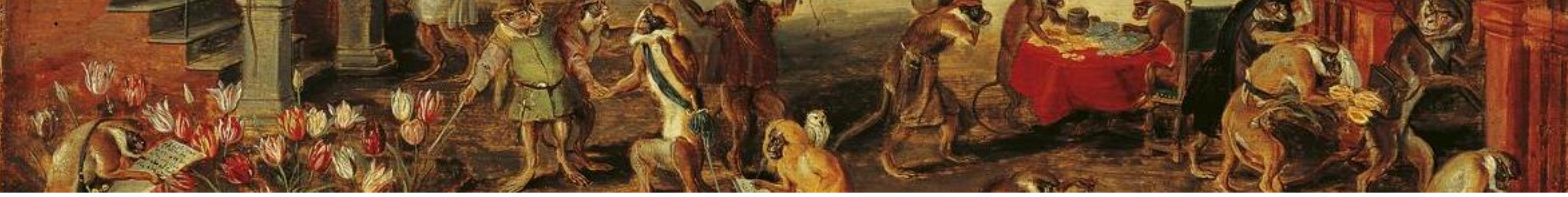


SBB – EPRA Guidelines Update

European Public Real Estate Association (**EPRA**) publishes guidelines for LTV reporting in line with Viceroy Research initial analysis.

PLEASE READ IMPORTANT DISCLAIMER ON PAGE 6

March 23, 2022 – Recently the EPRA published its 2022 Best Practices Recommendations guidelines, which (finally) include best practice guidelines on how to report LTV as well as a full breakdown FAQ available below[1]:

https://www.epra.com/application/files/2016/4742/8965/EPRA_BPR_Guidelines_140322_v5.0.pdf

https://www.epra.com/application/files/7616/4743/5680/EPRA_LTV_FAQ_Final.pdf

EPRA's guidelines are almost identical to Viceroy's initial LTV analysis, for which we were ridiculed by SBB, the local press, and the entirety of the Nordic real-estate analysts who cover SBB. The legitimacy of EPRA's best practice reporting cannot be questioned: SBB and (presumably) the sell-side are all members of EPRA and have (perhaps unknowingly) contributed to the establishment of this best practice guideline.

Our original report can be found here:

https://viceroyresearch.org/category/samhallsbyggnadsbolaget-stosbb/

Viceroy reiterate that **SBB's LTV is massively inflated by the exclusion of hybrid securities and preference shares in its numerator calculation**.

A further investigation also shows **SBB uses its Total Assets instead of NAV as its LTV denominator** and **excludes payables in the LTV numerator**. The LTV is once again jacked by the **double counting of cash**, and the **inclusion of goodwill**.

For any other real estate investment company, the ramifications of adjusting reported LTV are mild at-worst. For SBB, EPRA makes an example of how management teams give investors a false sense of security by "hacking" their LTV.

Background

European Public Real Estate Association (**EPRA**) has provided Best Practices Recommendations (**BPR**) standards for the European Real Estate markets for ~20 years. The focus of BPR is to provide consistent and comparable information to stakeholders across the sector[2].

Pre-empting any dumb comments from SBB's management team: these BPR guidelines *specifically* address non-IFRS measures in the real estate sector such as LTV, NAV, yield, vacancy rates, etc.

Almost every major listed real estate investment company is a member of EPRA, including SBB.

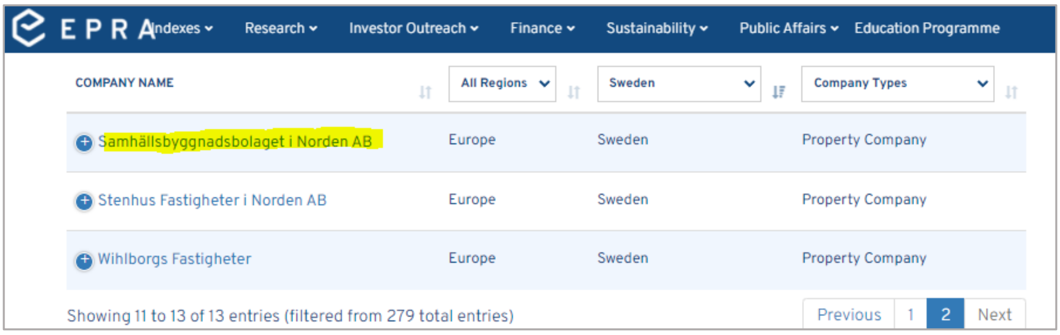
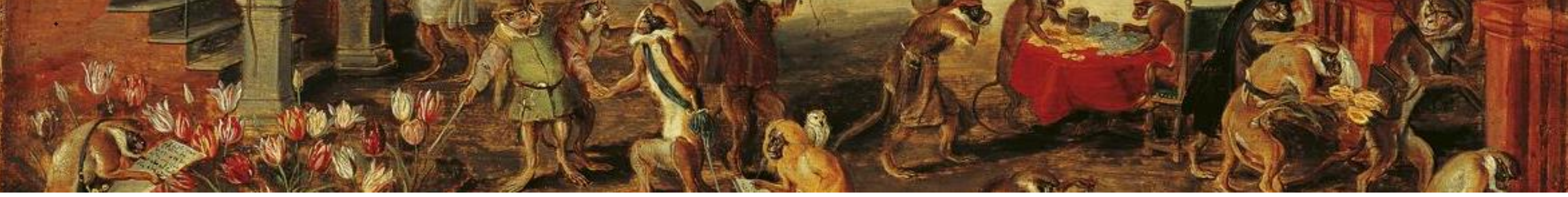


Figure 1 EPRA member search[3]

[1] https://www.epra.com/finance/financial-reporting/guidelines
[2] https://www.epra.com/about-us/who-we-are
[3] https://www.epra.com/about-us/who-we-are/our-members



Viceroy have previously raised concerns about LTV hacking at other companies including Adler Group through their exclusion of convertible bonds in their calculations.

The New Guideline

Loan to Value (**LTV**) is a key KPI in the real estate sector, however the measure of LTV is not standardized. EPRA states is has worked in consultation with stakeholders to incorporate an LTV standardization guideline into its BPR standards[4].

In summary, EPRA state that the "Loan" component of LTV should include "**all financial instruments** on which a **coupon is being paid** of payable and **to which the equity investor is subordinated**".

> **Hybrid debt instruments:** If applicable, the preparer should include in 'net debt' all financial instruments on which a coupon is being paid or payable and to which the equity investor is subordinated, and therefore geared into on an economic basis. Some examples of debt to be included may include hybrid debt, 'D' shares and preference shares.
>
> For the purpose of the EPRA LTV, debt instruments are contractual obligations of the issuer that need to be settled (by way of cash repayment or otherwise) in accordance with the contractual terms; an example is a bond. Although hybrid financial instruments may have characteristics of equity instruments under IFRS, they are for EPRA LTV purposes to be treated as debt, irrespective of whether they are dilutive or not, as their value does not accrue to the shareholders of the company. The below non-exhaustive list consists of examples of hybrid instruments that may have an equity component under IFRS but that are to be considered debt under the EPRA LTV metric:

Figure 2 Extract from EPRA BPR Guidelines 2022

For comparison, we note the following from Viceroy Research's initial report on SBB dated Feb 21, 2022:

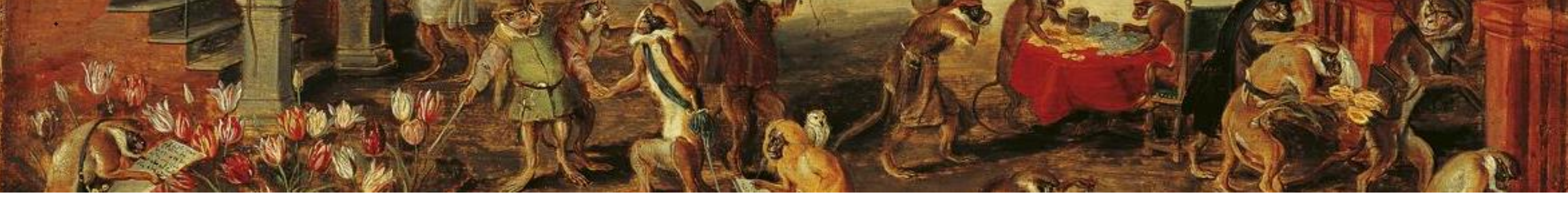
> ### Debt-loading
>
> SBB's debt load is staggering. Shareholders receive continued assurances from management that Loan-To-Value (**LTV**) figures are rapidly decreasing. This decrease is based purely on a technicality.
>
> SBB has "hacked" their LTV since ~2019 by issuing hybrid bonds in order to finance repayment of secured debt and bond loans. SBB classifies hybrid bonds as equity, and therefore does not include them in the LTV calculation's numerator.
>
> Investors shouldn't be fooled. The dividend payments on these hybrid securities should be treated as interest. It is plainly obvious that the proceeds from the issue of hybrid securities are being used to trim debt, and as a substitute for debt:
>
> - Hybrid securities are expensive and/or extremely dilutive.
> - SBB also makes payment-in-kind for various acquisitions with the issue of SBB-D class shares which have capped dividend payments of SEK 2 per annum[20].

Figure 3 Extract from Viceroy Research Report – Samhällsbyggnadsbolaget, Hard to pronounce, harder to justify value

There is no scenario outside of abandoning EPRA's BPR (which is almost universally used in Europe) where SBB can promote its delusional interpretation of LTV.

We applaud EPRA's new guidelines and commitment to transparency, although SBB may not feel the same way.

[4] https://www.epra.com/application/files/2016/4742/8965/EPRA_BPR_Guidelines_140322_v5.0.pdf



Supplementary Findings – LTV shenanigans

Viceroy's initial LTV amendments accounted only for the inclusion of Hybrids, D-shares, and accounts payable. In hindsight, we omitted further errors on SBB's part and were not harsh enough on de-recognition of intangibles.

SBB is different to almost every one of its competitors and other real estate investment companies in that its reported LTV denominator is **total assets**, not **net asset value**. There are two problems with this.

1. Total Assets as LTV denominator artificially boosts LTV with non-yielding intangibles such as goodwill. This is typically not a problem for real estate investment companies, but SBB is an outlier as it has an enormous amount of goodwill on its balance sheet. This should be excluded.

Amounts in SEKm	Note	2020	2019
ASSETS			
Fixed assets			
Intangible assets			
Goodwill	13	6,319	6,687
Total intangible assets		**6,319**	**6,687**

Figure XX Extract from SBB 2020 Annual Report

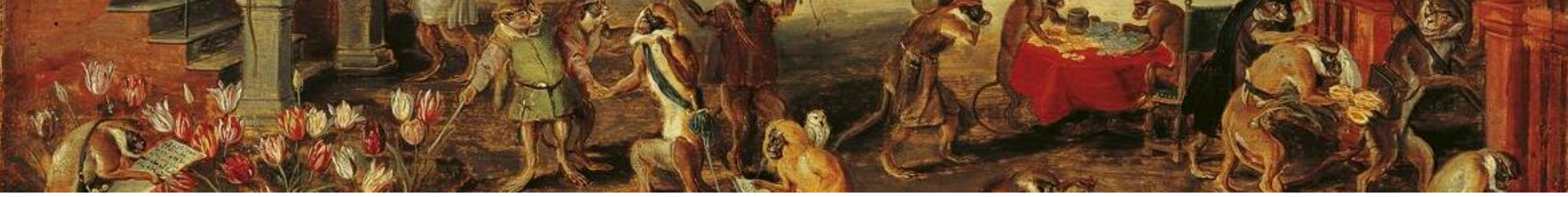
2. SBB's exclusion of payables in its LTV numerator is an objective error in its calculation and reporting, leading it to double count cash assets. This is because, as we have pointed out in our report yesterday, SBB does not make consideration upfront in-full for its acquisitions. This creates large "other" payables balances which are not reflected in the LTV.

Consequently, SBB immediately recognizes the full value of the properties of these same transactions in its denominator, together with the cash it has yet to pay for the properties, and ignores liabilities attached to the same. This requires amendment by SBB.

The other liabilities consist of deferred tax liability, accounts payable, current tax liabilities, accrued expenses and prepaid income and other liabilities linked to acquisitions of properties.

Long-term liabilities			
Liabilities to credit institutions	17.23	11,995	22,073
Bond loans	17.23	34,663	23,720
Derivatives	10.17	267	25
Deferred tax liabilities	12	7,172	6,237
Lease liabilities	11	614	445
Other long-term liabilities	17.23	1,020	22
Total long-term liabilities		**55,731**	**52,522**
Current liabilities			
Liabilities to credit institutions	17.23	69	3,912
Commercial papers	23	5,418	4,944
Bond loans	17.23	3,121	1,442
Accounts payable	17.23	117	131
Current tax liabilities	12	166	126
Other liabilities	17,23,24	2,098	8,822
Accrued expenses and prepaid income	17.25	1,375	1,408
Total current liabilities		**12,364**	**20,785**

Figures 4 & 5 SBB 2020 Annual Report



Revised LTV

Given the above, we have adjusted our SBB LTV figures. We will post an update to this table once FY 2021 accounts are available with notes.

SBB Financial Liabilities Breakdown	2019	2020	HY 2021
Liabilities to credit institutions	25,985	12,064	13,308
Bond loans	25,162	37,784	52,050
Commercial papers	4,944	5,418	6,974
Other long-term liabilties	22	1,020	2,584
Derivatives	25	267	140
Account payable	131	117	208
Other current liabilities	8,822	2,098	5,408
Hybrid bond	4,676	15,096	17,659
D share capital	3,225	5,531	5,881
Total	**72,992**	**79,395**	**104,212**
TOTAL ASSETS (as reported)	104,203	120,231	154,106
Less: Goodwill	(6,687)	(6,318)	(6,310)
LTV	**74.9%**	**69.7%**	**70.5%**

Figure 6 Viceroy Analysis

We note that some EPRA functions are burdensome to implement (i.e. using net payables or net receivables in only numerator or denominator), however we do not believe they will materially alter our assessment.

Further, there are some new EPRA guidelines on the numerator which we cannot assess at all without greater transparency from SBB, like recognizing proportional debt at JVs. We suspect there will be some effect from recognizing these, and we believe it will be upwards.

Finally, we note that this analysis ignores the fact that SBB's property revaluations border on delusional, and that the company generates no cash flows[5].

Impact on Competitors? Negligible

Do not fall for the bargaining trap that implementation of EPRA guidelines will have significant effect across the real estate sector. DNB Markets before-and-after assessment of Nordic Real Estate companies show the impact is mostly negligible for many of SBB's competitors.

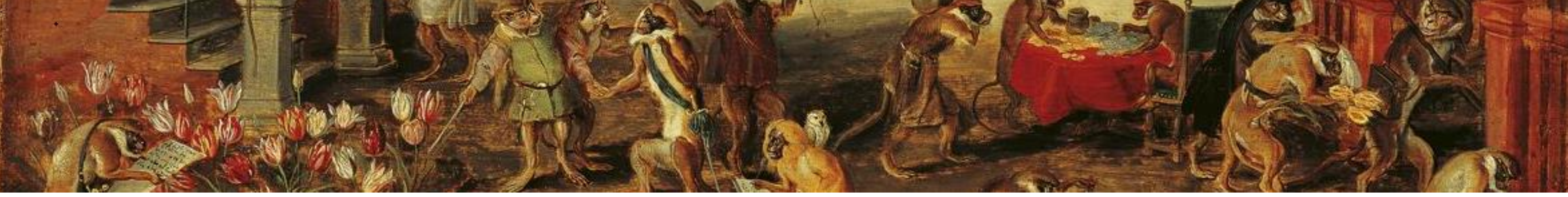
Company	NIBD	NIBD adj	%	LTV Old	LTV adj
Atrium Ljungberg	19,842	19,842	0 %	39 %	39 %
Aurora Eiendom	2,366	2,366	0 %	45 %	45 %
Balder	113,296	124,257	10 %	59 %	64 %
Castellum	71,373	81,537	14 %	47 %	53 %
Catena	10,407	10,132	-3 %	44 %	43 %
Citycon	1,824	2,513	38 %	42 %	58 %
Entra	26,270	26,371	0 %	39 %	39 %
Fabege	31,361	31,426	0 %	37 %	37 %
Hufvudstaden	8,734	8,734	0 %	18 %	18 %
KMC Properties	2,068	2,000	-3 %	52 %	50 %
Kojamo	3,138	3,186	2 %	38 %	38 %
Nyfosa	20,740	21,588	4 %	56 %	58 %
Olav Thon	19,667	20,106	2 %	34 %	35 %
Pandox	34,072	34,542	1 %	57 %	57 %
SBB Norden	79,150	105,935	34 %	53 %	71 %
Wallenstam	28,084	28,084	0 %	43 %	43 %
Wihlborgs	23,112	23,081	0 %	46 %	46 %

Source: DNB markets (estimates)

Figure 7 DNB markets analysis from note: Nordic Real Estate 22 March 2022

Again, EPRA's new guidelines demonstrate equity is subordinate to Hybrids and D-shares, and these **expensive** securities should not be used to artificially deflate leverage.

[5] Please refer to our initial report for more details: https://viceroyresearch.org/2022/02/21/samhallsbyggnadsbolaget-hard-to-pronounce-harder-to-justify-value/



Management initial response

SBB management initially responded to our claim that LTV was "hacked" by suggesting that SBB's aggressive and dangerous behavior is normal.

> **3.1 Debt-loading**
>
> **Allegation**: "SBB has 'hacked' their LTV since ~2019 by issuing hybrid bonds in order to finance repayment of secured debt and bond loans. SBB classifies hybrid bonds as equity, and therefore does not include them in the LTV calculation's numerator."
> **Response**: Hybrids are a valid part of the capital structure. Hybrids are not unusual in the property space. The rating agencies do take hybrid debt into account in their assessment of debt ratios. In addition, SBB refers to a credit comment by BNP Paribas of 21 February 2022 below.

Figure 8 SBB Response to Viceroy Research

From Figure 7 above, we can clearly see this is not the case. No other company in the comparison sees as significant an increase in leverage as SBB, except for the comparatively miniscule Citycon[6].

It is absolutely unusual for a company to rely so heavily on hybrids to lower their LTV.

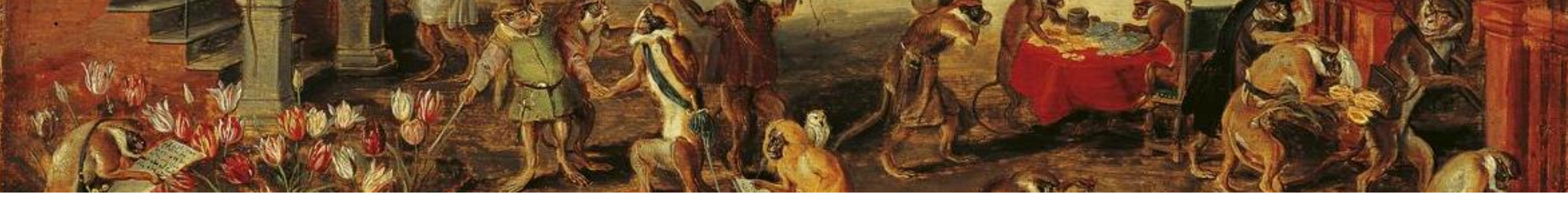
Conclusion

We applaud EPRA's new guidelines and commitment to transparency for stakeholders. Despite its importance LTV has often been hacked by unscrupulous actors to operate at a far higher effective leverage than declared through the use of non-traditional financing methods such as D-shares, preference shares and hybrid debt.

In SBB's case we believe EPRA's new guidelines vindicate Viceroy's view that the company's LTV calculations require significant revision to reflect the reality of the situation. A more in-depth analysis will require significant increase in transparency that the company has so far declined to provide.

We reiterate our view that there is significant downside potential to both SBB stocks and bonds as investors adapt to the inherent risk of SBB.

[6] https://www.citycon.com/



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Viceroy encourage any parties with information pertaining to misconduct within Samhällsbyggnadsbolaget, its affiliates, or any other entity to file a report with the appropriate regulatory body.

We also understand first-hand the retaliation whistleblowers sometimes face for championing these issues. Where possible, Viceroy is happy act as intermediaries in providing information to regulators and reporting information in the public interest in order to protect the identities of whistleblowers.

You can contact the Viceroy team via email on viceroy@viceroyresearch.com.

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