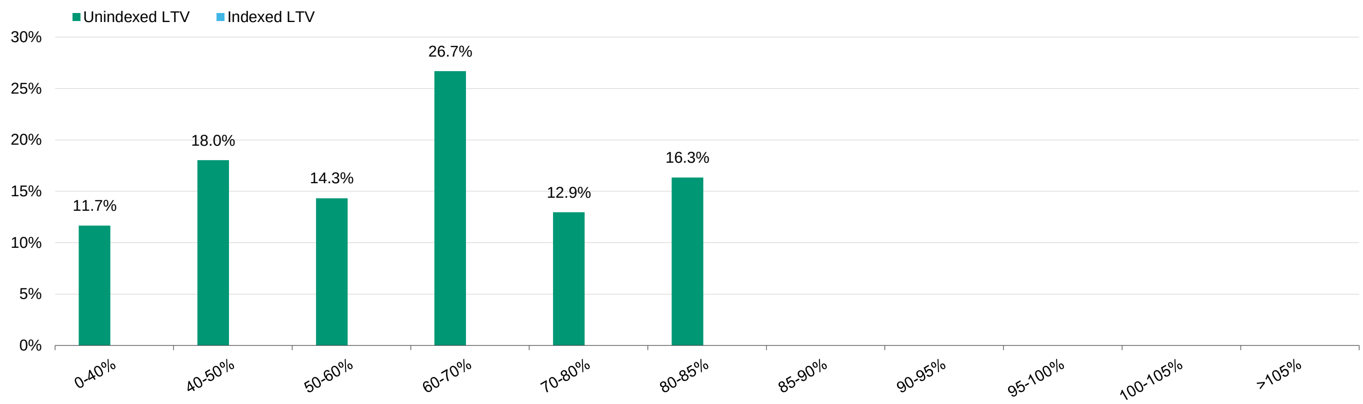
Cover pool summary - Tenant owner rights

Overview		Specific Loan and Borrower characteristics	
Asset type:	Residential	Loans with an external guarantee in addition to a mortgage:	n/a
Asset balance:	4,427,403,983	Interest only Loans	32.9%
Average loan balance:	1,493,222	Loans for second homes / Vacation:	0.1%
Number of loans:	2,965	Buy to let loans / Non owner occupied properties:	0.0%
Number of borrowers:	2,846	Limited income verified:	0.0%
Number of properties:	2,080	Adverse credit characteristics (**)	0.0%
WA remaining term (in months):	440		
WA seasoning (in months):	24	**Performance**	
		Loans in arrears (≥ 2months - < 6months):	0.0%
Details on LTV		Loans in arrears (≥ 6months - < 12months):	0.0%
WA unindexed LTV (*)	60.8%	Loans in arrears (≥ 12months):	0.0%
WA Indexed LTV:	n/d	Loans in a foreclosure procedure:	0.0%
Valuation type:	Market Value		
LTV threshold:	70.0%		
Junior ranks:	n/d		
Loans with Prior Ranks:	0.0%		

(note*) may be based on property value at time of origination or further advance or borrower refinancing
(note **) Typically borrowers with a previous personal bankruptcy or borrowers with record of court claims against them at time of origination
Sources: Moody's Investors Service, issuer data

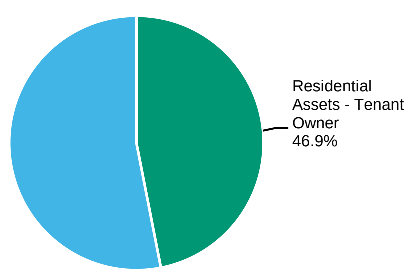
Exhibit 8
Cover pool characteristics - Tenant owner rights

Exhibit A
Balance per LTV band



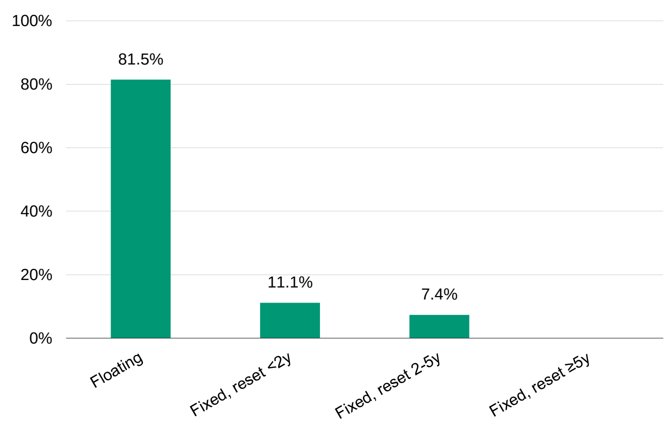
Sources: Moody's Investors Service, issuer data

Exhibit B
Percentage of residential assets



Sources: Moody's Investors Service, issuer data

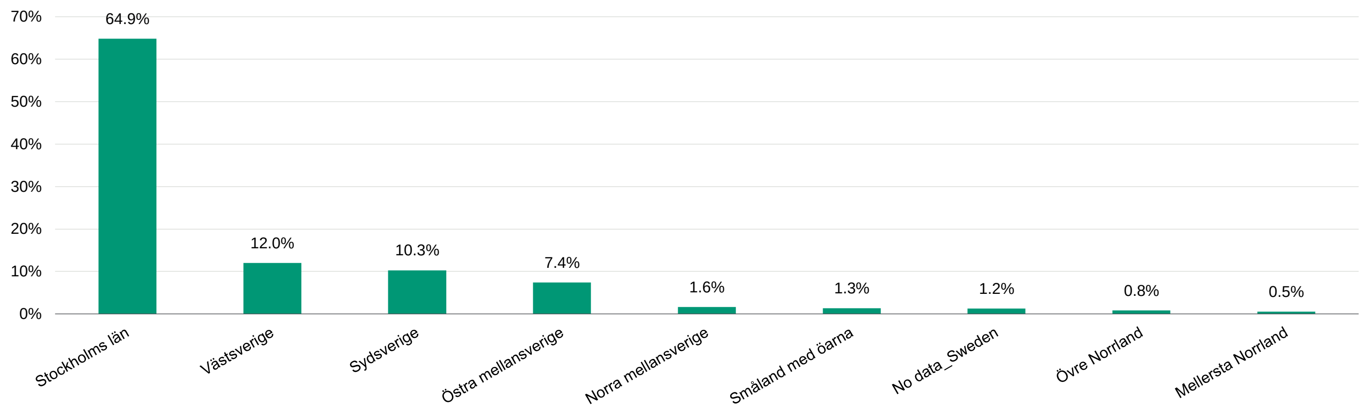
Exhibit C
Interest rate type



Sources: Moody's Investors Service, issuer data

Exhibit E

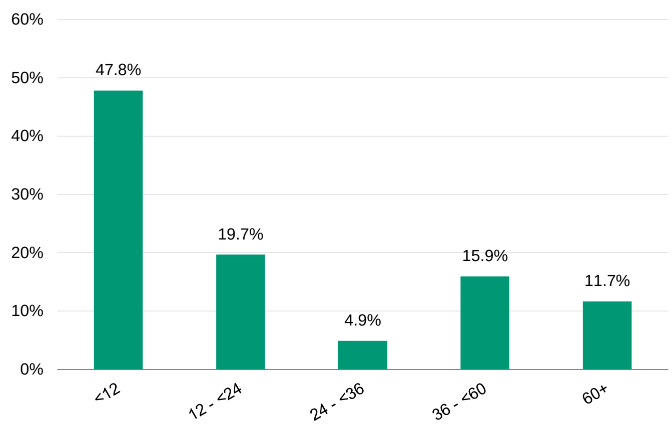
Main country regional distribution



Sources: Moody's Investors Service, issuer data

Exhibit F

Seasoning (in months)



Sources: Moody's Investors Service, issuer data

Cover pool monitor

The SFSA appoints an independent inspector (cover pool monitor) whose duties include checking that the cover pool register is correctly maintained and reporting to the SFSA. For more details on the cover pool monitor's role, see Moody's Related Research: Covered Bond Legal Frameworks. (See “Moody's related publications: Covered Bond Legal Frameworks”)

Cover pool analysis

Our credit analysis of the pool takes into account specific characteristics of the pool, as well as legal risks.

Primary cover pool analysis

We calculate the collateral score for the residential mortgages using a scoring model that estimates loss in severe recession scenario. Our analysis takes into account, among other factors, the LTV ratios of the mortgage loans, the seasoning and the geographical distribution.

The strong collateral quality is reflected in the 5.0% collateral score of the pool, which is in line with the average collateral score of single-family and tenant owner right backed mortgage covered bonds in Sweden. (For details, see "Moody's related publications - Moody's Global Covered Bonds Sector Update, Q4 2021")

From a credit perspective we view the following pool characteristics as credit positive:

» All loans in the cover pool are currently performing. Nonperforming assets are excluded from coverage tests at 60 days past due.

» The loans have an average seasoning of 24 months for single family housing loans and 24 for tenant owner rights.

» Cover pools must be stress tested against falls of up to 30% in mortgaged property values. Issuers must report the outcome of the tests to the Swedish FSA and state how the issuer will improve cover pool matching if price falls are experienced.

» There are no commercial loans in the cover pool. Loans backed by commercial property are not permitted to exceed 10% of the cover pool.

From a credit perspective, we regard the following characteristics of the residential mortgage loans as credit negative:

» Property valuations may be performed using statistical valuation methods rather than physical inspection by an independent valuer. However, this is in line with market practice.

» A material proportion of the loans in the cover pool (37.5%) have a bullet repayment rather than amortizing. Non-amortizing loans may be subject to increased default risk if there is a large one-off payment obligation for borrowers at loan maturity. However, new amortization rules for mortgage loans in Sweden are making this figure decrease over time.

» Borgo's owner banks have no obligation to re-purchase those loans in arrears or loans of defaulted borrowers, which were originated through their individual channels.

» There is geographical concentration in the Stockholms län (53.2%) region of Sweden.

Comparables

Exhibit 9

Comparables - Borgo AB and other selected mortgage covered bonds

PROGRAMME NAME	Borgo AB - Mortgage Covered Bonds	Skandiabanken AB - Mortgage Covered Bonds	Lansforsakringar Hypotek AB - Mortgage Covered Bonds	The Swedish Covered Bond Corporation (SBAB) - Mortgage Covered Bonds
Overview				
Programme is under the law	Sweden	Sweden	Sweden	Sweden
Main country in which collateral is based	Sweden	Sweden	Sweden	Sweden
Country in which issuer is based	Sweden	Sweden	Sweden	Sweden
Total outstanding liabilities	7,500,000,000	38,741,000,000	203,204,739,653	301,036,638,309
Total assets in the Cover Pool	9,436,568,716	50,600,553,748	267,804,102,915	384,434,570,972
Issuer name	Borgo AB	Skandiabanken AB	Lansforsakringar Hypotek	The Swedish Covered Bond Corporation
Issuer CR assessment	A3(cr)	Aa3(cr)	n/a	n/a
Group or parent name	n/a	n/a	Länsförsäkringar Bank AB (publ)	SBAB Bank AB (publ)
Group or parent CR assessment	n/a	n/a	Aa3(cr)	Aa3(cr)
Main collateral type	Residential	Residential	Residential	Residential
Collateral types	Residential 100%, Commercial 0%, Public Sector 0%, Other/Supplementary assets 0%	Residential 100%, Commercial 0%, Public Sector 0%, Other/Supplementary assets 0%	Residential 96%, Commercial 0%, Public Sector 0%, Other/Supplementary assets 4%	Residential 100%, Commercial 0%, Public Sector 0%, Other/Supplementary assets 0%
Ratings				
Covered bonds rating	Aaa	Aaa	Aaa	Aaa
Entity used in Moody's EL & TPI analysis	Borgo AB	Skandiabanken AB	Lansforsakringar Bank AB (publ)	SBAB Bank AB (publ)
CB anchor	CR Assessment + 1 notch	CR Assessment + 1 notch	CR Assessment + 1 notch	CR Assessment + 1 notch
CR Assessment	A3(cr)	Aa3(cr)	Aa3(cr)	Aa3(cr)
SUR / LT Deposit	Baa2	n/a	A1	A1
Unsecured claim used for Moody's EL analysis	Yes	Yes	No	No
Value of Cover Pool				
Collateral Score	5.0%	5.0%	5.0%	5.0%
Collateral Score excl. systemic risk	n/a	n/a	2.7%	n/a
Collateral Risk (Collateral Score post-haircut)	3.3%	3.4%	3.4%	3.4%
Market Risk	5.5%	6.7%	9.4%	8.4%
Over-Collateralisation Levels				
Committed OC*	2.0%	2.0%	10.0%	2.0%
Current OC	25.8%	30.6%	31.8%	27.7%
OC consistent with current rating	6.0%	0.0%	1.0%	1.5%
Surplus OC	19.8%	30.6%	30.8%	26.2%
Timely Payment Indicator & TPI Leeway				
TPI	Probable-High	Probable-High	Probable-High	Probable-High
TPI Leeway	1	4	4	4
Reporting date	30 November 2021	30 June 2021	30 June 2021	30 June 2021

*We consider this level of OC as committed according to our methodology even though the level of OC provided via the asset cover test might be higher because the issuer could reduce the level of OC down to this level without a rating impact on our covered bond rating.
Source: Moody's Investors Service

Additional cover pool analysis

Environmental considerations

Overall exposure to meaningful environmental risks is low in this programme due to the issuer's liability to make payment on the covered bonds and:

- In respect of physical risks to the cover pool, the geographical diversification of the pool, the largest concentration being 53.2% in the Stockholms län region.
- In respect of regulatory risk, we expect that over time if properties that do not meet climate-aligned standards for energy efficiency or carbon emissions will face regulatory sanctions and value impairment. However, we expect much of this risk to be gradually absorbed into the periodic updating of property valuations and income underwriting or ongoing capex. This will impact key credit metrics such as LTVs.

In the event of shocks in connection with regulation or physical hazards, the impact on property collateral will be partly mitigated by borrowers' liability to repay mortgage loans regardless of property value.

Social considerations

Overall exposure to social factors is moderate for this programme. Covered bondholders benefit from the issuer's liability to make payment on the covered bonds, meaning the bondholders will not be directly exposed to social factors affecting the cover pool unless the issuer defaults. Misconduct, poor handling of data security and customer privacy breaches by lenders are the most significant social risks that may in due course affect the credit quality of the cover pool, although lenders' financial and operational flexibility and track record of adjusting to social issues may mitigate this. In addition, the diversified nature of the cover pool is a mitigant to exposure to social factors.

Social factors that potentially affect the cover pool have varied implications. Social risks can arise from changing demographic trends such as aging, urbanization, an increase in telecommuting and flight from cities, population declines or ways of living trends in general that impact the supply or demand for housing in particular areas, which can reduce home values. Societal and demographic trends will be relevant but typically develop over an extended timeframe that smooths out materiality for expected loss.

Social issues may also be driven also by a political agenda related to housing and consumer protection, particularly in down cycles, creating pressure on recovery values. Borrower-friendly legislation as a reaction to consumer activism can affect both the underwriting and the servicing of mortgage loans in the cover pool.

In addition, the coronavirus pandemic has had a significant impact on economic activity. Although global economies have shown a remarkable degree of resilience to date and are returning to growth, the uneven effects on individual businesses, sectors and regions will continue throughout 2022 and will endure as a challenge to the world's economies well beyond the end of the year. While persistent virus fears remain the main risk for a recovery in demand, the economy will recover faster if vaccines and further fiscal and monetary policy responses bring forward a normalization of activity. As a result, there is a heightened degree of uncertainty around our forecasts. Our analysis has considered the effect on the performance of covered bonds from a gradual and unbalanced recovery in Sweden's economic activity. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

Eligible assets

The Swedish covered bond law provides that mortgage loans may be included in the cover pool to the extent that the loan lies within:

- 75% of the market value in relation to residential property (including loans backed by multi-family properties);
- 70% of the market value in relation to agricultural property; or
- 60% of the market value in relation to property for commercial or office use.

The issuer must continually monitor property values. If these values decline significantly, the portion of the loan in the cover pool should be adjusted downwards so that it remains within the LTV limits specified above.

Loans registered in the cover pool that exceed the LTV thresholds by a certain margin are expected to be removed or reduced before issuer default. However, we expect that any loans that remain in the cover pool post-insolvency would be likely to be subject to priority rights, provided they are properly registered.

Set-off risk

Set-off rights would mainly arise where a mortgage loan borrower is also a deposit holder with the issuer. Following issuer default, it is likely that the borrower would seek to set off the amount of its deposit claim against its mortgage obligation, thereby depleting the cover pool of assets. However, the issuer a limited deposit business with retail clients, which mitigates the set-off risk.

Methodology and monitoring

The primary methodology we use in rating the issuer's covered bonds is "Moody's Approach to Rating Covered Bonds", published in December 2021. Other methodologies and factors that may have been considered in the rating process can also be found on http://www.moodys.com. In addition, we publish a weekly summary of structured finance credit, ratings and methodologies, available to all registered users of our website, at www.moodys.com/SFQuickCheck.

We expect the issuer to deliver certain performance data to us on an ongoing basis. In the event that this data is not made available to us, our ability to monitor the ratings may be impaired. This lack of data availability could negatively affect the ratings or, in some cases, our ability to continue to rate the covered bonds.

Appendix: Income underwriting and valuation

Exhibit 10

Income underwriting and valuation

A. Residential Income Underwriting	
1 Is income always checked?	Yes
2 Does this check ever rely on income stated by borrower ("limited income verification") ?	If the difference between the customer's stated income and the information in UC is more than 15% or/and the customer have an permanent employment that began within 12 months, documentation is required. If the difference is smaller and the customer have an permanent employment that began for more than 12 months we go on the information received from the customer. If the customer has a different form of employment than a permanent employment, we always require supplements from the customer.
3 Percentage of loans in Cover Pool that have limited income verification	None have limited income verification. See answer in questions number 1.
4 If limited income verification loans are in the Cover Pool, describe what requirements lender has in place for these loans.	-
5 Does income in all cases constrain the amount lent (for example through some form of Income Sufficiency Test ("IST")?	The income is limited in the form of a calculation made against the applied loan amount and values that the customer must be able to meet.
6 If not, what percentage of cases are exceptions.	-
For the purpose of any IST:	
7 Is it confirmed that income after tax is sufficient to cover both interest and principal?	Yes, we also have a stress rate of 6% which we include in the calculation
8 If so over what period is it assumed principal will be paid (typically on an annuity basis)? Any exceptions?	30 years
9 Does the age of the borrower constrain the period over which principal can be amortised?	No. But we make a calculation of whether a future pension income can handle the monthly payment the customer have
10 Are any stresses made to interest rates when carrying out the IST? If so when and for what type of products?	6% on all products
11 Are all other debts of the borrower taken into account at the point the loan is made?	Yes
12 How are living expenses of the borrower calculated? And what is the stated maximum percentage of income (or income multiple if relevant) that will be relied on to cover debt payments. (specify if income is pre or post tax)	UC standard values are used for the IST.
Other comments	

B. Residential Valuation	
1 Are valuations based on market or lending values?	Market values
2 Are all or the majority of valuations carried out by external valuers (with no direct ownership link to any company in the Sponsor Bank group)?	We use UC Bostadsvärdering wich is a statistical valuation with different parameters to calculate an valuation. The main driver in this is the recent sales prices for nearby objects. Other parameters is the economy of the housing association for an apartement and the monthly fee in regards to near by objects. Sometimes. When our statistical valuation show a certain level uncertainty or when a borrower claims that the object has a higher value than the statistical valuation we will demand an external valuation. there after Head of Valuation at Borgo will decide if the valuation ill be approved o not. If we recieve an external valuation for an object it´s up to Head of valuation at Borgo to determine if that valuation will be approved by Borgo
3 How are valuations carried out where an external valuer not used?	see answer in question 2
4 What qualifications are external valuers required to have?	see answer in question 2
5 What qualifications are internal valuers required to have?	see answer in question 2
6 Do all external valuations include an internal inspection of a property?	Yes, see answer in question 2
7 What exceptions?	see answer in question 2
8 Do all internal valuations include an internal inspection of a property?	Yes, see answer in question 2
9 What exceptions?	see answer in question 2
Other comments	

Source: Issuer

Moody's related publications

Rating Methodology

» Moody's Approach to Rating Covered Bonds, December 2021 (1307630)

Sector In-Depth

» Covered bonds – Sweden, Norway and Finland: New EU rules are credit positive, but do not address some negatives in national frameworks, August 2019 (1185005)

Special Comments

» Sweden - Legal Framework for Covered Bonds, January 2018 (1036289)

» Covered bonds - Global: 2022 Outlook, Stable issuers, strong assets and new rules will support credit quality, December 2021 (1304199)

» Covered Bonds – Global - Sector Update - Q4 2021: Positive regulatory change in Europe will support covered bonds' credit quality in 2022, December 2021 (1314455)

Credit Opinion

» Borgo AB

Webpages

» Covered Bonds: www.moodys.com/coveredbonds

» Covered Bond Legal Frameworks: www.moodys.com/Pages/CoveredBondLegalFrameworks.aspx

To access any of these reports or webpages, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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