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Sustainable Finance News Wrap-Up

- **In focus:** *With American military support for Ukraine and even Europe appearing at risk, ramping up arms and defence spending has become a matter of immediate priority in the EU. Accordingly, the ReARM EU plan seeks to unlock EUR800 billion in public spending for defence and rearmament purposes, but with EU government debt at more than 80% of GDP, private capital has a key role to play in shouldering the long-term investment burden. Investors historically have typically taken a cautious approach to investing in the arms and defence space, with either strict spending limits or blanket exclusions. This appears to now be changing as strengthened defence is increasingly seen as vital to protecting society, while also being a significant investment opportunity. For banks, an evolution from stringent restrictions to an emphasis on non-lethal dual use equipment with an increasing ratio of military vis-à-vis civilian application also looks likely. The European Investment Bank's planned rule changes appear set to lead the way in this regard. So-called defence adjacent sectors could also be key opportunities for banks, and investors generally, as the defence spending spree takes hold.*
 - **In briefs:**
 - *Northvolt files for bankruptcy.*
 - *Half of business leaders thinks sustainability leads to reduced costs and growth in sales.*
 - *Nearly a tenth of global climate finance threatened by Trump aid cuts, according to Carbon Brief analysis.*
 - *NZBA calls vote on whether to ditch pledge on limiting warming to 1.5C, Financial Times reports.*
 - *Taxonomy-aligned capital expenditure (CapEx) rose significantly over 2023.*
 - **Nordic sustainable bond market update:** *We give you our summary of the Nordic sustainable bond market over the last three weeks.*
 - *Real estate issuers have contributed over 50% of the total Nordic corporate sustainable bond market issuance activity so far this year.*
 - *Neste issues EUR 700m green bond with the aim to increase renewable products production capacity.*
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In focus: Surging arms and defence spending to trigger investor and bank policy recalibrations

The last weeks have been a whirlwind in international politics. Heating up trade wars, deep cuts to international aid, the ESG backlash and new global warming records have frequented the news agenda. However, nothing has caught the attention of Europeans more than the dawning realisation that its age-old ally the US' security guarantee may be less carved in stone than what has thought to be the case. With long-term American support for Ukraine also seemingly at risk, the EU is scrambling to ramp up its defence capacity and ability to supply itself with the arms and technologies it needs. This appears key not only to bolster Ukraine, but also to deter Russia from making further inroads in Europe in the future.

Ramping up public arms and defence spending an immediate EU priority

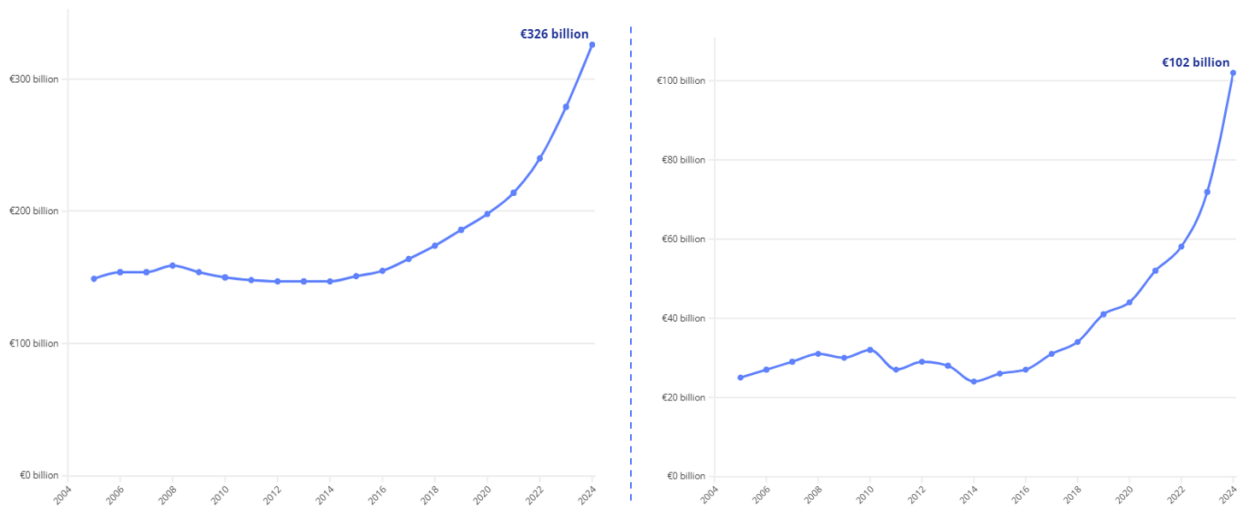
The EU Competitiveness Compass communication from January, which sets the strategic direction for the European Commission over the coming five years, has security and the reduction of dependencies as a key pillar for action (see our newsletter for February). This includes reducing trade dependencies, with defence being a key focus, but also the sourcing of critical raw materials, medicines and clean technology. Naturally, the political rollercoaster from Washington has quickly put defence as a matter of particularly urgent priority.

Accordingly, EC President Von Der Leyen released a press statement on the EU defence package on March 4th where she noted that "Europe needs to be in charge of its own deterrence and defence". To this end, the so-called ReArm Europe plan is intended to be an immediate response that aims to unlock EUR800 billion in public spending for defence and re-armament purposes, supported mainly through a more flexible approach to the EU's debt and deficit limits (see graph below for current spending). The plan built on five pillars:

1. **Enabling member state spending.** By allowing member states with fiscal space to significantly ramp up defence expenditures without triggering the excessive deficit procedure under the EU Stability and Growth pact. This will be enabled through the activation of the so-called national escape clause which references "exceptional circumstances".
2. **To establish a new joint loan instrument for member states.** With the aim of providing EUR150bn of loans for joint procurement of European-made defence equipment to strengthen pan-European capabilities in areas such as air and missile defence, artillery, missiles, ammunition, drones and so on. There are also ongoing discussions about bypassing the EU Parliament to fast-track its approval.
3. **Re-purpose cohesion funding to defence.** Which would enable a re-direction of funding that seek to strengthen economic, social and territorial cohesion of relatively poorer EU member states.

4. **Unlock European Investment Bank funding.** To ensure that the EIB can take a stronger role in funding non-lethal defence products and applications (for more details see below).
5. **Mobilise private capital through a Savings and Investments Union.** To ensure that billions of euros in European savings is invested in Europe, as opposed to abroad.

EU Defence expenditure (left) and defence investment (right) over 2005-2024



Source: European Defence Agency

A very big chunk of ReArm Europe is about unlocking public spending for arms and defence purposes. Arms manufacturers are dependent on long-term revenue visibility or quick return on investments to shoulder large investments into new capacity. In many cases, payment is even provided upfront, bypassing the need for financing with interest altogether. In any case, this will depend on public spending into government contracts and offtake on behalf of militaries – which will be the purchasers of lethal equipment.

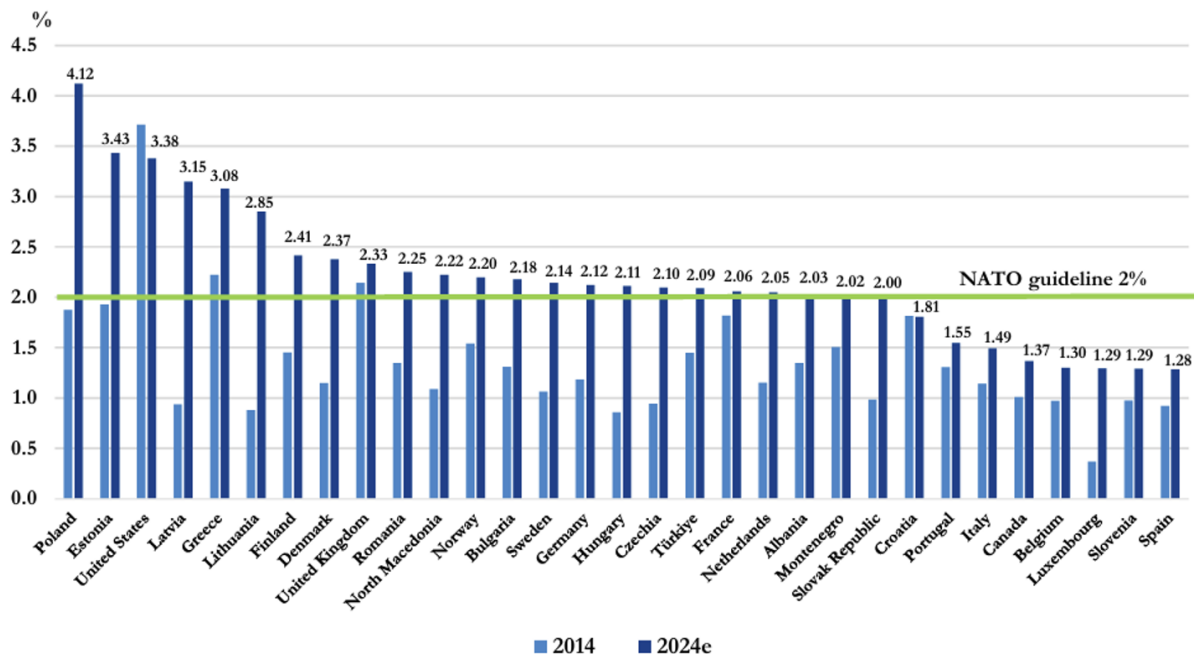
As such, even traditionally fiscally conservative Germany is aiming to unleash public funding and more or less dismantle its so-called 'debt-brake'. The goal is to unlock EUR1 trillion for public spending – of which EUR400 billion will be earmarked for defence spending. Highlighting the shifting sentiment, this week German arms manufacturer Rheinmetall offered to buy and repurpose Volkswagen's Osnabrueck plant for defence production, while also surpassing the auto manufacturer's valuation.

Private funding to be key to shoulder the investment burden

That said, not all member states are in Germany's fiscal position. As of Q3 2024, EU government debt stood at 81.6% of GDP, while over 2023 the government deficit to GDP was 3.5%. Hence, while loosening borrowing and deficit restrictions will help unlock public spending, one might also wonder how the EU can achieve all its

objectives for defence and beyond without overstressing public borrowing. Draghi in his competitiveness report highlighted that the EU would need an investment-to-GDP rate of 5% to deliver on competitiveness, defence and decarbonisation objectives. 5% is a rate Donald Trump has argued should be the Nato member defence spending rate alone.

NATO countries expenditure as a share of GDP [%]*



*Based on 2015 prices and exchange rates. e=estimate. Source: Nato

In any case, it appears clear that mobilising private capital in the defence spending ramp-up will be key to soften the public funding blow – especially for non-lethal products and applications – while also ensuring there is money for other policy objectives. While the actual purchase of much of the armaments and hardware will be undertaken by militaries, investors can help finance public spending by investing in government bonds. These could perhaps even be labelled as defence bonds earmarked for arms and defence spending, similarly to how green bonds are earmarked for green activities. Private capital can also help finance the establishment of production infrastructure as well, in expectation of future government contracts. That all said, a significant commitment from private capital is dependent on long-term policy visibility that governments are willing to support the defence sector over the long-haul.

The investor lens: Ongoing ESG recalibration to unlock defence opportunities

Spending in defence is set to surge, but historically investors have taken a cautious approach to the sector. Many investors have operated with strict arms and defence limits. Policies limits have often centred on restricting companies with more than 5% revenue from arms and defence-related activities, and strict exclusions with regards

to nuclear weapons and controversial weapons. ESG fund managers have in many cases had blanket exclusions to ensure their investments “do no significant harm”, also making companies with large civilian commercial arms – such as Rolls Royce – off limits.

It now appears that asset managers are increasingly reconsidering their policies to help Europe re-arm and capitalise on the significant opportunities set to materialise as a result (see table below). According to Reuters, some of Europe’s largest funds are in the process of reviewing their sustainability policies at the board level with this in mind – while UBS and Allianz are in the process of reviewing defence sector exclusions. Further, Mercer – a leading pension fund consultant – also noted that asset manager’s clients are increasingly asking asset managers to include defence in portfolios, also those with sustainability aims. This is likely due to the combination of the argument that defence is seen as imperative to protecting society, while also a significant investment opportunity.

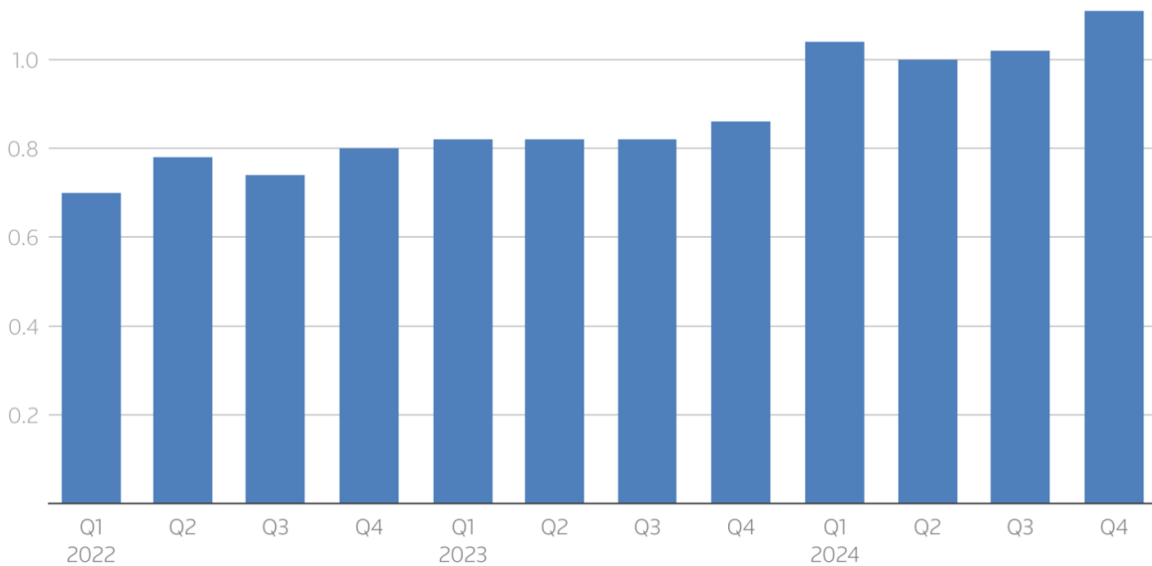
Leading European defence companies* vs US magnificent seven and stock indices

	YTD*	1 year	3 years	5 year
US Magnificent 7	-8 %	21 %	66 %	227 %
European Defence 7*	46 %	65 %	245 %	268 %
GRANOLAS	12 %	8 %	32 %	58 %
S&P 500	-2 %	13 %	39 %	99 %
STOXX 600	9 %	11 %	31 %	50 %

**Includes BAE, Rolls-Royce, Rheinmetall, Thales, Dassault Aviation, Safran, and Leonardo and is as of 5 March. US Magnificent seven = Apple, Microsoft, Amazon, Alphabet, Meta, Nvidia, and Tesla. GRANOLAS = GSK, Roche, ASML, Nestlé, Novartis, Novo Nordisk, L'Oréal, LVMH, AstraZeneca, SAP, and Sanofi. Source: E-Toro based on Refinitiv data.*

It is already clear that European funds are already incorporating more defence stocks into their portfolios – with the average weighting to aerospace to defence stocks increasing from 0.7% in Q1 2022 to 1.1% in Q4 2024 (see graph below). While this is a trend that is set to continue, it might take time for some investors to establish what they would consider a fit for purpose defence policy. Historically, investors have been concerned over the challenges of overlaps between conventional and controversial weapons, and with weapons ending up in controversial countries.

European funds' average weighting to aerospace and defence stocks



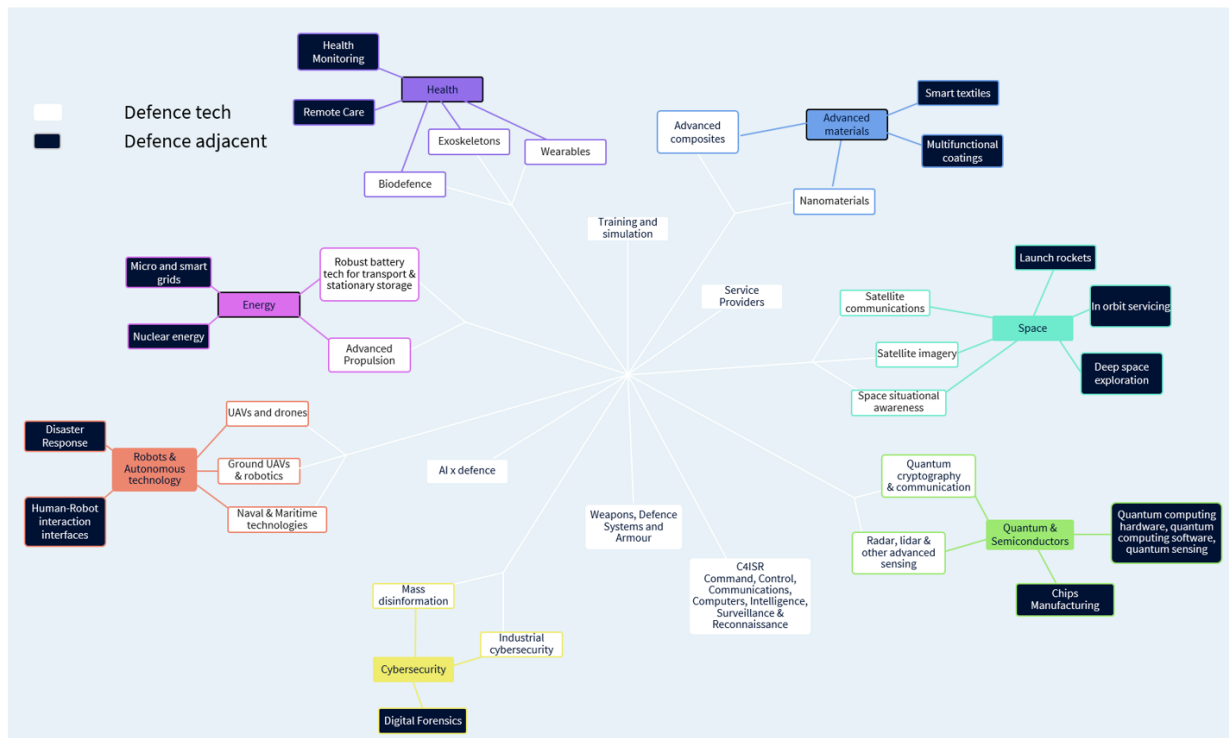
Source: Reuters based on Morningstar data. Data includes open-end equity funds and ETFs domiciled in Europe.

The bank lens: EIB leading the charge with defence adjacent sectors coming to spotlight

While the ReArm Europe plan was unveiled, the European Investment Bank (EIB) sent a letter to its shareholders indicating a major defence-related policy change of its own. The EIB proposes to allow investments into non-lethal defence products with a degree of civilian use, to be able to provide unlimited defence industry loans to member states wanting it, and for taking measures to motivate commercial banks to lend to the defence industry. This follows the EIB last year having for the first time allowed investments into dual-use products as long as they had a plausible civilian application, and provided they were non-lethal. Reportedly, the prospective EIB revision of excluded activities could also see purely military equipment being in play for the first time.

The EIB policy change is also intended to send a signal to commercial banks to take a similar approach to arms and defence policies. Last year, the Nordic Investment Bank revised the bank's exclusion list to allow dual use equipment and projects with military and civilian application, also including facilities, services, technology and other defence equipment – but excluding weapons and ammunition. Looking ahead, it seems likely that an emphasis on non-lethal products could be a guiding principle for banks, with dual-use acceptance likely to increase. It seems likely that there will be variations in civilian to military use ratios criteria.

Defence tech overview: About more than weapons and ammunition



Source: Danske Bank based on Dealroom.co

The concepts of dual-use and defence-adjacent tech will be key for banks going forward. For example, surveillance and satellite intelligence have key civilian and military applications. Increased European capacity in this segment is likely to be a key objective, exacerbated by the temporary withdrawal of US intelligence for Ukraine. Scaling up value chains surrounding the defence industry, such as financing suppliers of dual-use technology and raw materials are likely other key roles for banks going forward as Europe seeks to strengthen its arms and defence capacity.

In brief:

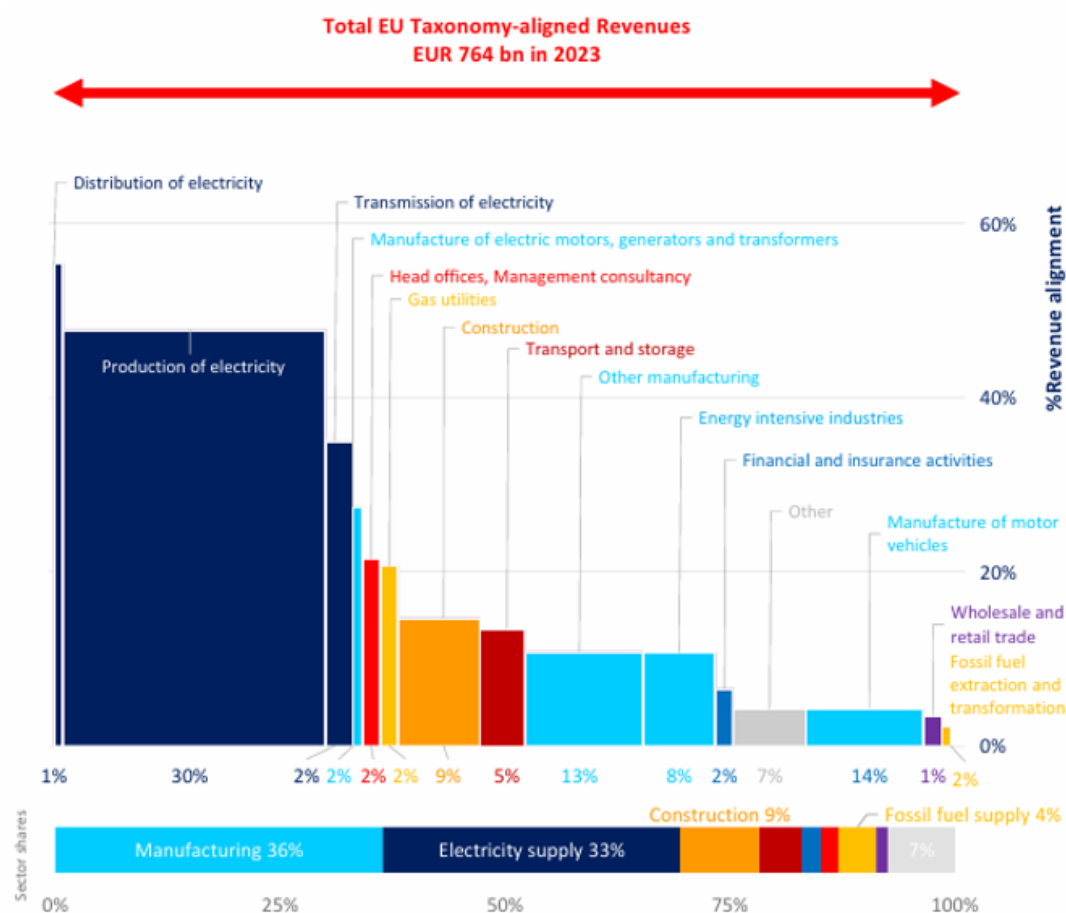
- Northvolt files for bankruptcy.** After filing a chapter 11 last year, the company has filed for bankruptcy in Sweden. Northvolt was founded in 2016 with the goal of developing green batteries with a minimal carbon footprint, sustainable sourcing of materials and recycling. Reported to have raised \$14 billion in capital to build a battery gigafactory and battery recycling facility in northern Sweden, means it qualifies as one of the largest bankruptcy filings in Sweden's modern history."
- Half of business leaders thinks sustainability leads to reduced costs and growth in sales.** The Sustainability Value Triangle survey found that two thirds of respondents consider sustainability "very important" to their

companies' commercial success, up slightly from last year. About 6 in 10 think it is beneficial for employee attraction and retention, while about half report expectations for growing sales and reduced costs.

- **Nearly a tenth of global climate finance threatened by Trump aid cuts, according to Carbon Brief analysis.** Around USD11bn was spent on climate finance last year, likely amounting to more than 8% of all international climate finance in 2024. A similar amount would have been allocated by the US this year under a continuation of Joe Biden's plans. The new US government has since ceased a significant portion of funding to USAid - the government's overseas aid agency that provides about a third of US climate finance - as well as contributions to the international Green Climate Fund, and the Fund for Responding to Loss and Damage. This is expected to have a major impact on the ability of poor countries to cope with humanitarian disasters and financing climate adaptation and mitigation efforts.
- **Net-Zero Banking Alliance (NZBA) calls vote on whether to ditch pledge on limiting warming to 1.5C, Financial Times reports.** This can likely be seen as an effort to keep its remaining members following the exodus of many leading US banks. Several financial institutions that originally had set net-zero targets have since backtracked, arguing they cannot decarbonise their lending and dealbooks any faster than the wider economy. Under the new proposal, which is expected to soon be shared with members, the banks will reportedly vote on whether to commit to aligning their activities with the goal to keep warming "well below 2C", rather than the existing 1.5C pledge.
- **Taxonomy-aligned capital expenditure (CapEx) rose significantly over 2023.** The EU Platform on Sustainable Finance recently published a report introducing a new framework for monitoring capital flows to sustainable investments, primarily leveraging data from the EU Taxonomy, analysing 2,180 large listed European companies. The findings reveal that taxonomy aligned CapEx from large, listed, European firms reached EUR 250 billion in 2023, a 34% increase from 2022. Notably, electric utilities and grid operators account for a third of all Taxonomy-aligned CapEx, while 30% of car manufacturers' CapEx (EUR 41 billion) is Taxonomy-aligned. Between 2022 and 2023, Taxonomy-aligned revenues grew 25%, exceeding EUR 760 billion, three times the volume of Taxonomy-aligned CapEx reported by the same companies (see graph of the month below).

Graph of the month:

Percentage of Taxonomy-aligned Revenues by sector (horizontal axis); percentage of Taxonomy-alignment in each sector (vertical axis) 2023



Source: Platform on Sustainable Finance

Nordic sustainable bond market update

Issuance activity in the Nordic sustainable bond market was somewhat twofold during weeks 9-11. On week 9, when Nordic winter holidays were still partially on, we noticed only three sustainable bonds - of which two were taps - being priced in the market. On the contrary, weeks 10-11 have been quite active and issuance activity very corporate issuer driven. There is a natural reason for this, as March is a good time for many corporate issuers to get some of their funding activities done when the full year figures are out, and winter holidays are over.

Other things worth pointing out were that all the sustainable bonds were issued in green format and real estate issuers were well represented among the issuers. Indeed, 14 separate real estate issuers from Sweden, Finland and Norway utilised the Nordic sustainable bond market during weeks 9-11.

Looking at the bigger picture, real estate issuers have typically been the largest contributors in the Nordic sustainable bond market but struggled in the higher yield

environment in 2022-2023 and the issuance activity from the sector was significantly down. 2024 was already a better year for the sector and the start of 2025 has been even stronger. In the first two and half months of the year real estate issuers have contributed over 50% of the total Nordic corporate sustainable bond market activity in EUR equivalent terms. The share is even slightly higher than in 2020 and 2021 when real estate issuers contributed 44% and 48%, respectively.

Moving on to other deals, we notice that our dear competitor, SEB, issued a EUR 1.0bn Senior Non-Preferred green bond under its newly updated Green Bond Framework. The Framework includes ten wide ranging categories. S&P Global Ratings provided a Second Party Opinion (SPO) to the Framework and gave an overall shading of Medium Green which is the middle one in S&P's three-point shading scale ranging from light via medium to dark green. Under S&P's methodology, Medium green shading is given to activities that represent significant steps towards a low-carbon climate resilient future but will require further improvements to be long-term low-carbon climate resilient solution. Each green project category also received its own green shading ranging from light green given to green buildings to dark green shading given to both renewable energy and clean transportation categories.





Overall, SEB's new Green Bond Framework is very similar to the one it published in 2022, and we reckon that the primary motivation to update the framework was that the SPO given to the 2022 framework expired in January this year making further green bond issuance difficult. However, we spotted four additions under the project categories: Air transport where the aircrafts have zero direct tailpipe CO₂ emissions under clean transportation category, Modernisations and upgrade of existing 4G, 5G and 6G networks as well as Data centres under the energy efficiency category, and synthetic fuels produced with green hydrogen and in combination with non-fossil sources under renewable energy category.

Then going back to the corporate issuer side where Neste, a Finland-based, global producer of sustainable aviation fuel and renewable diesel, issued a EUR 700m green bond. The proceeds received from the bond are expected to be allocated to the Rotterdam refinery's expansion project to increase renewable products production capacity by 1.3 Mt per year to 2.7 Mt. This was Neste's first issuance under its March 2024 dated Green Finance Framework update which includes two green project categories: Eco-efficient and circular economy adapted products, production technologies and processes and Renewable energy. The first category includes investments in assets and projects related to refining waste, residues, and innovative raw materials into renewable fuels such as sustainable aviation fuels (SAFs) and renewable diesel, and renewable feedstocks (such as isoalkane oil, naphtha, and propane) for polymers and chemical production. In turn, the renewable energy category includes investments in assets and projects related to renewable energy production including supporting infrastructure, technologies, and solutions such as green hydrogen, and power-to-x. The Rotterdam refinery expansion project belongs to the Eco-efficient and circular economy adapted products, production technologies and processes project category.

Week 11

Date	Issuer	Country	Type	Volume (m)	Currency	Coupon (%)	Tenor	Industry group	Issuer type	
13-03	YIT OYJ	FI	GREEN	120	EUR	7.251	3.0	REAL ESTATE	CORPORATE	
13-03	ISLANDSBANKI	IS	GREEN	300	EUR	3.875	5.5	BANKS	FINANCIAL	
13-03	NESTE OYJ	FI	GREEN	500	EUR	3.750	5.0	OIL&GAS	CORPORATE	
12-03	SVSKA HANDELSFASTIGHETER	SE	GREEN	550	SEK	3.493	3.0	REAL ESTATE	CORPORATE	
12-03	NORDIC INVESTMENT BANK	SNAT	GREEN	750	EUR	2.875	7.0	MULTI-NATIONAL	SUPRANATIONAL/ GVT. AGENCY	
12-03	SKANDINAVISKA ENSKILDA	SE	GREEN	1000	EUR	3.375	5.0	BANKS	FINANCIAL	
11-03	AA ENERGI AS	NO	GREEN	750	NOK	4.970	8.0	ELECTRIC	CORPORATE	
11-03	AA ENERGI AS	NO	GREEN	750	NOK	4.952	7.0	ELECTRIC	CORPORATE	
11-03	PEAB FINANS AB	SE	GREEN	500	SEK	3.843	3.0	ENGINEERING&CONSTRUCTION	CORPORATE	
10-03	VASAKRONAN AB	SE	GREEN	130	SEK	3.370	5.0	REAL ESTATE	CORPORATE	
10-03	SAGAX AB	SE	GREEN	300	EUR	4.000	7.0	REAL ESTATE	CORPORATE	

Week 10

Date	Issuer	Country	Type	Volume (m)	Currency	Coupon (%)	Tenor	Industry group	Issuer type	
07-03	NP3 FASTIGHETER	SE	GREEN (Tap)	100	SEK	4.992	2.8	REAL ESTATE	CORPORATE	
07-03	HUMLEGARDEN FASTIGHETER	SE	GREEN	250	SEK	3.016	3.5	REAL ESTATE	CORPORATE	
07-03	HEBA FASTIGHETS AB	SE	GREEN	350	SEK	3.291	3.0	REAL ESTATE	CORPORATE	
07-03	SORMLANDS SPARBANK	SE	GREEN	500	SEK	3.091	3.0	BANKS	FINANCIAL	
07-03	VASAKRONAN AB	SE	GREEN (Tap)	900	SEK	3.050	2.0	REAL ESTATE	CORPORATE	
06-03	NORDIC INVESTMENT BANK	SNAT	GREEN	50	USD	5.420	20.0	MULTI-NATIONAL	SUPRANATIONAL/ GVT. AGENCY	
05-03	SPAREBANK 1 NORD NORGE	NO	GREEN	500	SEK	2.918	4.3	BANKS	FINANCIAL	
05-03	ATRIUM LJUNGBERG AB	SE	GREEN	1000	SEK	3.646	5.0	REAL ESTATE	CORPORATE	
05-03	ATRIUM LJUNGBERG AB	SE	GREEN	1300	SEK	3.296	3.0	REAL ESTATE	CORPORATE	
05-03	KOJAMO OYJ	FI	GREEN	500	EUR	3.875	7.0	REAL ESTATE	CORPORATE	
04-03	LOGISTEA AB	SE	GREEN (Tap)	250	SEK	5.306	3.0	REAL ESTATE	CORPORATE	
04-03	CASTELLUM AB	SE	GREEN	400	SEK	3.046	2.0	REAL ESTATE	CORPORATE	
04-03	CASTELLUM AB	SE	GREEN	400	SEK	3.650	5.0	REAL ESTATE	CORPORATE	
04-03	BANE NOR EIENDOM	NO	GREEN	750	NOK	5.290	5.3	REAL ESTATE	CORPORATE	
04-03	BANE NOR EIENDOM	NO	GREEN	750	NOK	4.650	7.0	REAL ESTATE	CORPORATE	
04-03	CASTELLUM AB	SE	GREEN	1300	SEK	3.646	5.0	REAL ESTATE	CORPORATE	
04-03	CASTELLUM AB	SE	GREEN	1900	SEK	3.296	3.0	REAL ESTATE	CORPORATE	
03-03	CATENA AB	SE	GREEN	500	SEK	3.295	3.0	REAL ESTATE	CORPORATE	
03-03	HAFSLUND AS	NO	GREEN	1000	NOK	4.760	10.0	ELECTRIC	CORPORATE	
03-03	KOMMUNALBANKEN AS	NO	GREEN (Tap)	100	EUR	2.875	4.1	SOVEREIGN	SUPRANATIONAL/ GVT. AGENCY	

Week 9

Date	Issuer	Country	Type	Volume (m)	Currency	Coupon (%)	Tenor	Industry group	Issuer type
27-02	PLATZER FAST HOLD AB	SE	GREEN	300	SEK	3.718	4.0	REAL ESTATE	CORPORATE
26-02	KOMMUNALBANKEN AS	NO	GREEN (Tap)	30	AUD	5.250	9.1	SOVEREIGN	SUPRANATIONAL/ GVT. AGENCY
25-02	KOMMUNALBANKEN AS	NO	GREEN (Tap)	100	EUR	2.625	6.7	SOVEREIGN	SUPRANATIONAL/ GVT. AGENCY

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