Nordic Sustainable Quarterly – Going green

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Important disclosures and certifications are contained from page 23 of this report

In H1 24, **Nordic sustainable bond issuance** was down 6% y/y with an overall volume of EUR31bn. Nordic sustainable corporate issuance rose 18% y/y, while sovereign, supranational and agencies (SSA) issuance was up a high 59% y/y. At the same time, issuance by financial institutions group (FIG) issuers dropped 48% y/y.

This meant that corporates contributed 50%, and both FIG and SSA issuers 25% to total sustainable bond issuance. This is a drastic change in composition compared to previous years when FIG contributed the most. In addition, a staggering 94% of all sustainable bond issuance was delivered in green format. One notable green bond issue came from the **Republic of Iceland** that joined the club of Nordic sovereigns who have issued green bonds by issuing its inaugural EUR750m 10yr green bond in March. In June, Iceland also became the world's first sovereign to issue a gender bond (labelled as a social bond).

In order to assess the status and development of alignment with the EU's criteria for environmentally positive economic activities - **the EU Taxonomy** - we compiled data from the recently published 2023 annual reports for some 80 Nordic companies under our Credit Research coverage. The average taxonomy alignment for these companies measured as a share of total revenues for 2023 is 20% (2022: 17%), with an average taxonomy eligibility of 49% (2022: 42%). As the taxonomy continues to evolve and the guidance for reporting becomes clearer, we expect the share of taxonomy alignment to increase.

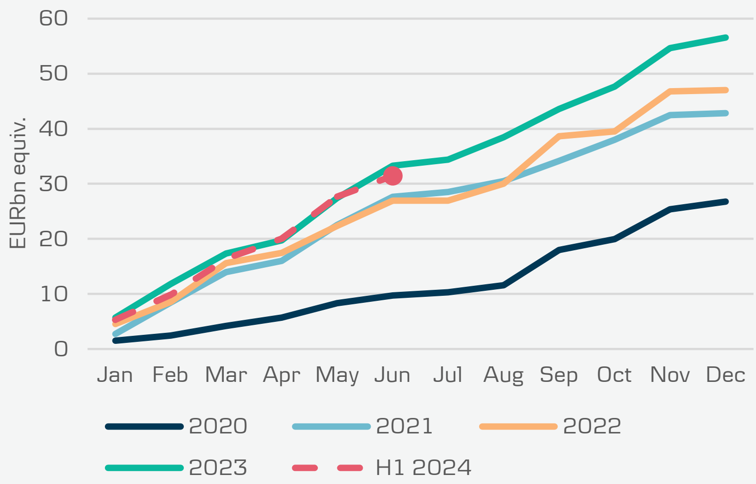
In the last section of this report, we present an overview of the recently approved **Energy Performance of Buildings Directive (EPBD)**. EPBD is a part of the EU's overall climate plan and ambition to reduce greenhouse gas emissions by at least 55% by 2030 ('Fit for 55'). With the introduction of the EPBD we expect demand for green and taxonomy-aligned assets to increase. Conversely, those companies with a high share of non-energy-efficient buildings and that lack credible transition plans could face both lower equity valuations and higher funding costs.

A guide to this report

1. Key sustainable bond market developments

Nordic sustainable bond market in H1 24 – Issuance volume down 6% y/y

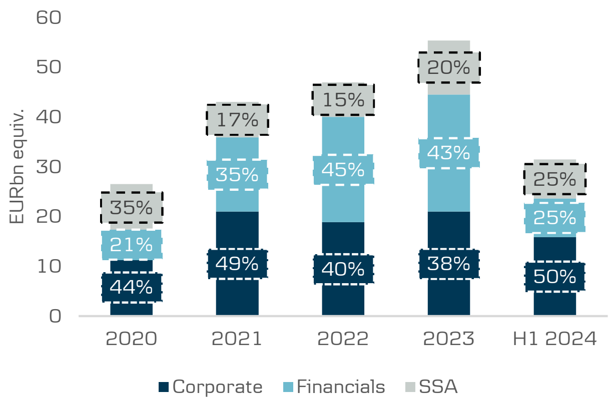
Nordic Sustainable Bond Issuance
-6% vs H1 23



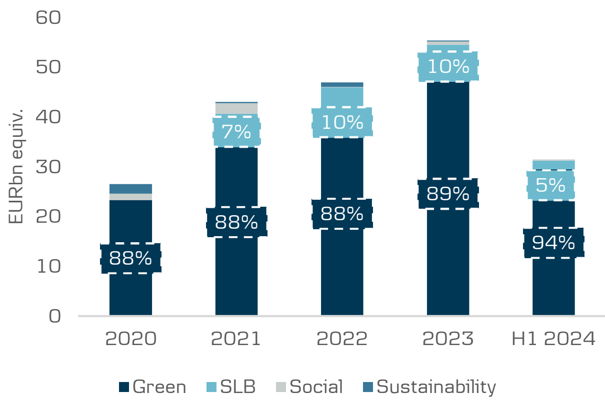
Key take aways

- In H1 24, the Nordic sustainable bond market delivered a somewhat mixed picture. While sustainable corporate issuance was up18% and sovereign, supranational and agencies (SSA) issuance up a convincing 59%, issuance by financial institutions group (FIG) issuers dropped 48%, resulting in overall Nordic sustainable bond issuance being 6% lower compared to H1 23 with an overall volume of EUR31.5bn equivalent.
- In terms of issuer type, this meant that corporates contributed 50%, and both FIG and SSA issuers 25%. This is a drastic change compared to both 2022 and 2023 when FIG issuers were the largest contributor to the Nordic sustainable bond issuance.
- From a product type perspective, the Nordic market is known to be more homogeneous than the global market with the green format clearly the dominant product. In H1 24, we went even further when the Nordic market was basically all green. A staggering 94% of all sustainable bond issuance was delivered in green format while only 5% was in sustainability-linked bond (SLB) format and 1% in social format. So far, we are yet to see the first sustainability bond issuance in 2024 by a Nordic issuer.
- When looking at country level breakdown, Sweden – which has contributed the most to Nordic sustainable bond issuance throughout the years – increased its share and was behind 43% of all Nordic issuance in H1 24, followed by Norway with 25%. Denmark's share dropped from the past two years and was now at 14%. One reason for this could be that so far this year we have not seen any green government bonds from the Kingdom of Denmark as we did both in 2022 and 2023. Finland's share was 11%, while Iceland and Nordic Investment Bank contributed 4% and 3%, respectively.

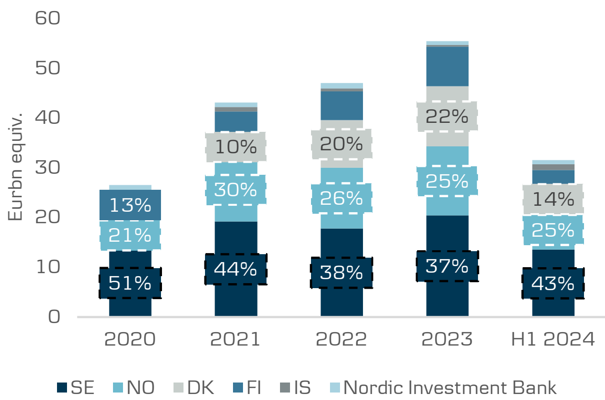
Issuer type



Product



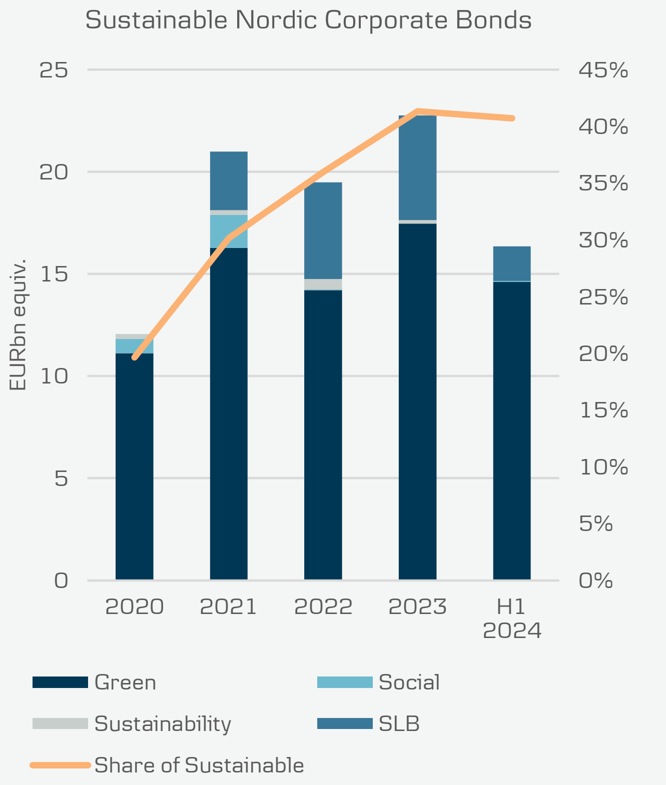
Country

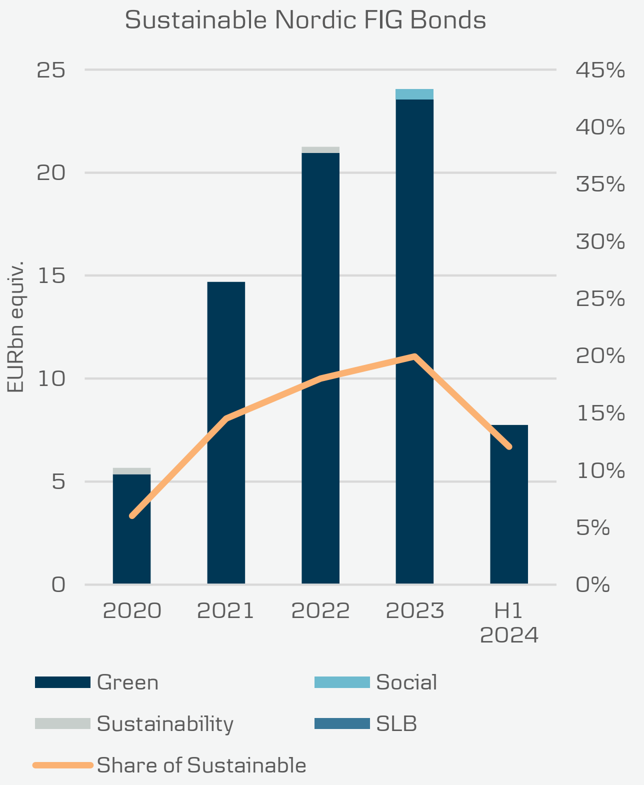


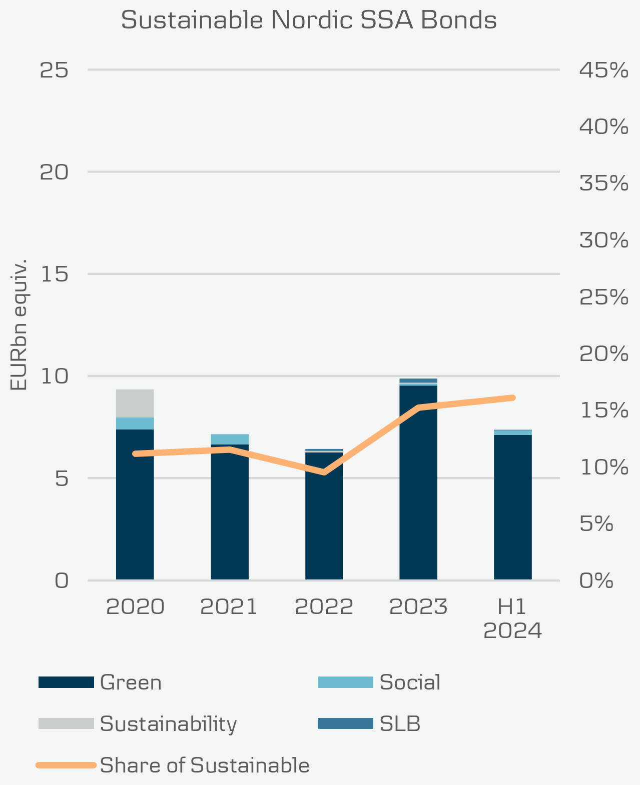
Source: Bloomberg, Danske Bank

Danske Bank

Nordic sustainable bond market by issuer type and top issuers in each segment







Top 5 issuers in H1 2024 by volume:

Statkraft, MAERSK, Statnett, ELLEVIO, Ørsted

DNB, Handelsbanken, Nordea, OP Bank*, SpareBank 1 Østlandet*, Swedbank*, Sydbank*

Kommuninvest, KBN, NIB Nordic Investment Bank, Government Debt Management, Region Stockholm

Source: Bloomberg, Danske Bank

* four issuers sharing the fourth position

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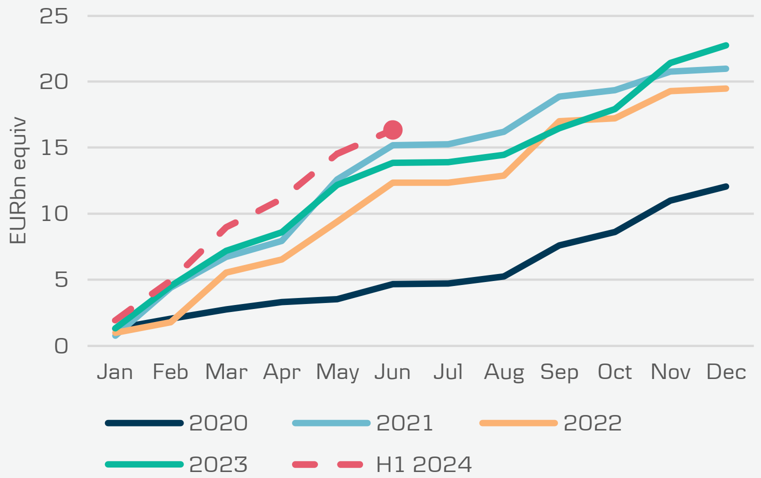
Nordic corporate sustainable bond market – Issuers from Utilities and Renewable Energy the biggest contributors

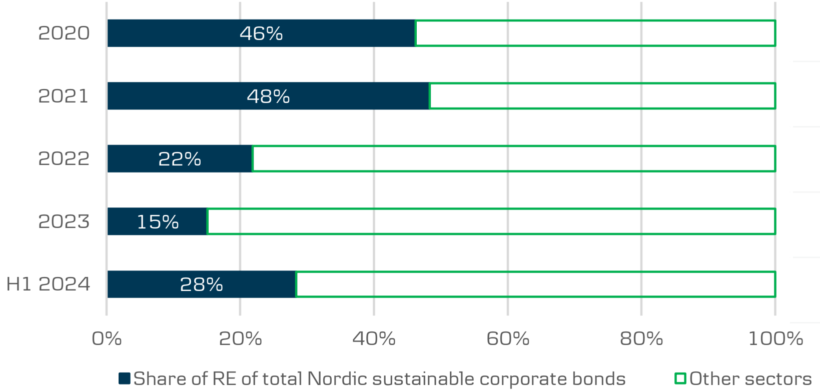
Nordic Corporate Sustainable Bond Issuance +18% vs H1 23



Key take-aways

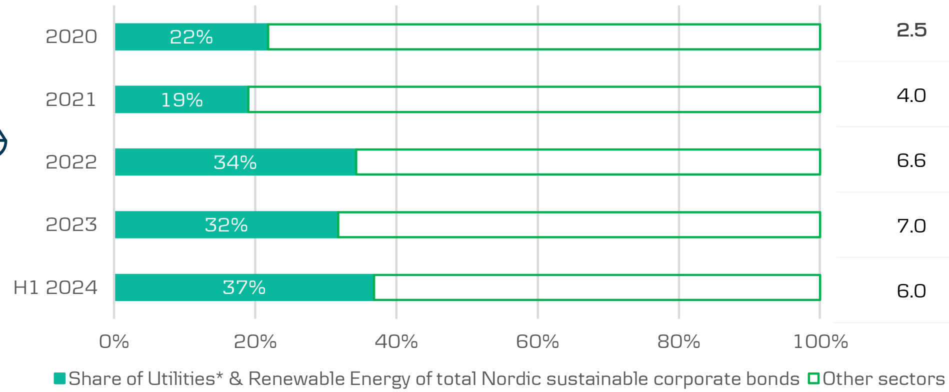
- After H1 24, the volume of Nordic sustainable corporate bonds was EUR16.3bn equivalent and 41% of all Nordic corporate bond issuance.
- The top 5 issuers were (1) Statkraft (NO, Power Generation), (2) Maersk (DK, Transportation & Logistics), (3) Statnett (NO, Utilities), (4) Ellevio (SE, Utilities), and (5) Ørsted (DK, Power Generation). Although all top 5 issuers issued in green format, we also saw sizeable issuances in SLB format. For example, both Pandora (DK, Consumer Discretionary) and TDC Net (DK, Wireline Telecom Services) issued a EUR500m SLB.
- The first half of the year showed that Real Estate is back in fashion. After very weak issuance in 2023, Real Estate issuance bounced back and now makes up 28% of Nordic sustainable corporate issuance. In addition to the green issuance that Real Estate issuers are known for, we have also seen some Real Estate issuers issuing in SLB format and currently at least four major Swedish real estate companies have included a possibility to issue in SLB format in their sustainable financing frameworks.
- Utilities (including power generation) and Renewable Energy issuers have been the largest issuer sector since 2022 and in H1 24 they contributed 37% of the Nordic sustainable corporate bond issuance. In addition, four of the five top issuers during the same period came from Utilities and Renewable Energy.

Real Estate



(EURbn)
5.4
10.2
4.2
3.3
4.6

Utilities and Renewable Energy



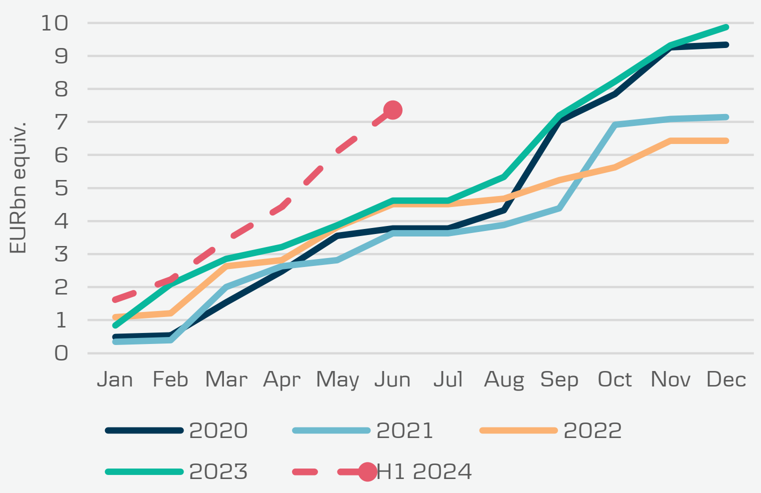
(EURbn)
2.5
4.0
6.6
7.0
6.0

* Utilities include both Utilities and Power Generation

Source: Bloomberg, Danske Bank

Nordic SSA sustainable bond market – Iceland became the third Nordic sovereign issuer having issued a green bond and world-first sovereign gender bond issuer

Nordic SSA Sustainable Bond Issuance
+59% vs H1 23



The Nordic Position Paper includes 12 signatories:

Key take-aways

- In the Nordic sustainable SSA market, the first half of the year was strong in terms of issuance and compared to H1 23 issuance increased 59% to EUR7.4bn equivalent.
- When looking at the data, we note that the issuance by Swedish municipalities and regions has been active. In addition, Iceland entered the sustainable bond market with green and social (gender bond) formats.
- In addition to the increased issuance, we note that as funding markets have been more volatile, it seems that this year many issuers have been front loading their issuance in anticipation of a shorter funding window after the summer and before the US presidential election.
- The top 5 issuers in H1 24 included Kommuninvest (SE, Government Agencies), Kommunalbanken (NO, Government Agencies), Nordic Investment Bank (Supranationals), Republic of Iceland (IS, Sovereigns) and Region Stockholm (SE, Government Local).

Iceland's entry to the sustainable bond market

- In March, the Republic of Iceland joined the club of Nordic sovereigns who have issued green bonds by issuing its inaugural EUR750m 10yr green bond. Earlier both the Kingdom of Sweden (in 2020) and Kingdom of Denmark (in 2022 and 2023) issued green bonds.
- Then, in June, the Republic of Iceland issued a EUR50m 3yr gender bond, which was labelled as a social bond. The projects eligible for the financing include the provision of decent living standards for women and gender minorities, increasing the supply of affordable housing that benefits low-income women, as well as efforts to increase maximum payments during parental leave, which creates incentives for both parents to make use of their equal right to paid parental leave. The bond was issued out of an Annex to Iceland's Sustainable Financing Framework on Financing for Gender Equality and was the first of its kind for sovereign issuer in the world.

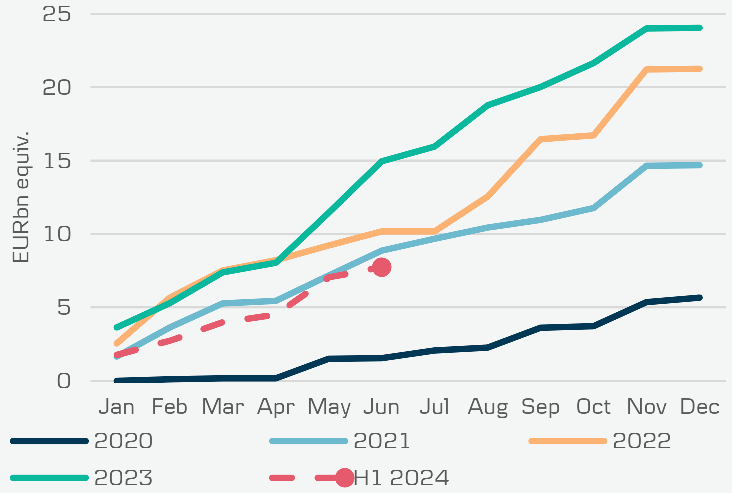
Nordic Public Sector Issuers Position Paper on Green Bonds Impact Reporting

- In March, the fourth edition of the Nordic Public Sector Issuers Position Paper on Green Bonds impact Reporting was published - with 12 Nordic signatories from the SSA segment. The Position Paper aims to foster robust, transparent, and pragmatic reporting practices for green bonds.
- The paper addresses both allocation and impact reporting, providing a practical user guide for issuers. It reflects best market practices and aligns with international reporting guidance from the ICMA Green Bond Principles, IFI Framework, and Greenhouse Gas Protocol.
- The most notable change is the revised emission factor for electricity: The baseline emission factor for electricity has been revised downwards, from 315 g CO_2e/kWh to 191g CO_2e/kWh.

Source: Bloomberg, Danske Bank

Nordic FIG sustainable bond market – Multiple factors behind the decrease in issuance

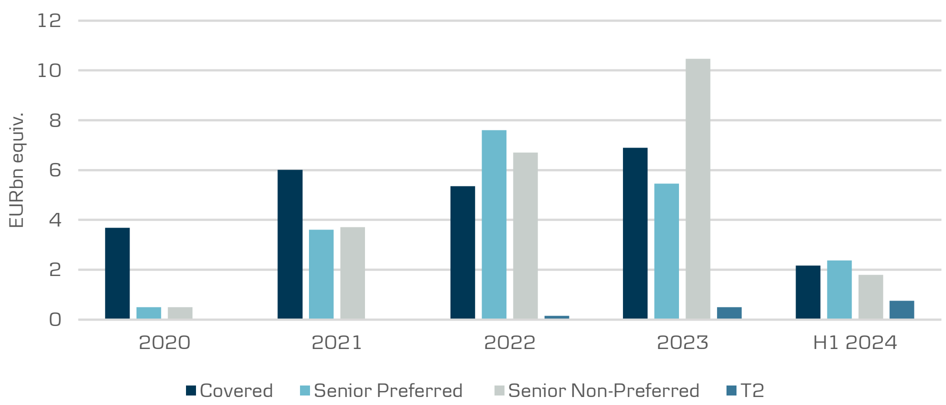
Nordic FIG Sustainable Bond Issuance
-48% vs H1 23



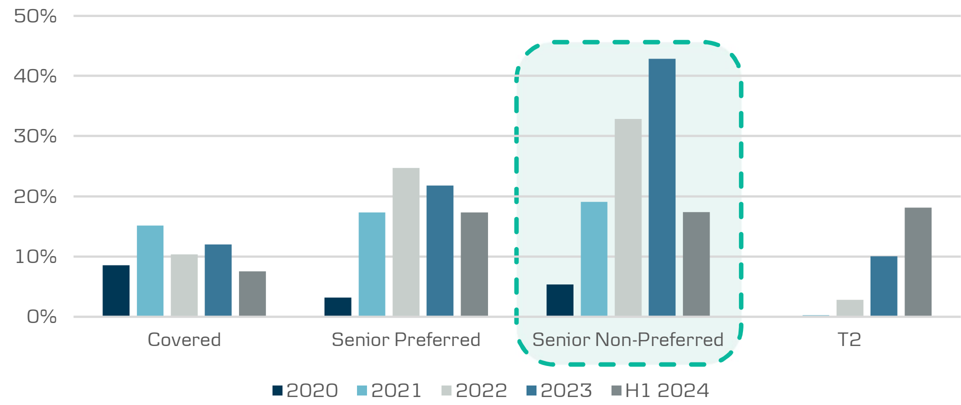
Key take-aways

- In H1 24, we saw a significant drop in sustainable bond issuance by FIG issuers. Compared to H1 23, issuance was down 48% at EUR7.7bn equivalent.
- In our opinion, there is a combination of factors behind this development:
  1) Constraints on green assets.
  2) The overall market is strong, i.e. no need for ESG-labelled deals to get deals done.
  3) This year more deals have been in capital (Tier 2) format, and Nordic issuers do not issue many sustainable bonds in Tier 2 format (yet).
  4) Big Nordic banks issue a lot in USD, and there is no additional value in issuing in ESG format across the pond.
- The top 5 issuers included DNB (NO, Banks), Svenska Handelsbanken (SE, Banks), Nordea (FI, Banks). In addition, there were four issuers sharing the fourth position including OP Corporate Bank (FI, Banks), Sparebank 1 Østlandet (NO, Banks), Swedbank (SE, Banks) and Sydbank (DK, Banks).
- We also note (see the graph below) that sustainable issuance in Senior Non-Preferred format has gained in popularity in recent years. There are a couple of reasons for this development: (1) the benefits of issuing in green format are the most pronounced when issuing in Senior Non-Preferred, and (2) in 2023 the issuance conditions were challenging, so issuers relied on green even more to de-risk trades.

Issuance of ESG labelled bank bonds



Share of sustainable per rank of debt



Source: Bloomberg, Danske Bank

Danske Bank

2. Nordic taxonomy alignment: gaining traction

EU Taxonomy alignment requires compliance with three sets of criteria

Classification system for defining green activities, feeding into reporting requirements of corporates, asset managers and banks

Substantial contribution

Compliance with the criteria for one of the six environmental objectives

- Climate change mitigation
- Climate change adaptation

+

Do no significant harm (DNSH)

To the other objectives

Compliance with the criteria specific for each activity relating to not harming the other environmental objectives

+

Comply with

Minimum safeguards

1. **Processes in place for:**
   - ✓ **Human rights due diligence:** as outlined in the (i) UN Guiding Principles on Business and Human Rights and the (ii) OECD Guidelines for Multinational Enterprises
   - ✓ **Anti-corruption and anti-bribery**
   - ✓ **Tax compliance**
   - ✓ **Fair competition compliance**
2. **Implementation of the above processes in practice**, i.e. no violations of labour law, human rights, tax laws, competition laws, or convictions on corruption

=

Taxonomy-aligned activity

Information on taxonomy-alignment feeds into several areas:

- **Green financing frameworks** and the level of taxonomy-alignment of the green projects financed
- **Annual reporting from corporates** of % of

  (i) Revenue from taxonomy-aligned products or services,

  (ii) Taxonomy-aligned capex, and

  (iii) Taxonomy-aligned opex
- **Green asset ratio (GAR), green investment ratio (GIR), and banking book taxonomy alignment ratio (BTAR)** of banks
- **Taxonomy alignment disclosure and targets for Art. 8 and 9 funds**

Source: The EU Commission, Danske Bank Credit Research

EU Taxonomy structure – An extensive reporting exercise

Requirements for activities to be classified as having a positive environmental impact divided into three basic blocks

European Commission

EU's Environmental Objectives

Climate Change Mitigation	*Climate Change Adaptation*	*Water & Marine Resources*	*Circular Economy*	*Pollution Prevention*	*Biodiversity & Ecosystems*

Economic Activity

Construction of New Buildings such as NACE codes F41.1 and F41.2

Eligible

Technical Screening Criteria

Substantial Positive Contribution to select environmental objective

- Energy consumption of the building is at least 10% lower that national Nearly Zero-Energy Building (NZEB) requirements
- Buildings larger than 5,000 m^2 undergo testing for air-tightness & thermal integrity as well as a life-cycle GHG-emissions assessment, with results and potential deviations disclosed to investors/clients.

Do No Significant Harm to other environmental objectives

Adaptation	*Water & Marine*	*Circular Economy*	*Pollution Prevention*	*Bio-diversity*
Conduct climate risk & vulnerability analysis	Conduct water stress assessment Efficient water appliances (non-residential)	Min 70% construction waste recirculation Design supports circularity	Restrictions on use of harmful substances according to and beyond REACH	Conduct environmental impact assessment Restrictions for new builds on high biodiversity areas

Aligned

Comply with Minimum Social Safeguards

- Requirements on business conduct following the OECD Guidelines and Guiding Principles, focusing particularly on; **Human Rights**, **Corruption**, **Taxation** and **Fair Competition**

Nordic taxonomy alignment – Gaining traction

In order to assess the status and development of alignment with the EU's criteria for environmentally positive economic activities - the EU Taxonomy - we have compiled data from the recently published 2023 Annual Reports for some 80 Nordic companies under our Credit Research coverage. We specifically focused on the share of turnover and capital expenditure aligned with the taxonomy and compared it to previous reporting.

Across our coverage the average taxonomy alignment for these companies measured as a share of total revenues for 2023 is 20% (2022: 17%), with an average taxonomy eligibility of 49% (2022: 42%). The average alignment of total capital expenditure is somewhat higher at 24% (2022: 22%), with eligible capex of 51% (2022: 46%).

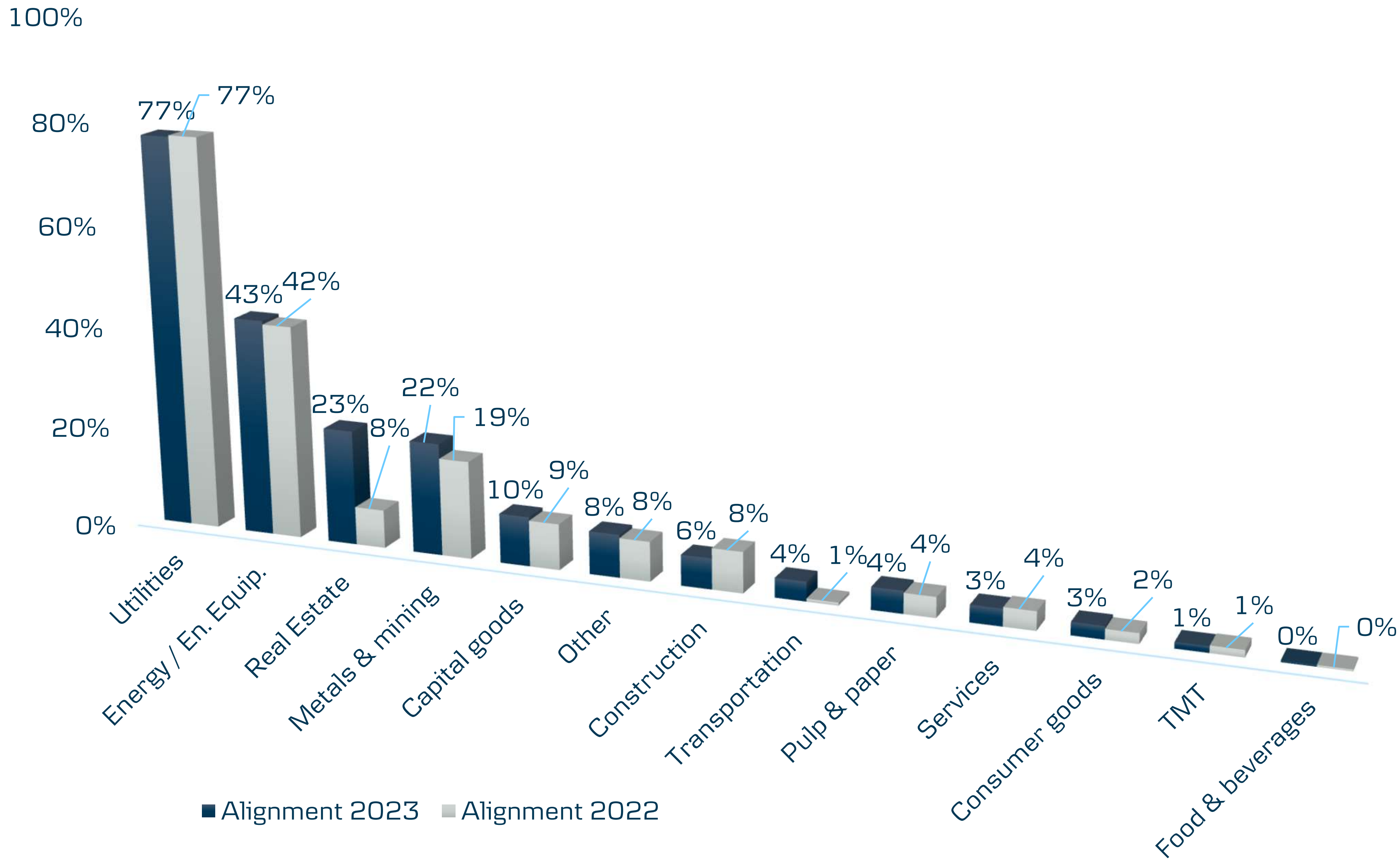
The Nordic sector with the highest taxonomy alignment is Utilities at 77%, followed by Energy & Energy Equipment at 43%, Real Estate at 23% and Metals & Mining at 22%. The lowest taxonomy alignment is found in Consumer goods, TMT and Food & Beverages, at 0-3%.

We see several natural explanations that some sectors are still displaying a relatively low average taxonomy alignment across our Nordic corporate universe. Firstly, the current version of the EU Taxonomy only covers a small share of all economic activities. In addition, given the uncertainty in terms of how to interpret the reporting in accordance with the taxonomy, we believe that many companies take a cautious approach to their alignment reporting.

As the taxonomy continues to evolve and the guidance for reporting becomes clearer, we expect the share of taxonomy alignment to increase. We expect taxonomy to remain high on the agenda for many corporates, as companies with a high taxonomy-alignment might benefit from additional interest from investors seeking to finance green and taxonomy-aligned economic activities.

Revenues: taxonomy alignment per Nordic sector in our credit research coverage

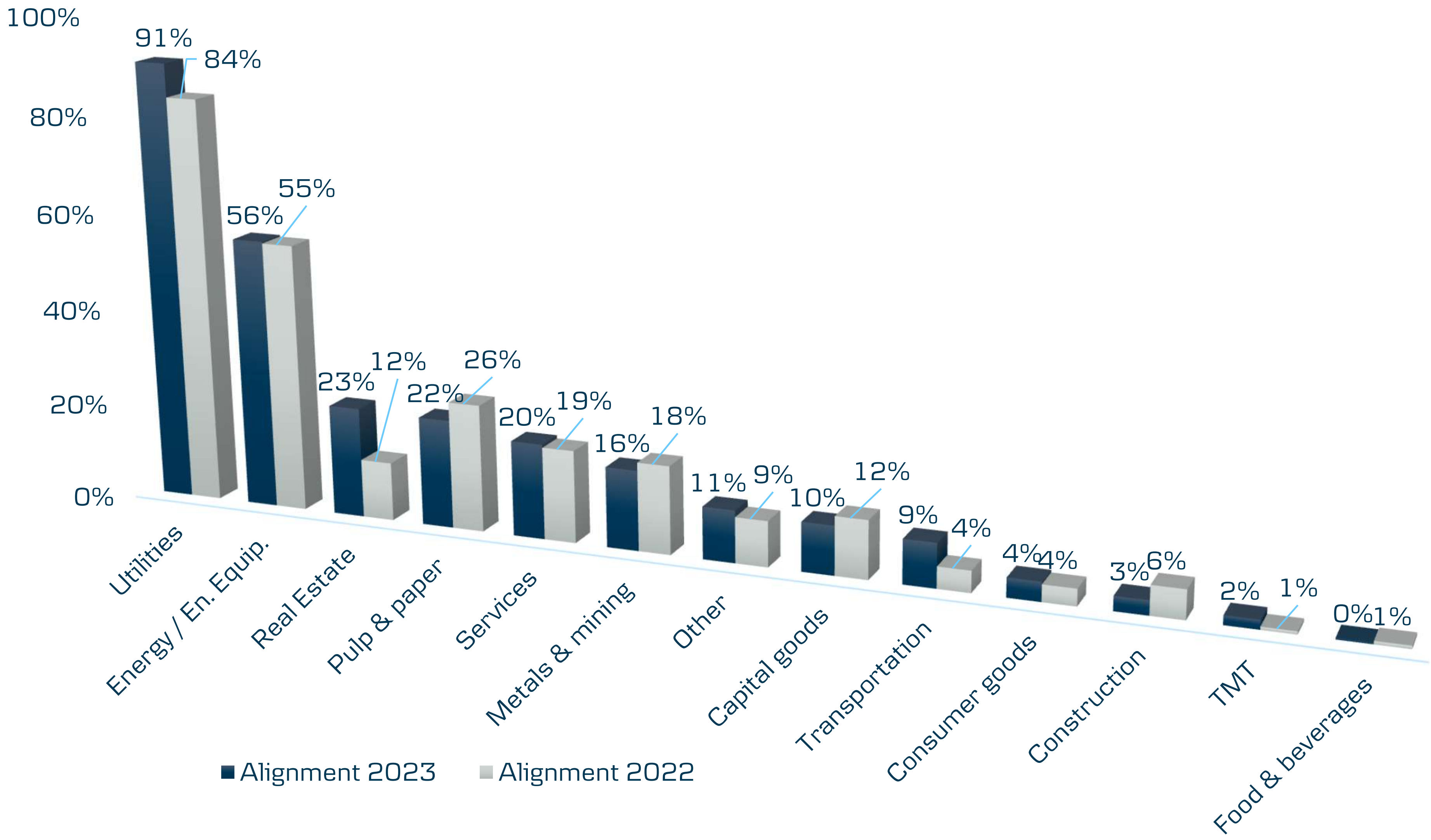
Measured as share of revenues the average taxonomy-alignment was 20% in 2023 vs 17% in 2022



Source: Companies' annual reports, Danske Bank Credit Research. For most companies in this report the disclosure related to the EU taxonomy is covered by EU's Non-Financial Reporting Directive. In addition, some companies with less than 500 employees report on their taxonomy-alignment on a voluntary basis.

Capex: taxonomy alignment per Nordic sector in our credit research coverage

Measured as share of capital expenditure the average taxonomy-alignment was 24% in 2023 vs 22% in 2022



Source: Companies' annual reports, Danske Bank Credit Research. For most companies in this report the disclosure related to the EU taxonomy is covered by EU's Non-Financial Reporting Directive.
In addition, some companies with less than 500 employees report on their taxonomy-alignment on a voluntary basis.

3. Energy Performance of Buildings Directive -Providing a boost for energy renovation in the EU

Aiming to achieve a fully decarbonized building stock by 2050

The EPBD contributes directly to the EU's energy and climate goals

EU's ambitions with EPBD in a nutshell

- **The Energy Performance of Buildings Directive (EPBD)** is a part of the EU's overall climate plan and ambition to reduce greenhouse gas emissions by at least 55% by 2030 ('**Fit for 55**'). As buildings are the single largest energy consumer in Europe, the transition of the building sector is crucial for the EU to achieve its energy and climate goals.
- The ambition with the EPBD is to at least **triple the current renovation rate of existing buildings**. Furthermore, it will be compulsory to renovate buildings in certain energy classes.
- According to the proposal from the EU Commission, the **worst-performing 16% of EU commercial building stock should be upgraded by 2030**, and the worst-performing 26% by 2033. There is also a project to **revise the EPC of buildings** to make them coherent and equalise the task of improving the energy efficiency across states.
- **Each member state must publish a national plan with a roadmap to a highly energy-efficient and decarbonised building sector by 2050.** The first plan is due by YE 2025, with the final plan due by YE 2026. The transposition deadline is 24 months, i.e. 28 May 2026.
- **For financial institutions, the EPBD is suggesting an increase in financing for the renovation of buildings.** This could for example be achieved via a **change in mortgage portfolio standards. Green loans and mortgages** are to be promoted. For vulnerable households a blended funding solution should be provided.

Source: The EU Commission and State of Green, 2022. Note that a trialogue between the EU Commission, the EU Parliament and the EU Council is still ongoing in order to finalise the EPBD text.

EPBD – the EU's project to upgrade European buildings

EPBD will provide a boost to energy renovation

Some additional important features

- **Commercial buildings – minimum energy performance standards.** 2030: the 16% of buildings with the lowest energy performance need to be upgraded, and by 2033 the 26% of buildings with lowest energy performance.
- **Residential buildings – national plans for how targets are to be met.** Again, the largest part (>55%) of energy savings should be achieved in the buildings with the lowest energy performance. On average the energy usage should from 2020 be reduced by at least 16% by 2030, and by at least 20-22% by 2035, with linear reduction from 2040 until net zero by 2050.
- **Solar energy and sustainable mobility – all new buildings must be optimised to generate solar energy.** Solar energy installations should be made in all existing public buildings by December 2030, and in larger commercial buildings when renovated by December 2027.
- **Sustainable mobility – requirements for electrical vehicle charging and bicycle parking.** New buildings should offer electrical chargers and bicycle parking.
- **Zero emission buildings (ZEB) – from 2030 all new buildings should comply with zero-emissions building standards**, with an energy demand that is 10% lower than the existing threshold for nearly ZEB. Primary energy should be covered by local renewable energy, efficient district heating or other carbon-free (nuclear) energy. **Life-cycle emission building targets should be set from 2030** (from 2028 for public buildings).
- **From 2050 ZEB is to be achieved for all buildings.** However, it will be possible to use different threshold values considering 'cost optimality' both for new and existing buildings.

The importance of sustainability reporting will increase

There will be demand for improved ESG reporting. Also, investors are likely to focus on credible long-term transition targets

Examples of ESG data reported by Swedish real estate companies under our coverage and our view on the reporting

	Greenhouse gas emissions Scope 1, 2 and 3	Energy consumption; intensity	Environmental certified buildings	Long-term target	Taxonomy alignment**	Overall judgement
Akelius	1, 2, 3	220GWh.; 335kWh/m^2	0%	Yes but not science based	0%	Good
Balder	1, 2, 3	353GWh; 104kWh/m^2	n.a.	Yes but not science based	3%	Good
Castellum	1, 2, 3	456GWh; 96kWh/m^2	56%	Science-based targets	33%	Excellent
Cibus Nordic Real Estate	1, 2, 3	253GWh.; 232kWh/m^2	15%	Yes but not science based*	14%	Good
Emilshus	n.a.	n.a.; 102kWh/m^2	n.a.	-	n.a.	Average
Fastpartner	1, 2, 3	140GWh; 86kWh/m^2	51%	Yes but not science based	n.a.	Good
Heimstaden Bostad	1, 2, 3	1,078GWh; 137kWh/m^2	n.a.	Science based targets	16%	Excellent
Intea	1, 2	52GWh.; 142kWh/m^2	n.a.	Yes but not science based	n.a.	Good
Nivika	1, 2	33GWh; 97kWh/m^2	n.a.	-	n.a.	Good
NP3	1, 2	130GWh.; 154kWh/m^2	2.5%	Yes but not science based	15%	Good
Nyfosa	1, 2, 3	281GWh; 111kWh/m^2	29%	Yes but not science based	n.a.	Good
Sagax	1, 2, 3	230GWh; 157kWh/m^2	8%	Yes but not science based	10%	Good
SBB	1, 2, 3	551GWh.; 122kWh/m^2	10.4%	Science-based targets	n.a.	Good
Stendörren	1, 2, 3	45GWh; 89kWh/m^2	42%	Yes but not science based	n.a.	Good
Titania	1, 2	3GWh; 129kWh/m^2	n.a.	Yes but not science based	n.a.	Good
Vasakronan	1, 2, 3	216GWh; 75kWh/m^2	93%	Science-based targets	n.a.	Excellent

Source: Company data, Danske Bank Credit Research (from the report 'Beyond Green 3.0')

The banks' journey towards 'net zero' has also begun

In order to reach their climate targets, banks need to have targets for the real estate sector

Nordic banks' GHG emission targets for the real estate sector for 2030

Commercial real estate	2030 commitment	Achievement
DNB	Financed emission intensity***:-29%	+3,8% (2023)
Danske Bank	Financed emission intensity*:-55%	-4% (2022)
Handelsbanken	Financed emission intensity*:-53%	-15.3% (2021)
Nordea	n.a.	-1.8% (2021)
SEB	n.a.	n.a.
Swedbank	Financed emission intensity*:-43%	-17% (2022)
Personal mortgages		
DNB	Financed emission intensity*:-47%	+1.6% (2023)
Danske Bank	Financed emission intensity*:-55%	-9% (2022)
Handelsbanken	Financed emission intensity*:-56%	-11.6% (2021)
Nordea	Financed emission intensity*:-40-50%	-6% (2023)
SEB	Financed emission intensity**:-32%	-2% (2022)
Swedbank	Financed emission intensity*:-39%	-6% (2022)

Several banks have set specific sector targets

- Several of the larger Nordic banks have introduced GHG emission reduction targets for the real estate sector. These targets will likely influence lending decisions towards the sector.
- Over the past few years, the average emission intensity in commercial real estate and personal mortgages portfolios has shown a mixed performance between the banks.
- Still, the average energy emission intensity has declined somewhat for several of the larger Nordic banks.
- So far most financed emission targets for the Nordic banks both for commercial real estate and personal mortgages relate only to direct Scope 1 and 2 emissions, with no targets for Scope 3 emissions.

**Scope 1, 2. kgCO_2e/m^2 **Target only related to household mortgages in Sweden. ***Scope 2 emissions only*

Source: Company data, Danske Bank Credit Research

Demand for green and taxonomy-aligned assets set to increase

There could also be a bifurcation in property values between energy-efficient and non-energy-efficient buildings

Conclusions

- **EPBD will help to speed up the renovation pace for EU buildings.** As buildings are the single largest energy consumer in Europe, the transition of the building sector is crucial for the EU to achieve its energy and climate goals.
- European banks have also begun their journey towards 'net zero'. **In order for the banks to achieve their climate targets they will need to have emission targets for the real estate sector.**
- **The EPBD is suggesting an increase in financing for the renovation of buildings.** This could happen for example via proposed mortgage portfolio standards. In turn, this could have an impact on property values, with a bifurcation between energy-efficient and non-energy-efficient buildings.
- **Demand for green and taxonomy-aligned assets is likely to increase**, with potential for lower funding costs for those companies with a high share of energy-efficient buildings.
- **For those companies with a high share of non-energy-efficient buildings, we expect the importance of credible transition plans to increase.** Over time, companies that fail to establish such targets could face both lower equity valuations and higher funding costs in the event fewer investors chose to invest in them.

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