Danske Bank

Nordic Sustainable Quarterly – Green bonds with a golden touch

Analysts

Louis Landeman
+46 8 568 80524
llan@danskebank.com

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Important disclosures and certifications are contained from page 38 of this report

Nordic Sustainable Quarterly – Green bonds with a golden touch

Continued strong appeal for Nordic sustainable bonds

The long-awaited EU Green Bond Standard (GBS) – intended as the "golden standard" for green bonds – has been approved and is set to apply from end-2024. The voluntary EU GBS tries to change the ambiguous nature of what is considered 'green' as it lays down uniform requirements for bond issuers that wish to use the label "European Green Bond" or "EuGB" for their bonds. For bond investors, the new standard should enable them to more easily determine whether their investments are sustainable, reducing the risk of greenwashing, and facilitate comparison. In this edition of the Nordic Sustainable Quarterly, we present our initial thoughts on the EU GBS, its usability, and potential challenges.

The appeal of Nordic sustainable bonds continues to gain strength. So far this year the share of sustainable bond issuance relative to total corporate issuance has continued to grow in the Nordic markets, representing close to 35% of total corporate bond issuance YTD.

The Task Force on Nature-related Financial Disclosures (TNFD) recently presented a new disclosure framework to assess nature-related issues. The TNFD recommendations are structured to allow companies and financial institutions to get started. In the coming years we expect this disclosure framework to gain importance. In a survey carried out by TNFD, more than 86% of respondents said that they could start reporting TNFD disclosures for the financial year 2025.

In a new publication produced by Danske Bank Credit Research we present our view on the main ESG risks facing the 16 Swedish real estate companies under our coverage. New features in the report include special sections on direct physical climate risks, the EU Taxonomy, the forthcoming Energy Performance of Buildings Directive (EPBD), the Corporate Sustainability Reporting Directive (CSRD), and an analytical tool to benchmark governance risk. In terms of relative value, we prefer the following names in the sector: Balder, Castellum, Cibus Nordic Real Estate, Emilshus, Fastpartner, and NP3.

A guide to this report

From sustainable bonds to ESG risks in Swedish real estate

1. The long-awaited EU Green Bond Standard has been approved

The long-awaited EU Green Bond Standard (GBS) has been approved

The EU GBS, intended as the "golden standard" for green bonds, is set to apply from the end of 2024

8 March 2018	Action Plan: Financing Sustainable Growth, adopted by the European Commission
18 June 2019	TEG Report Published: Report on EU Green Bond Standard (proposal)
12 June 2020	Consultation - EU GBS the Commission decided to put forward a European green bond standard.
6 July 2021	Legislative proposal - EU GBS
28 Feb 2023	Legislation - EU GBS Trilogue negotiations ended with the provisional agreement reached
5 Oct 2023	The European Parliament adopts the European Green Bond Regulation
23 Oct 2023	The Council adopts the regulation
	The regulation will be signed, and published in the EU's Official Journal before entering into force 20 days later. It will start applying 12 months after its entry into force.
Nov/Dec 2024	European Green Bond Regulation will start applying

The long-awaited EU GBS standard is approved

- The EU Green Bond Standard (EU GBS) was first proposed in the European Commission's Action Plan on Financing Sustainable Growth in March 2018, where the EU GBS forms one part of the comprehensive strategy.
- On 23 October 2023, following a lengthy period of negotiation between the co-legislators, the long-awaited EU GBS was approved. Next, it will be signed, and published in the EU's Official Journal. Then, after 12 months and 20 days after its publication in the Official Journal of the EU, the regulation will start to apply.

EU GBS Intended as the "golden standard" for green bonds

- The regulation lays down uniform requirements for issuers of bonds that wish to use the designation 'European Green Bond' or 'EuGB' for their environmentally sustainable bonds.
- EU GBS is based on current market best practice and is designed to be compatible with existing ICMA Green Bond Principles. However, it also goes further in certain key aspects, including the requirement for full alignment of funded projects with the EU Taxonomy and by establishing a regime for the registration and supervision of external reviewers.
- European Green Bond issuers will be required to disclose considerable information about how the bond's net proceeds will be allocated in accordance with standardised templates, including alignment with the EU Taxonomy.

Why do we need another standard for green bonds?

- The EU GBS will be a voluntary standard setting out uniform requirements for any bond issuers that wish to label their bond a European Green Bond.
- The standard should provide high quality green bond issuers a reliable and trustworthy way to demonstrate their strong environmental commitment.
- For bond investors, the new standard should enable them to more easily determine whether their investments are sustainable, reducing the risk of greenwashing, and facilitate comparison.

Source: EU GBS. Danske Bank

Initial thoughts on the EU GBS, its usability, and potential challenges (1/2)

The approved EU GBS paves the way for the green bond market to see the first 'European Green Bond' or 'EuGB' labelled bond being issued in around a year's time, either late 2024 or early 2025.

This raises questions about the specifics of the regulation, how it will affect issuers and investors, as well as the ultimate question on the eventual uptake of the new standard.

Building on current market standards
Based on current market standards, the EU GBS aims to solve some of the main challenges of its predecessors: the lack of comparability due to no clear definition for what constitutes a green investment, standardisation of disclosures, and concern of greenwashing.

The voluntary EU GBS tries to change the ambiguous nature of what is considered 'green' as it lays down uniform requirements for bond issuers that wish to use the label European Green Bond or EuGB for their bonds. The label is voluntary and expected to co-exist with the current international market standard for Green Bonds (e.g. ICMA Green Bond Principles).

Taxonomy alignment required for the use of proceeds
One of the key features of the EU GBS is that the use of proceeds of the bond are required to be aligned with the EU Taxonomy, apart from a few exceptions. With that criteria, the EU GBS is setting a common language between investors and issuers for what it defines as 'green', and thus mitigating greenwashing risk in the green bond market.

While it is positive that the EU GBS seeks to limit the greenwashing risk for both issuers and investors, taxonomy alignment is still rare, and the majority of Nordic and European companies are reporting negligible amounts of taxonomy-alignment (as previously shown by Danske Bank).

As the EU Taxonomy continues to evolve and the guidance for reporting becomes clearer, we believe that the share of taxonomy alignment among companies will increase. However, the current low reported taxonomy-alignment in the Nordic as well as the European market may suggest a slow uptake of the EU GBS ahead.

Some flexibility introduced into the standard
To that effect, the EU GBS tries to provide some flexibility and means to deviate from the strict requirement of EU taxonomy alignment for the allocated funds by allowing a 15% flexibility pocket and capex plans. The flexibility pocket is still deliberately limited in size and scope to maintain a high level of ambition for European Green Bonds. Further to that, the flexibility pocket should not be confused with full flexibility, as the 15% is only applicable to **activities not yet eligible in the Taxonomy** (e.g., agriculture sectors) and the financed activity should still fulfil all the other EU taxonomy requirements.

Regarding the capex plan, it can be especially relevant in a forward-looking manner as issuers seek to increase their alignment over time. However, given the rigorous reporting and prospectus requirements, as well as exposure to grandfathering, the usability of the plan could be challenging for some issuers.

Source: EU GBS, Danske Bank

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Initial thoughts on the EU GBS, its usability, and potential challenges (2/2)

Transparency pushed from recommendation to requirement
Under the EU GBS, full transparency is required on how the bond proceeds are allocated. This is ensured via detailed reporting requirements in contrast to the ICMA Green Bond Principles, where more flexibility in the scope and granularity of reporting has been possible. In addition, to cater for specific and standardised disclosure requirements, the EU GBS provides common templates for green bond issuers (EuGB factsheet, capex plan, allocation, and impact report).

Furthermore, to improve transparency of the methodology of external reviewers, issuers of European Green Bonds should only make use of external reviewers that have been registered and are subject to ongoing supervision by the European Securities and Markets Authority (ESMA). It is expected that the external reviewers will be fairly aligned with those we have seen in the existing market.

Additionally, whereas the current green bond market has relied on market compliance, investor interest, and potential exposure to reputational risk, the EU GBS imposes legally binding agreements with potential administrative fines for non-compliance.

EU GBS - broad-based standard or only for the few?
To conclude, the EU GBS and its uptake will be an exciting exercise to follow in the coming years. It is expected that the first issuers to test the waters will be the more frequent issuers in the SSA space, as well as some corporate issuers from sectors with naturally high taxonomy alignment. Even though the increased transparency and credibility of the EU GBS are a welcomed addition, there are some visible obstacles that need to be overcome.

In short, we believe investor demand on the one side, and the issuer adoption of the standard with its rigorous criteria, toughened governance demands and potentially heightened liability risk pressures on the other side, are the factors that will decide whether the EU GBS will get a strong foothold in the green bond market or not.

Key facts from the EU GBS are summarised on the following pages

Source: EU GBS, Danske Bank

EU GBS – net proceeds should be aligned in accordance with the EU Taxonomy

The below outlines the prerequisites for use of proceeds

Intention and prerequisites of EU Green Bonds	The intention of the bonds issued in accordance with the EU GBS is to finance environmentally sustainable economic activities. An economic activity is considered sustainable if it: ▪ Contributes substantially to one of the six environmental objectives (SC). ▪ Does not significantly harm the other environmental objectives (DNSH). ▪ Is carried out in compliance with the Minimum Safeguards (MS) relating to human rights and fundamental labour rights.
What can be financed under the EU GBS? Flexibility pocket	Before the maturity of a European Green Bond, the proceeds of such a bond shall be allocated in full, in accordance with the EU taxonomy requirements (taxonomy aligned), to one or more of the following types of assets and expenditures: i. Fixed tangible or intangible assets that are not financial assets. ii. Financial assets. iii. Assets and expenditure of households. iv. Capital expenditures (capex). v. Operating expenditures (opex). ▪ Issuers may allocate up to 15% of the proceeds of a European Green Bond to economic activities that comply with the taxonomy requirements, with the exception of the technical screening criteria, provided that no criteria exists at the time of issuance. ▪ Issuers may allocate proceeds from one or more outstanding European Green Bonds to a portfolio of fixed assets or financial assets in accordance with the taxonomy requirements (referred to as the 'portfolio approach'), provided that it is demonstrated in allocation reports that the total value of the assets in the portfolio exceeds the total value of outstanding European Green Bonds. ▪ Depending on whether a gradual or portfolio approach is chosen, key requirements might differ as further described in the next pages.
Net proceeds and issuance costs	▪ Issuance costs can be deducted before allocating the proceeds (net proceeds = total bond proceeds - the issuance costs). ▪ Issuance costs = costs that are directly related to the issuance of the bond, which include 1) the costs of financial intermediaries leading the issuance, 2) advisory costs, 3) legal costs, 4) rating costs, 5) the costs related to the external review.

Source: EU GBS

Issuers can allocate proceeds according to the portfolio or gradual approach

Key requirements might differ depending on the chosen approach

Gradual approach capex plan	▪ The gradual approach concerns financing of fixed and financial assets, capex and opex, and assets and expenditure of households, in alignment with the technical screening criteria applicable at the time of issuance of the bond. ▪ Financial assets should be created no later than five years after the issuance and can only be allocated to a maximum of three subsequent financial assets in succession. ▪ In addition, the gradual approach allows financing of capex and opex that is not yet taxonomy aligned at the time of issuance but will meet the taxonomy requirements within five years of the issuance, unless a longer period of up to 10 years is justified. For such expenditures, issuers are required to publish a capex plan. ▪ The capex plan shall specify a deadline, before maturity of the bond, by which all the capex and opex funded by the bond are to be taxonomy aligned. Hence, the financed capex and opex will gradually align with the taxonomy. ▪ Within 60 days of the deadline specified in the capex plan, the issuer should obtain an assessment from an external reviewer about the taxonomy alignment of the capex and opex financed by the bond. ▪ The issuer should include a summary of its capex plan in the prospectus and report on the progress made in the implementation of the plan in the annual allocation reports. ▪ The summary should include a list of the projects carried out by the issuer that are the most significant, measured as a share of the total capex covered by the capex plan, and specify the type, sector, location, and expected finalisation year of those projects.
Portfolio approach	▪ For the portfolio approach, instead of directly linking proceeds to expenditures/assets, assets are added to one portfolio of EU taxonomy aligned fixed or financial assets. The portfolio approach leaves no room for financing of capex or opex. ▪ The portfolio value of assets need to exceed the total value of outstanding European Green Bonds at all times, and this is to be demonstrated in yearly allocation reports. ▪ EU taxonomy alignment of assets in the portfolio is defined as assets whose underlying economic activity is aligned with any technical screening criteria that were applicable at any point during the seven years prior to the date of publication of the allocation report.

Source: EU GBS

Introducing flexibility pocket, grandfathering as a salient feature

The EU GBS allows for some flexibility

15% Flexibility pocket	Issuers may allocate up to 15% of the proceeds to activities that are not mentioned in the EU taxonomy but comply with the general taxonomy requirements including: ▪ Substantial contribution to one of the six environmental objectives. ▪ DNSH criteria. ▪ Minimum safeguards. The demonstration should be included in the EuGB factsheet and be validated by an external reviewer by means of a positive opinion in the pre-issuance review.
Amended technical screening criteria and grandfathering	▪ If the technical screening criteria are changed after the issuance of the bond, then 1) unallocated proceeds and 2) proceeds that are covered by a capex plan, that have not yet met the taxonomy requirements, should be allocated in alignment with the amended technical screening criteria within the next seven years after the date of application of the amended criteria. ▪ If allocated proceeds subject to a capex plan are at risk of not being aligned with an amended technical screening criteria, issuers are allowed to prepare a plan for aligning them to the extent possible and for mitigating the negative consequences of the lack of full alignment which, in turn, is subject to an external review. ▪ Where issuers allocate proceeds in accordance with the portfolio approach, only those assets should be included in the portfolio whose underlying economic activity is or has been aligned with any technical screening criteria applicable at any point during the seven-year period prior to the publication of the allocation report. This means that even if an asset fails to meet an amendment of the technical screening criteria, its able to stay in the portfolio for up to seven years.

Source: EU GBS

Emphasis on transparency and credibility with standardised templates

Reporting and external review requirements are listed below

Pre-issuance **Green bond factsheet**	Prior to issuing a European Green Bond, issuers should complete a European Green Bond factsheet. The factsheet is subject to a pre-issuance review by an external reviewer. ▪ An annex to the Regulation provides a template for the factsheet. The factsheet should include information on; general aspects of the bond and the issuer, the environmental strategy of the issuer and rationale for the bond issue, the intended allocation of bond proceeds (including specific transparency requirements for nuclear energy and fossil gas-related activities), share of new financing versus refinancing, the environmental impact of bond proceeds, the reporting, and the capex plan.
Pre-issuance **Prospectus**	In order to use the designation 'European Green Bond' or 'EuGB', issuers shall publish a prospectus where it is stated that; ▪ the bonds are designated as 'European Green Bond' or 'EuGB', ▪ the use of proceeds section of the prospectus states that European Green Bonds are issued in accordance with the EU GBS, ▪ the term Regulated Information shall be constructed as including the information contained in the EuGB factsheet. If a capex plan is applicable, a summary needs to be included in the prospectus. The summary shall list the most significant projects, measured as a share of the total capital expenditure covered by the capex plan, and shall specify the type, sector, location, and expected finalisation year of those projects.
Post-issuance **Allocation report & verification of allocations**	▪ For every12-month period starting from the issuance date and until full allocation of the proceeds and, where applicable, until the completion of the capex plan, issuers should publish a European Green Bond allocation report. ▪ The report needs to demonstrate that the proceeds have been allocated in accordance with the EU GBS. ▪ An external reviewer should review the annual allocation reports each year, except in cases where no change in allocation is made in the portfolio of assets. ▪ The allocation report needs to be published within 270 days after the end of every 12-month period.
Post-issuance **Impact report**	▪ Issuers should publish an impact report after the full allocation of the proceeds and at least once during the lifetime of the bond ▪ Impact report should clearly specify the metrics, methodologies, and assumptions applied in the assessment of the environmental impact. ▪ External review can be obtained but is not mandatory

Source: EU GBS

Sharpened oversight, supervision, and potential liability risk

Supervision and fines

Public documents	**Pre-issuance** 1. Completed European Green Bond factsheet. 2. External review of the European Green Bond factsheet. 3. A link to the prospectus. 4. Capex plan (where applicable). **Post-issuance** 1. Allocation reports. 2. External review of the allocation report. 3. Impact report. The Commission has put forward a proposal for establishing a European single access point (ESAP) providing centralised access to publicly available information of relevance to financial services, capital markets, and sustainability, where these documents should be made available.
Non-compliance	▪ Competent authorities should supervise issuers of EU Green Bonds, to ensure that all the elements contained in relevant templates are correctly published. Where issuers fail to comply, competent authorities should make that fact public. ▪ Issuers who issue EU Green Bonds but do not comply with the requirements of the regulation can be fined up to EUR500,000 or 0.5% of their total annual turnover.
Supervision of External Reviewers	▪ External reviewers for European Green Bonds shall, before taking up their activities, be registered with ESMA, and will hence be subject to ongoing supervision. ▪ During the first 18 months of the regulation, to allow ESMA to set appropriate framework for registration and supervision, external reviewers should be able to provide services where they notify ESMA and make their best efforts to comply with the regulation.

Source: EU GBS

A dynamic standard that will be reviewed and adjusted at regular intervals

Optional disclosure templates will cater for harmonisation with other standards

Optional disclosure templates for other Green Bonds and Sustainability-Linked Bonds	▪ In addition to European Green Bonds, the Commission will develop optional sustainability disclosure templates, consistent with the relevant sections of the European Green Bond factsheet and allocation report, for bonds marketed as environmentally sustainable and for sustainability-linked bonds to facilitate comparison and address greenwashing.
Review of the standard	The regulation requires the European Commission to publish a multitude of reviews in the coming years on how the EU GBS regulation is functioning and potential areas of development. These reviews include: ▪ Five years after the regulation enters into force, and every three years thereafter, the Commission shall submit a report evaluating a number of topics including a legislative proposal, this includes; the uptake of the standard and its market share (in particular by small and medium-sized enterprises), its impact on the transition to a sustainable economy, the credibility and abuse, the functioning of the sustainability-linked bond market and the uptake of the voluntary templates. ▪ Three years after the regulation enters into force, the Commission should produce a report assessing the need to regulate sustainability-linked bonds, including a legislative proposal. ▪ By the end of 2024 and every three years thereafter, the Commission should produce a report based on its review of the technical screening criteria, taking into account the grandfathering rules.

Source: EU GBS

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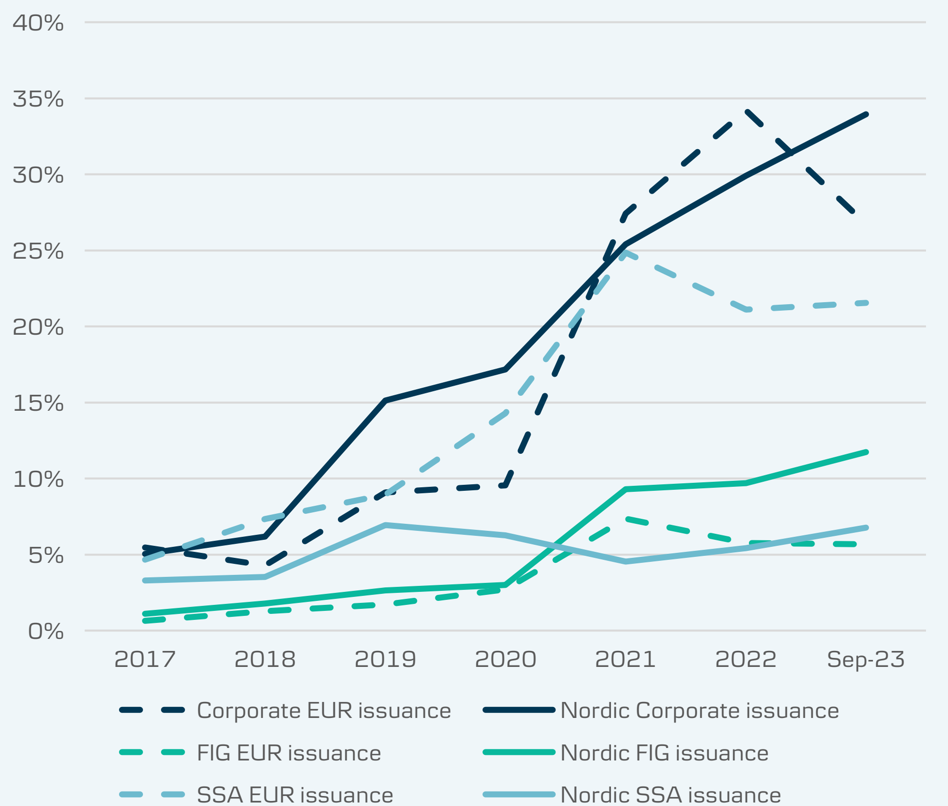
2. Continued strong appeal towards Nordic sustainable bonds

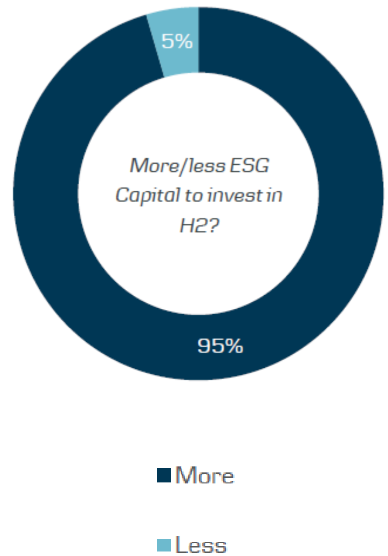
The appeal of Nordic sustainable bonds continues to gain strength

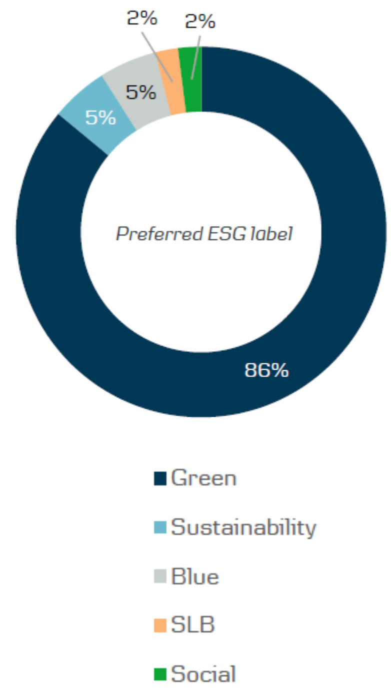
In the Nordic corporate space, the trend for sustainable bonds continues to increase

Share of green, social, sustainability, and sustainability-linked issuance of all bond issuance



Investors expect to have more ESG capital to deploy, and favour a green format





Source: Bloomberg, Danske Bank

Danske Bank EUR IG Investor Survey, expectation 2023 H2

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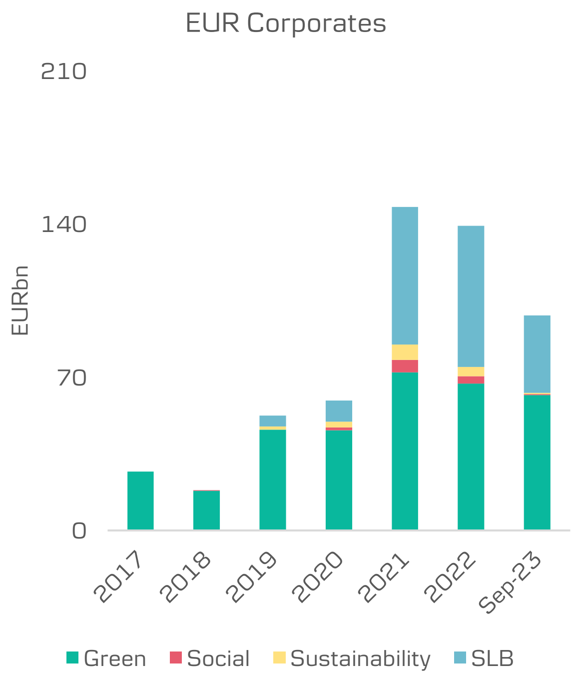
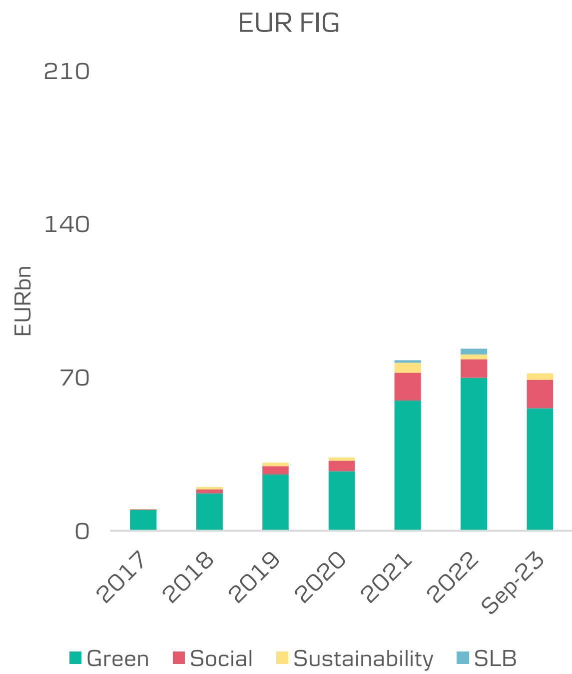
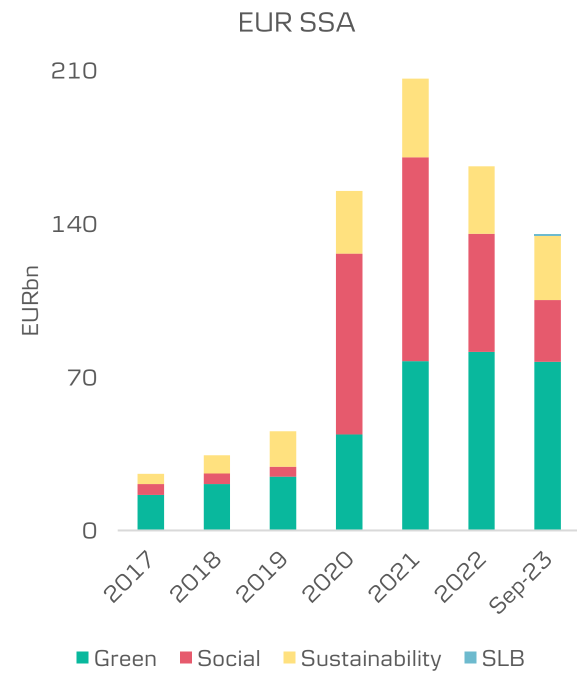
Sustainable bond issuance in EUR currency by corporates, FIG, and SSA issuers







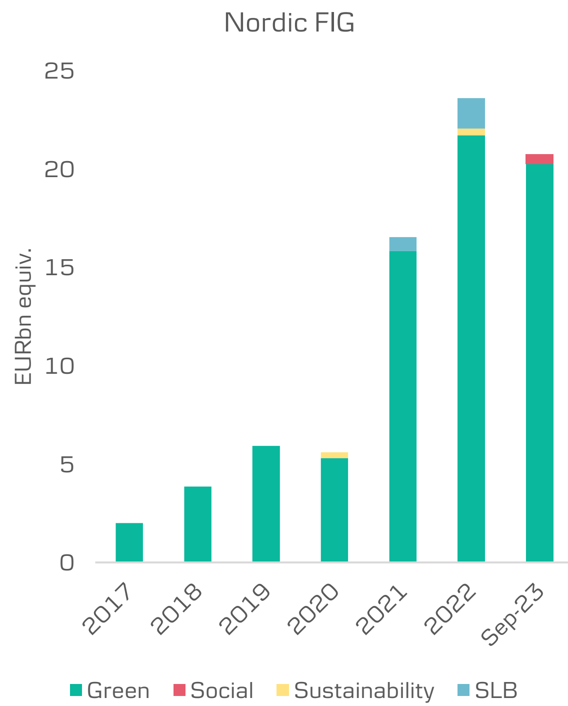
	2017	2018	2019	2020	2021	2022	Sept 2023
Green, %	100	98	88	77	49	48	↑ 63
Social, %	0	2	0	2	4	2	↓ 1
Sustai-nability, %	0	0	3	4	5	3	↓ 1
SLB, %	0	0	9	16	42	46	↓ 36

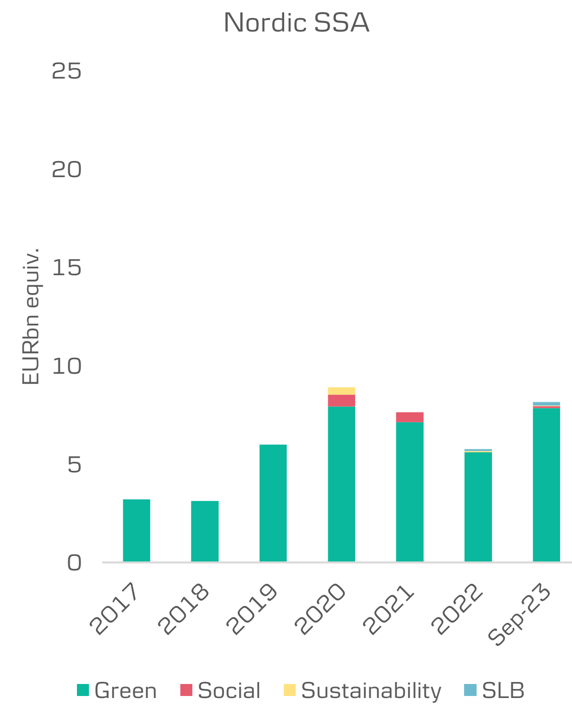
	2017	2018	2019	2020	2021	2022	Sept 2023
Green, %	96	85	83	81	76	84	↓ 78
Social, %	3	9	12	14	16	10	↑ 18
Sustai-nability, %	1	6	5	4	6	3	↑ 4
SLB, %	0	0	0	0	1	3	↓ 0

	2017	2018	2019	2020	2021	2022	Sept 2023
Green, %	63	62	54	28	37	49	↑ 57
Social, %	20	14	10	53	45	32	↓ 21
Sustai-nability, %	18	24	36	19	17	19	↑ 22
SLB, %	0	0	0	0	0	0	↑ 1

Source: Bloomberg, Danske Bank

Sustainable bond issuance in the Nordics by corporates, FIG, and SSA issuers





	2017	2018	2019	2020	2021	2022	Sept 2023
Green, %	100	100	100	92	80	76	↓ 74
Social, %	0	0	0	6	8	4	↓ 0
Sustainability, %	0	0	0	2	1	3	↓ 0
SLB, %	0	0	0	0	11	17	↑ 26

	2017	2018	2019	2020	2021	2022	Sept 2023
Green, %	100	100	100	95	96	92	↑ 98
Social, %	0	0	0	0	0	0	↑ 2
Sustainability, %	0	0	0	5	0	1	↓ 0
SLB, %	0	0	0	0	4	7	↓ 0

	2017	2018	2019	2020	2021	2022	Sept 2023
Green, %	100	100	100	89	93	97	↓ 96
Social, %	0	0	0	7	7	0	↑ 1
Sustainability, %	0	0	0	4	0	1	⇨ 1
SLB, %	0	0	0	0	0	2	⇨ 2

Source: Bloomberg, Danske Bank

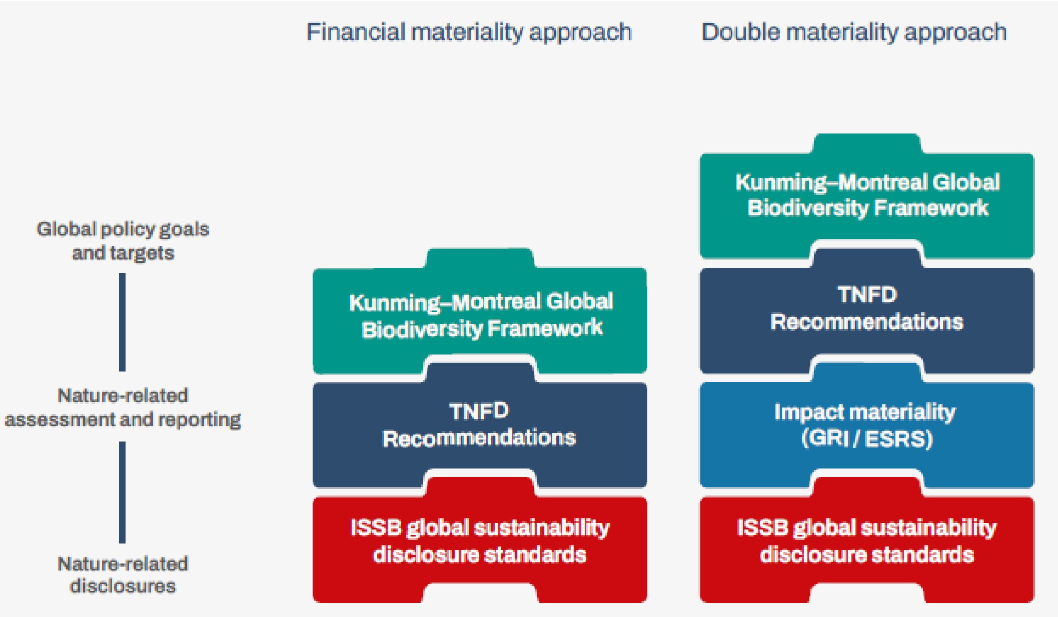
3. Biodiversity promoted with new financial disclosures

Biodiversity promoted with new financial disclosures

Task Force on Nature-related Financial Disclosures (TNFD) has presented a disclosure framework to assess nature-related issues

The TNFD recommendations are structured to allow companies and financial institutions to get started

Governance	Strategy	Risk & impact management	Metrics & targets
Disclose the organisation's governance of nature-related dependencies, impacts, risks and opportunities.	Disclose the effects of nature-related dependencies, impacts, risks and opportunities on the organisation's business model, strategy and financial planning where such information is material.	Describe the processes used by the organisation to identify, assess, prioritise and monitor nature-related dependencies, impacts, risks and opportunities.	Disclose the metrics and targets used to assess and manage material nature-related dependencies, impacts, risks and opportunities.

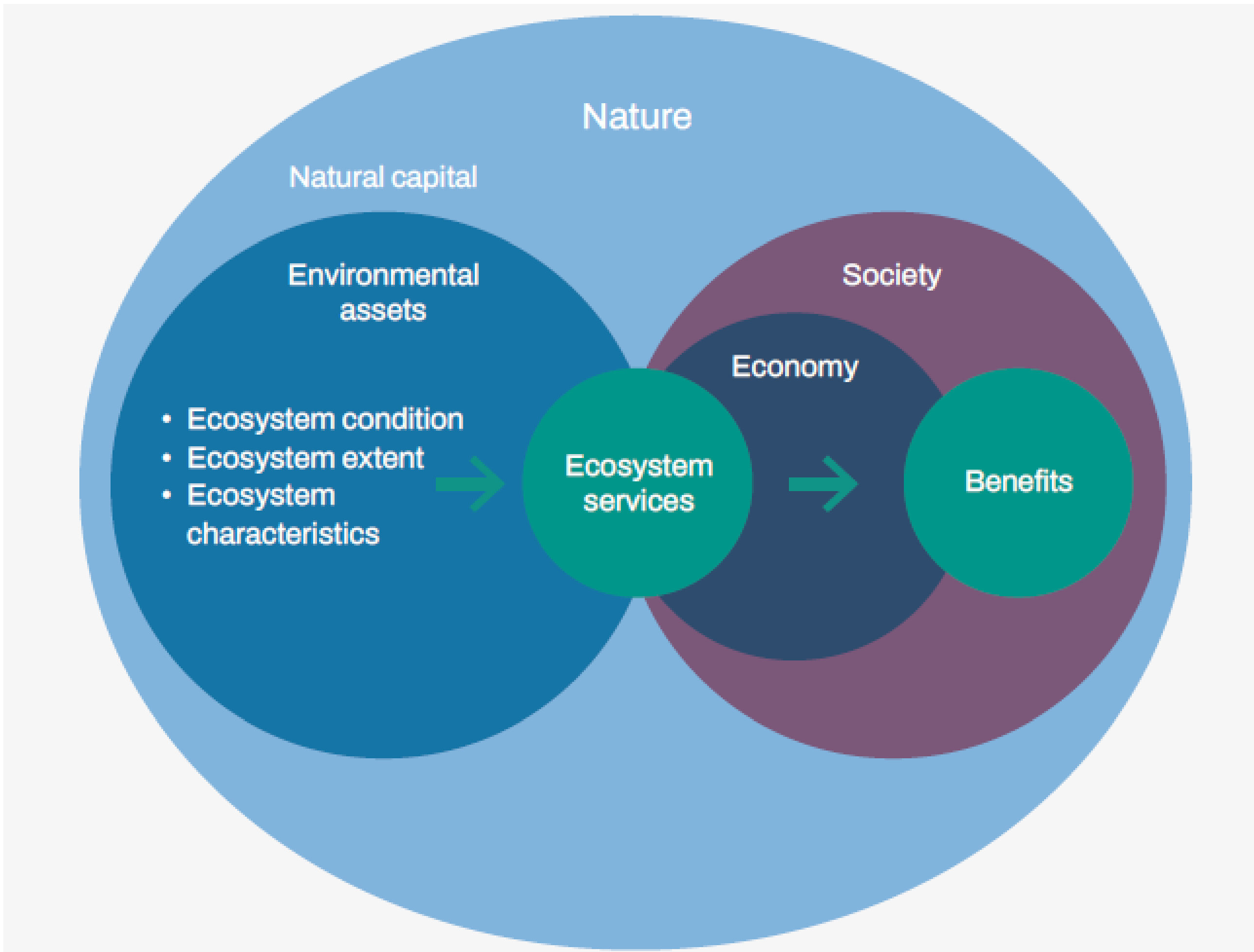


Source: Recommendations of the Taskforce on Nature-related Financial Disclosures, September 2023.

Nature, business, and society

Ecosystem services form the basis for understanding corporate dependence on nature capital

How nature, society, and the economy fit together

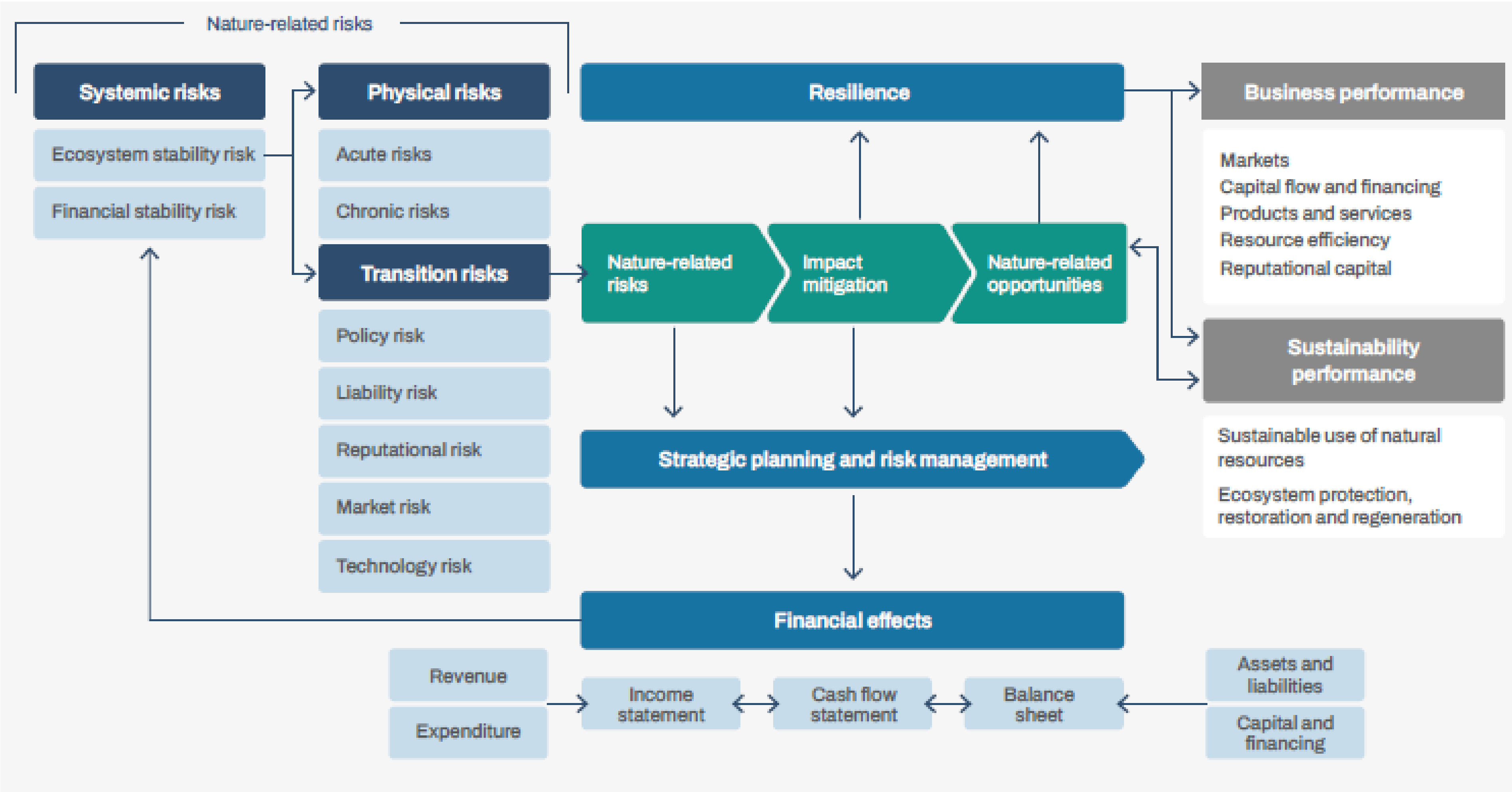


Source: Recommendations of the Taskforce on Nature-related Financial Disclosures, September 2023.

Financial effects

Nature-related risks and opportunities have financial effects for an organisation

Links between nature-related risks and opportunities, business performance, and financial effects for an organisation

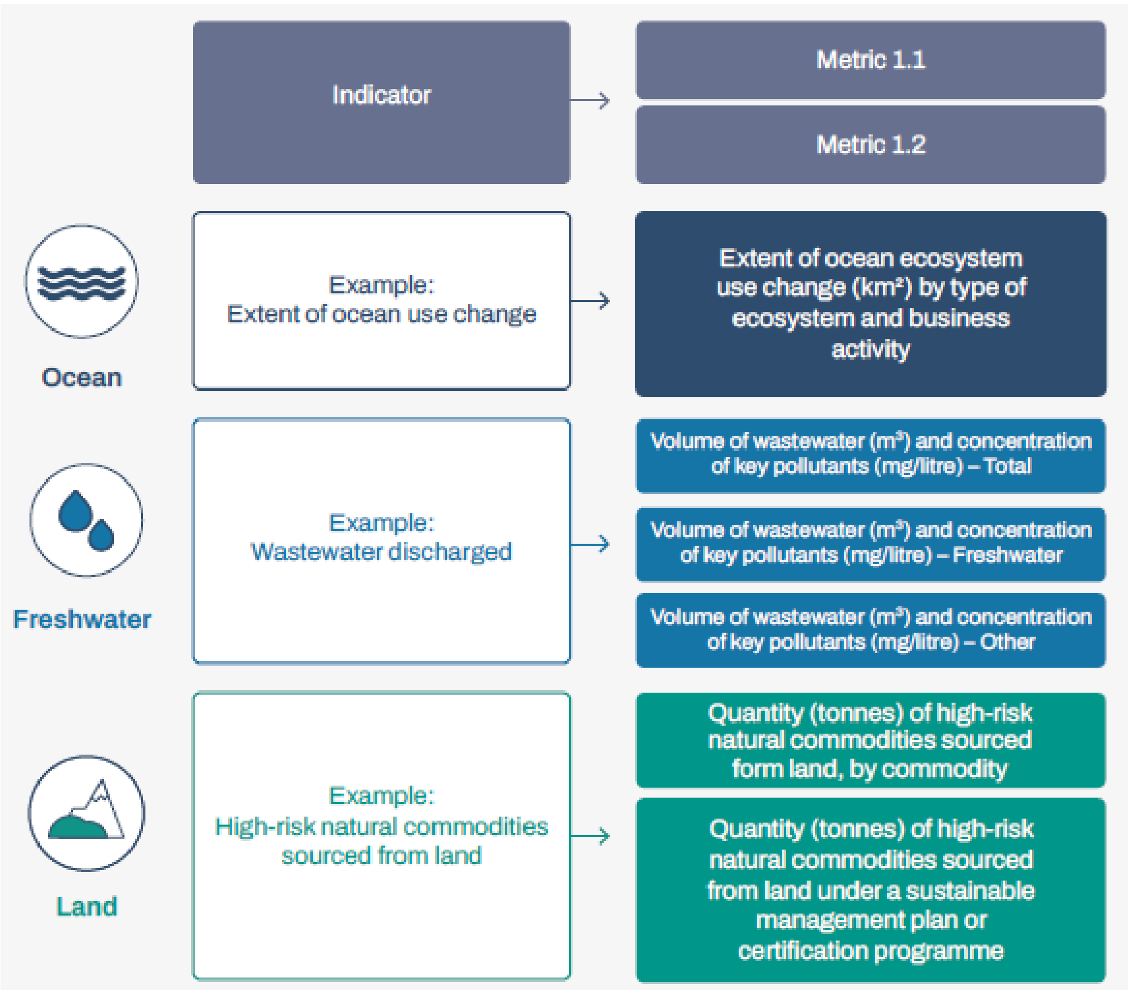


Source: Recommendations of the Taskforce on Nature-related Financial Disclosures, September 2023.

Definitions of indicators and metrics

Indicators and metrics can be measured for different parts of the value chain and for different parts of the organisation

Indicators and metrics in the TNFD



Source: Recommendations of the Taskforce on Nature-related Financial Disclosures, September 2023.

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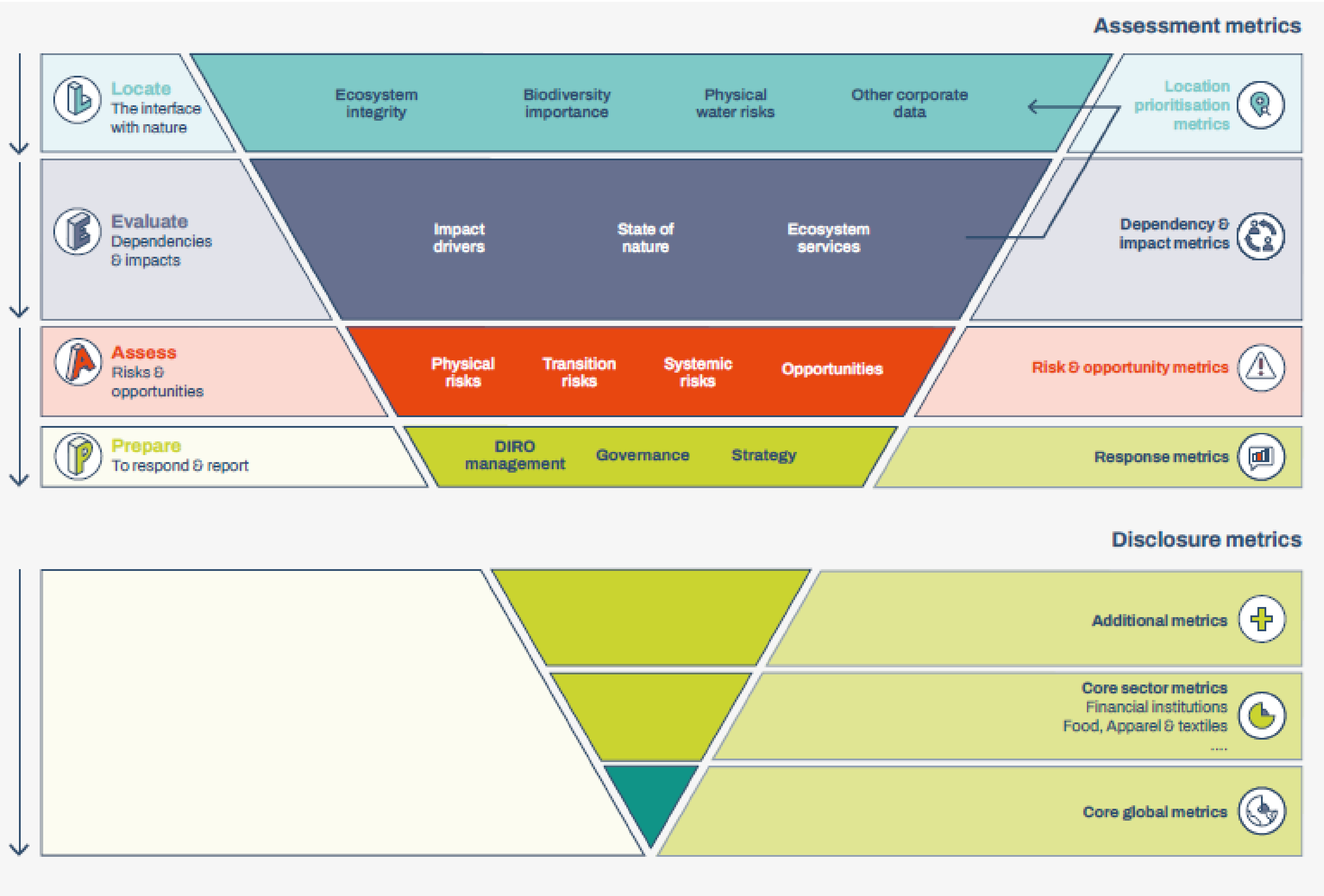
TNFD metrics architecture – a leading indicators approach

A small set of core metrics that apply to all sectors and a larger set of additional metrics which are recommended for disclosure

TNFD's metrics enable assessment and disclosure of positive and negative impacts

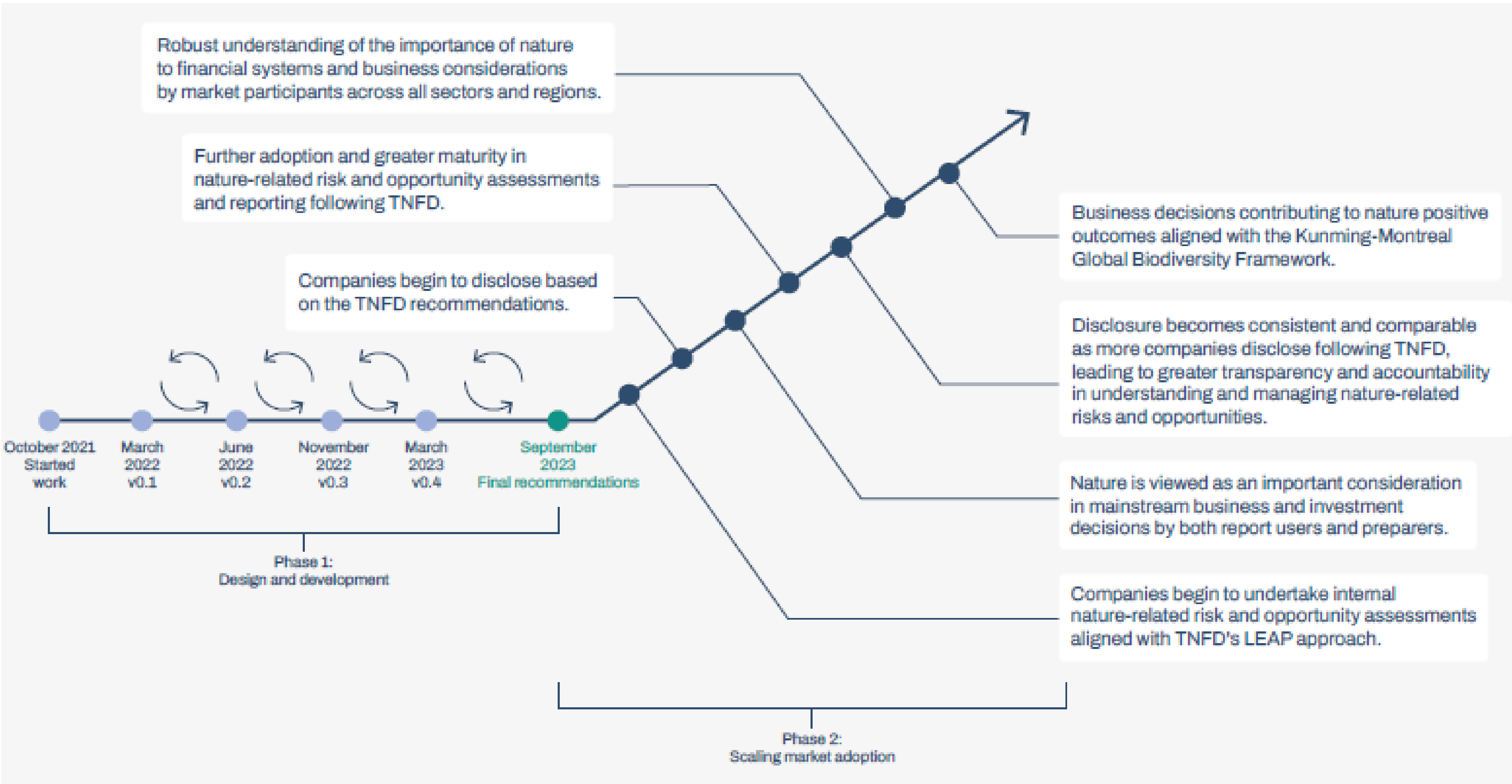


Source: Recommendations of the Taskforce on Nature-related Financial Disclosures, September 2023.

What's next for the TNFD?

*More than 86% of respondents said that they could start reporting TNFD disclosures for the financial year 2025**

Implementation path for adoption of TNFD recommendations



*Source: Recommendations of the Taskforce on Nature-related Financial Disclosures, September 2023. *Survey by TNFD Forum with some 239 respondents from 36 countries and 11 sectors*

4. Swedish Real Estate: Beyond Green 3.0

New ESG report on Swedish Real Estate

For the third time we present our view on ESG risks in the Swedish real estate sector – "Beyond green 3.0"

Some new features in the report
• Extended section on physical climate risks
• New section on the EU Taxonomy
• New section on the Energy Performance of Buildings Directive (EPBD)
• New section on the Corporate Sustainability Reporting Directive (CSRD)
• New tool for benchmarking of governance risk
• One-page ESG risk profile summary for each of the 16 companies under our coverage

Swedish Real Estate – our ESG risk indication per company

Summing up our three sub-factors gives us our overall ESG risk score by company

We assess the ESG risk as 'Low' for two companies, 'Medium' for 13 companies, and 'High' for one company

	ESG reporting	Environmental risk	Social risk	Governance risk	Overall ESG risk
Akelius	Good	Medium	Medium	Medium	Medium
Balder	Good	Medium	Low	Medium	Medium
Castellum	Excellent	Low	Low	Low	Low
Cibus Nordic Real Estate	Good	Medium	Low	Medium	Medium
Emilshus	Average	Medium	Low	Medium	Medium
Fastpartner	Good	Medium	Low	Medium	Medium
Heimstaden Bostad	Excellent	Low	Medium	Medium	Medium
Intea	Good	Medium	Medium	Medium	Medium
Nivika	Good	Medium	Low	Medium	Medium
NP3	Good	Medium	Low	Medium	Medium
Nyfosa	Good	Medium	Low	Medium	Medium
Sagax	Good	Medium	Low	Medium	Medium
SBB	Good	High	Medium	High	High
Stendörren	Good	Medium	Low	Medium	Medium
Titania	Good	Medium	Medium	Medium	Medium
Vasakronan	Excellent	Low	Low	Low	Low

Source: Danske Bank Credit Research

ESG reporting by company and our view on the reporting

Many companies have improved their ESG reporting in recent years – but still large discrepancies across our coverage universe

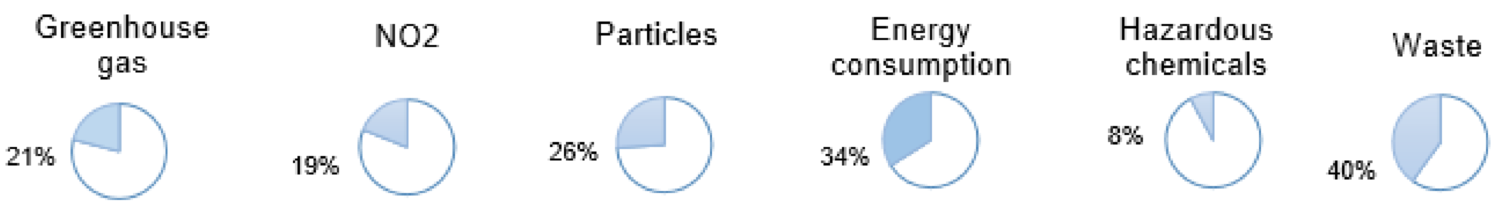
We have upgraded our view on ESG reporting from 'Average' to 'Good' for eight companies and from 'Good' to 'Excellent' for one company

	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/m²	0%	Yes but not science based	0%	Good
Balder	1, 2, 3	353GWh; 104kWh/m²	n.a.	Yes but not science based	3%	Good
Castellum	1, 2, 3	456GWh; 96kWh/m²	56%	Science-based targets	33%	Excellent
Cibus Nordic Real Estate	1, 2, 3	253GWh.; 232kWh/m²	15%	Yes but not science based*	14%	Good
Emilshus	n.a.	n.a.; 102kWh/m²	n.a.	-	n.a.	Average
Fastpartner	1, 2, 3	140GWh; 86kWh/m²	51%	Yes but not science based	n.a.	Good
Heimstaden Bostad	1, 2, 3	1,078GWh; 137kWh/m²	n.a.	Science based targets	16%	Excellent
Intea	1, 2	52GWh.; 142kWh/m²	n.a.	Yes but not science based	n.a.	Good
Nivika	1, 2	33GWh; 97kWh/m²	n.a.	-	n.a.	Good
NP3	1, 2	130GWh.; 154kWh/m²	2.5%	Yes but not science based	15%	Good
Nyfosa	1, 2, 3	281GWh; 111kWh/m²	29%	Yes but not science based	n.a.	Good
Sagax	1, 2, 3	230GWh; 157kWh/m²	8%	Yes but not science based	10%	Good
SBB	1, 2, 3	551GWh.; 122kWh/m²	10.4%	Science-based targets	n.a.	Good
Stendörren	1, 2, 3	45GWh; 89kWh/m²	42%	Yes but not science based	n.a.	Good
Titania	1, 2	3GWh; 129kWh/m²	n.a.	Yes but not science based	n.a.	Good
Vasakronan	1, 2, 3	216GWh; 75kWh/m²	93%	Science-based targets	n.a.	Excellent

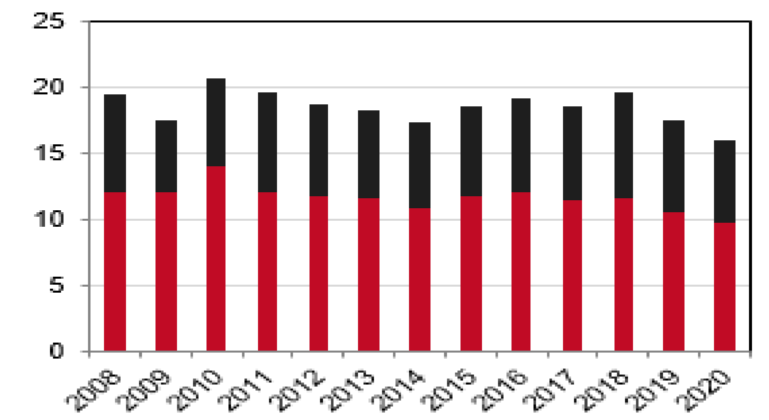
Source: Companies, Danske Bank Credit Research. Note: Figures for 2022. Differing degree of Scope 3 reporting between the different companies.

Environmental risk – environmental indicators and CO2 emissions

Swedish Real Estate environmental indicators 2020



CO_2 emissions from the building and property sector 2008-20



Key insights

- The real estate industry constitutes a major part of the economy and consequently has a major impact on the environment.
- In 2020 the Swedish building and property sector represented around 1/5 of total greenhouse gas emissions in Sweden. The sector also accounted for around 1/3 of total energy consumption.
- The new construction and renovation process generates a major portion of the greenhouse gas emissions from the sector.

Source: Swedish National Board of Housing, Building and Planning, Danske Bank Credit Research. Red: Production in Sweden. Blue: Imported goods and services.

Environmental risk – climate-related physical risks

Coastal countries of Sweden mostly affected by coastal erosion and flooding

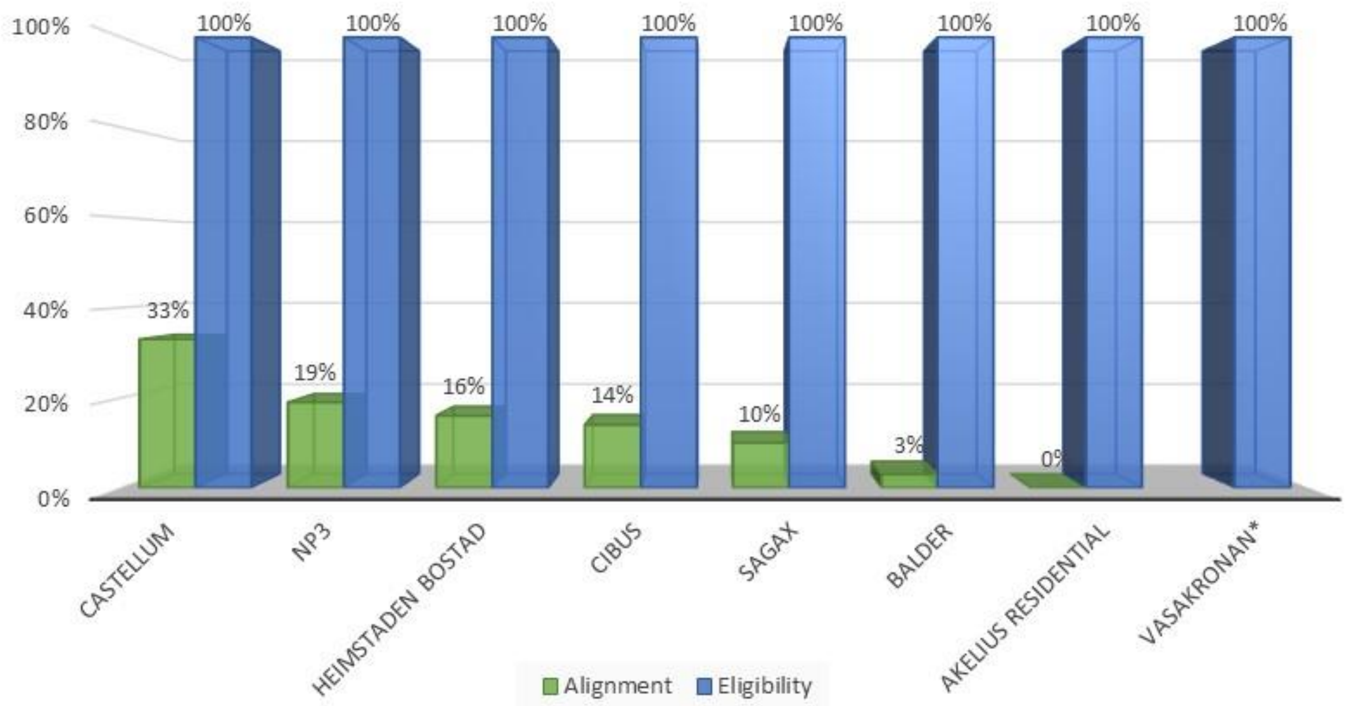
25 areas in Sweden with significant risk of flooding

Source: Statens Geotekniska Institut, MSB 2021. Swedish Civil Contingencies Agency (MSB).

EU Taxonomy alignment and eligibility in Swedish real estate

One positive aspect with the Taxonomy is the improved transparency in reporting

Alignment and eligibility with the EU Taxonomy as reported by a selection of Swedish real estate companies in their 2022 ARs



Source: Companies, Danske Bank Credit Research *Alignment not available for Vasakronan.

EPBD – the EU's project to upgrade European buildings

EPBD will provide a boost to energy renovation

EPBD's ambitions in a nutshell

- The ambition with EPBD is to at least triple the current renovation rate of existing buildings. Furthermore, it could become compulsory to renovate buildings in certain energy classes.
- According to the proposal from the EU Commission, the worst-performing 15% of the EU building stock should be upgraded from Energy Performance Certificate (EPC) label G to at least label F by 2030, with public and non-residential buildings leading the way by 2027. Residential buildings should be renovated from G to at least F by 2030 and to at least E by 2033.
- There is also a project to revise the EPC of buildings to make them coherent and equalize the task of improving the energy efficiency across states. The obligation to have an EPC could be extended, including buildings or building units which are offered for sale or rent.
- National building renovation plans should be fully integrated into national energy and climate plans to ensure comparability and tracking of progress. Roadmaps for phasing out fossil fuels in heating and cooling are to be included.
- Member states are invited to include renovation considerations in public and private financing rules and to establish appropriate instruments, especially for low-income households. The EPBD could also lead to regulation that could constrain lending to less energy-efficient properties, for example via proposed mortgage portfolio standards. In turn, this could have an impact on property values.

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

Sweden suggests revising its Energy Performance Certificate (EPC) distribution

The idea is to harmonise the EPCs in Sweden with those in other European countries ahead of forthcoming regulatory changes

The summary of the proposal presented by the Swedish National Board of Housing

- If the EPBD imposes energy performance requirements on existing buildings that are based on the member states' EPCs upon the directive's entry into force, the Swedish Board of Housing proposes that the Swedish EPC scale is changed so that:

  - Class A corresponds to or is better than the highest allowed energy performance figures when constructing new buildings.

  - The current Class G remains unchanged – i.e. includes the same proportion of buildings as currently.

  - The intervals for Class B to F is divided with an even bandwidth in between them.
- The reason for making these changes is that the potential forthcoming change in EPC requirements could lead to Sweden receiving more far-reaching requirements to implement energy efficiency measures compared with many other EU countries. Sweden has an EPC scale which on a relative basis gives a higher proportion of buildings in energy classes D, E, and F. With the suggested proposal, Sweden will get an EPC classification that is more consistent with that in other EU countries.
- One consequence of the proposal is that it would considerably increase the number of properties that can be classified as green under the EU Taxonomy, up to 39% of classified objects.
- Due to the expansion of the eligible green asset pool, this could in turn mean that Swedish banks and real estate companies over time would be able to issue larger volumes of green bonds.

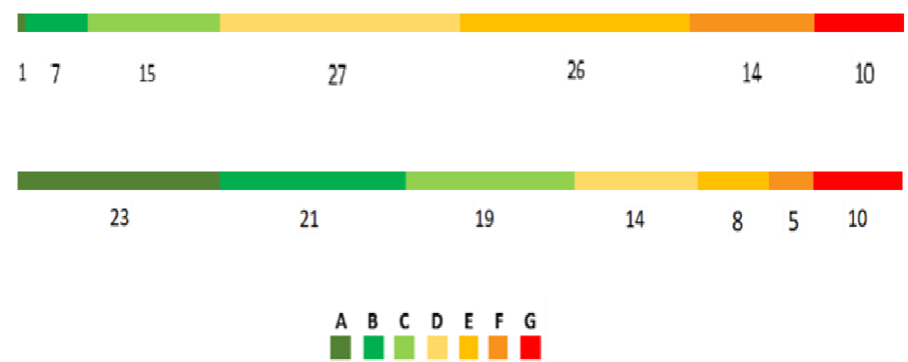
Source: The Swedish National Board of Housing, September 2023 and Danske Bank Credit Research.

Sweden suggests revising its Energy Performance Certificate (EPC) distribution

The idea is to harmonise the EPCs in Sweden with those in other European countries ahead of forthcoming regulatory changes

Label distribution in issued EPCs per country (all EPCs issued until June 2023)

Current EPC distribution in Sweden (above) vs. suggested new distribution (below)

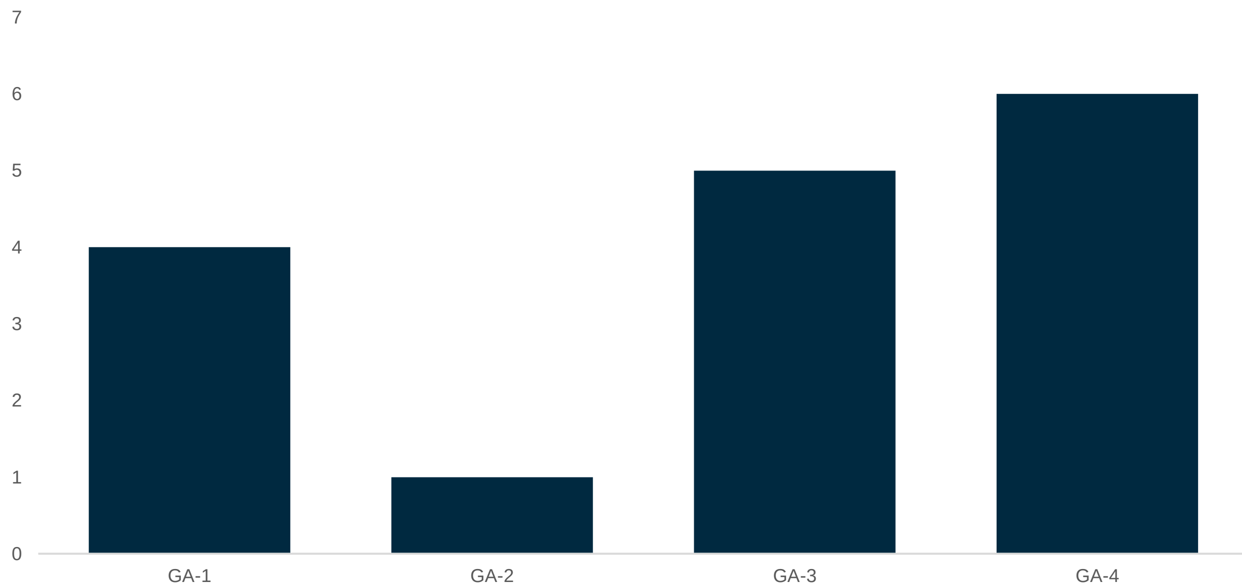


Source: Buildings Performance Institute Europe (BPIE), Swedish National Board of Housing, RISE.

We present an analytical tool to assess governance risk

Our tool is based on four main governance-related areas

Distribution of number of companies per governance rating level from GA-1 (strongest) to GA-4 (weakest)



Source: Danske Bank Credit Research

Our view in a nutshell

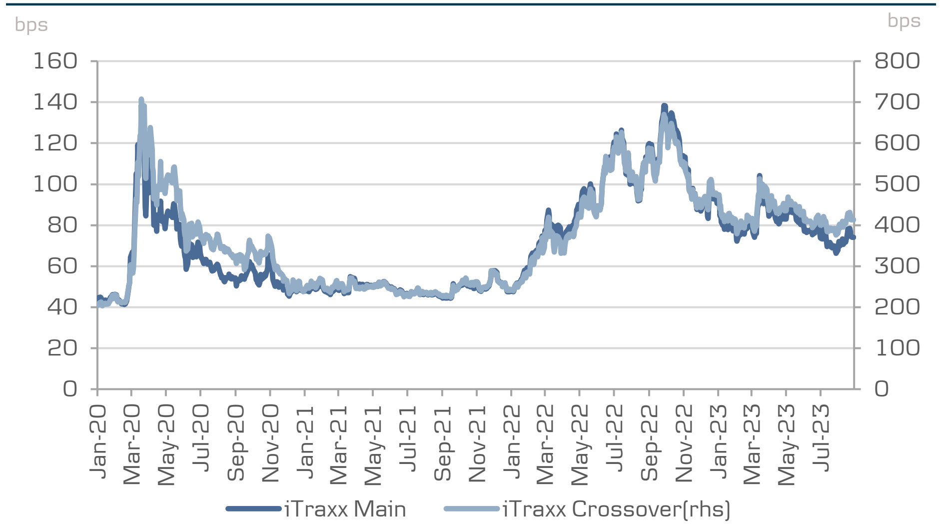
Credit spreads are attractive for those companies that we believe are likely to be successful in their mitigating actions

Key market drivers

- Looking ahead, we expect real-estate companies' financial metrics to deteriorate further as higher financing costs bite and property values decline.

- We expect 2023 to be a year of consolidation in the sector as companies embark on mitigating actions to stabilise their credit profiles and reduce leverage. For those that we believe are likely to be successful, we regard current spreads as attractive.

EUR credit spread

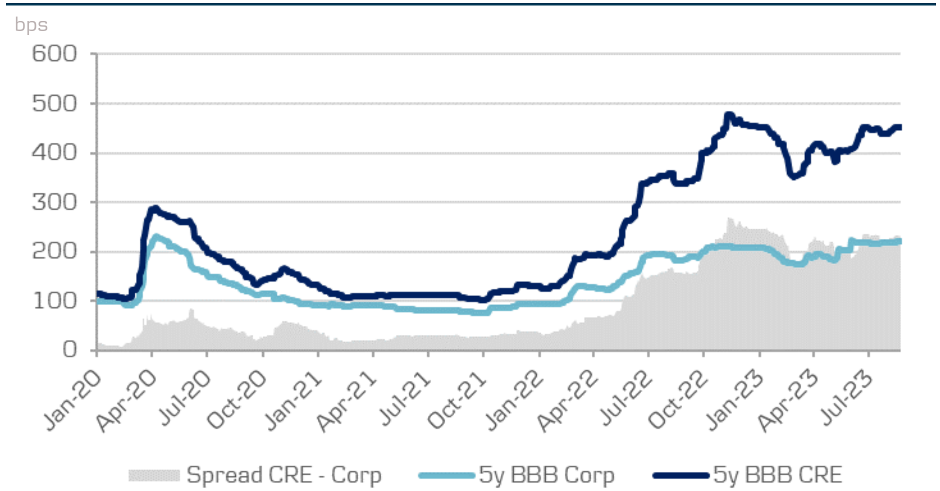


Investment ideas

- For investors seeking exposure to the industry there are various alternatives. **Castellum's**, and **Vasakronan's** overall ESG-related disclosures follow best practice, with ambitious and science-based long-term emission reduction targets. **Heimstaden Bostad** has established a green bond framework that is aligned with the EU Taxonomy. **Titania** has established a new sustainability finance framework that offers possibility to invest in and transform socially challenged residential areas.

- In terms of relative value, we prefer the following names in the sector – **Balder, Castellum, Cibus Nordic Real Estate, Emilshus, Fastpartner,** and **NP3**.

Generic corporate SEK spreads 5-year tenors



Source: Bloomberg, Danske Bank Credit Research

Danske Bank Credit Research team

Jakob Magnussen, CFA
Global Head & Utilities
+45 45 12 85 03
jakja@danskebank.com

Brian Børsting
Industrials
+45 45 12 85 19
brbr@danskebank.com

Rasmus Justesen
Credit Portfolios
+45 45 12 80 47
rjus@danskebank.com

Mads Rosendal
TMT, Industrials
+45 45 12 85 08
madros@danskebank.com

Sverre Holbek, CFA
Financials
+45 45 14 88 82
holb@danskebank.com

Mark Thybo Naur
Financials & Strategy
+45 45 12 85 19
mnau@danskebank.com

Olli Antero Eloranta
Industrials & Real Estate
+358 10 5468479
oelo@danskebank.com

Mille Opdahl Fjeldstad
Industrials
+47 85 40 77 27
mifj@danskebank.com

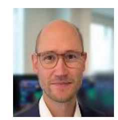
Benedicte Tolaas
Norwegian HY
+47 85 40 69 13
beto@danskebank.com

Marko Radman
Credit Portfolios
+47 85 40 54 31
mradm@danskebank.com

Linnea Sehlberg
Industrials
+46 8 568 80547
sehl@danskebank.com

Louis Landeman
Industrials & Real Estate
+46 8 568 80524
llan@danskebank.com

Christian Svanfeldt, CFA
Real Estate & Industrials
+46 7 072 16315
chrsv@danskebank.com



Marcus Gustavsson
Real Estate
+46 76 721 61 30
marcg@danskebank.com

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