

This communication has been prepared for marketing purposes only, and not in accordance with legal requirements designed to promote the independence of investment research. The communication is therefore not subject to any prohibition on dealing ahead of the dissemination of investment research. Danske Bank A/S may have positions in financial instruments mentioned in the communication. The views and opinions expressed in the communication are solely those of the author(s) and do not necessarily reflect the views of Danske Bank A/S.



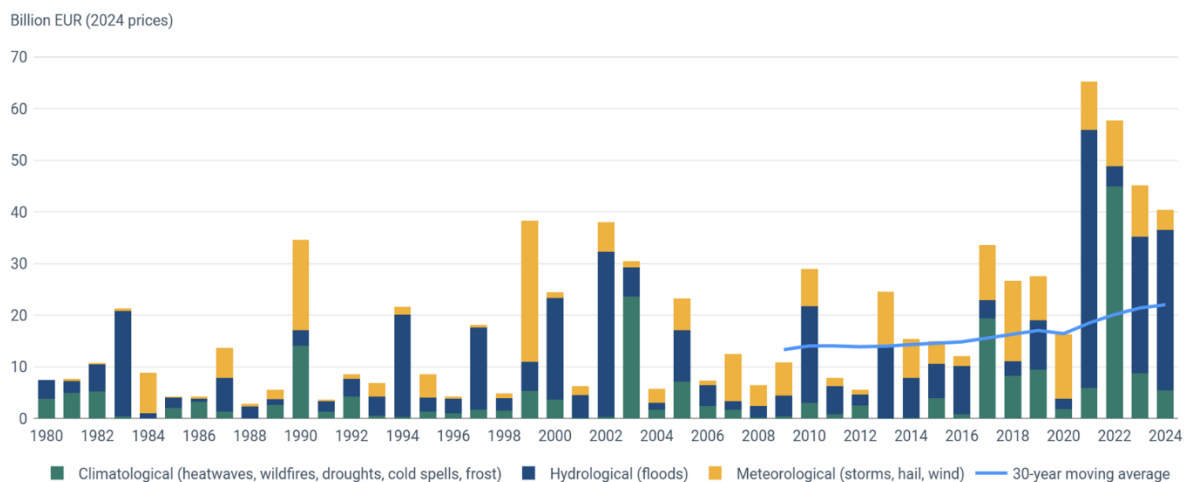
- ***In focus:*** *The prospect of an unprecedented super El Niño, following another summer of extreme heat, drought, wildfires and flooding in Europe, provides yet another timely warning that physical climate risk is becoming a recurring rather than exceptional source of economic disruption. Although El Niño may intensify weather extremes globally, Europe’s rapid warming is driven by broader structural factors, meaning that companies and governments face a more persistent exposure to damaged assets, disrupted supply chains and rising adaptation costs. Against this backdrop, banks and insurers are moving physical climate risk closer to the core of underwriting, credit and capital decisions, while Central Banks increasingly expect it to be managed like conventional financial risk. Yet incomplete asset data, uncertain adaptation capacity and a widening insurance protection gap continue to make physical climate risk difficult to quantify and price. In effect, the challenge is shifting from recognising physical climate risk to determining who ultimately absorbs it - and whether financial and public-sector resilience can keep pace with its growing frequency and severity.*
- ***Sustainable products update:***
 - *Sustainable Bonds Increasingly Finance Energy Security*
- ***In briefs:***
 - *ECB announced that it will extend the use of climate-related risk adjustments within its collateral framework to certain corporate loans pledged in Eurosystem refinancing operations.*
 - *Denmark has introduced emergency legislation to reform access to its increasingly constrained electricity grid.*
 - *Onshore windfarm applications in England have reached their highest level in a decade.*
 - *Extreme weather is featuring in a record share of European corporate earnings calls.*

In focus: Super El Niño foreshadows a future with elevated physical climate risk

In a world grappling with the risks associated with multiple conflicts, be they armed or economic, extreme weather is becoming a more permanent risk feature amid the ebb and flow of geopolitical confrontation. Europe is investing to become more resilient in the face of conflict by upping defence spending and expanding supply chains to reduce dependencies on countries like Russia, US and China. It seems, however, that finite finances will have to be spread further to prepare for and deal with the inevitable adverse impacts of extreme weather.

The warning signs of a warming climate have been many, the past 11 years have been the 11 warmest on record. Floods ravaged Spain in 2024 and Germany in 2021, and droughts and heatwaves have become a defining feature of summers in Southern Europe. According to the European Environment Agency, weather and climate-related events caused losses for EU members totalling EUR822bn between 1980 and 2024 – with 25% of the damage caused between 2020 and 2024.

Annual economic losses caused by weather-and climate-related extreme events in EU members



Source: European Environment Agency Protection

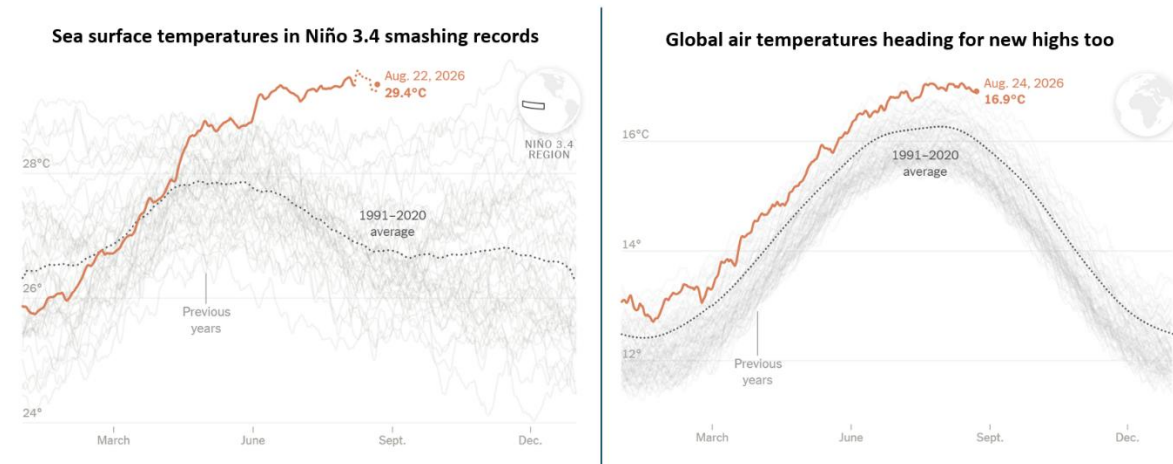
Super El Niño puts climate risk firmly on the agenda, yet again

2026 seems to offer particularly pertinent foreshadowing of how a warming climate will create recurring extreme weather events that hurt countries and companies. This is due to the formation of a super El Niño, the warm phase of a recurring climate pattern in the tropical pacific that releases ocean heat to the atmosphere due to east-to-west trade winds slackening. The result is that warm water surges towards South America. Occurring every 2-7 years, the weather event temporarily increases heating and affects and reshapes rainfall and extreme weather patterns globally.

What makes a super El Niño? The weather pattern and its sister – La Niña which leads to colder than normal water - occurs when water temperatures in the 3.4 Niño region of the tropical pacific are 0.5 degrees Celsius warmer or cooler than the normal (see graph below). The moderate (1°C), strong (1.5°C) and “super” or “very

strong” at 2 degrees warmer indicate the intensity of the event. Current forecasts project that this one could surpass 3 degrees in the end of 2026/beginning of 2027 – for the first time in recorded history – and may even top 3.6 degrees. Generally, it has estimated that the phenomenon’s intensity has increased by 40% over the last 40 years due to climate change, compared to pre-industrial benchmarks.

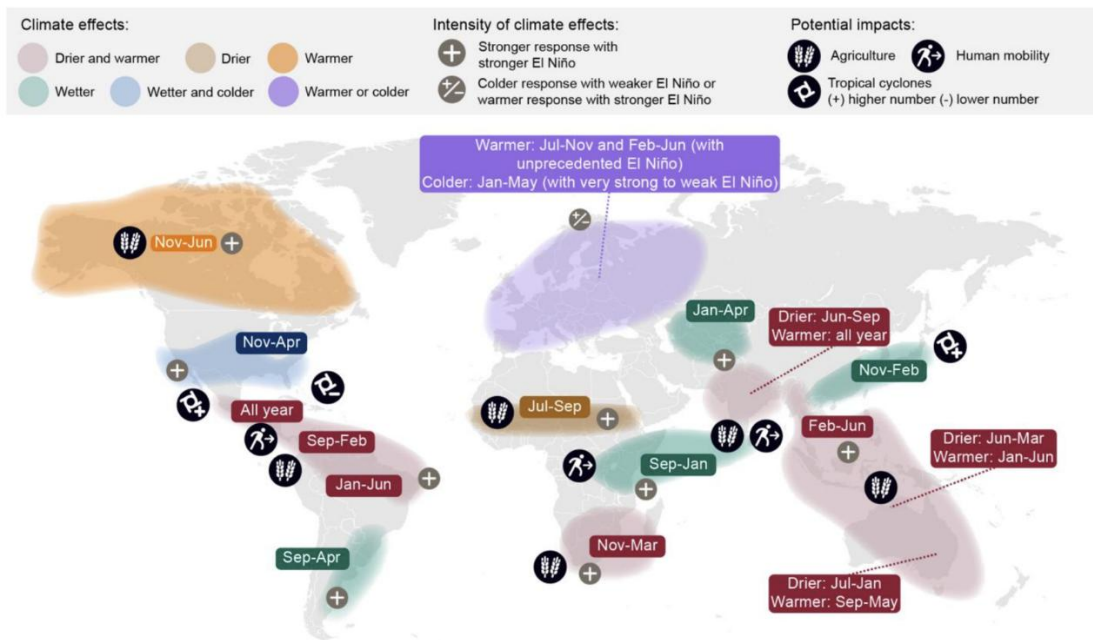
The super El Niño is set to break heating records



Source: New York Times

El Niño significance lies in how it shifts weather patterns, and in particular increases heating and raises the risk and intensity of extreme events like droughts and floods in different parts of the world (See map below). Europe usually experiences a colder autumn during the event, but a super El Niño is projected to flip this pattern towards a warmer winter towards spring 2027. On a positive note, this may soften the negative impact of a continued gas supply crunch due to the closure of the Strait of Hormuz, given historically low gas storage levels. That said, the emergence of an unprecedented super El Niño carries significant physical climate risk. It is estimated that two previous particularly strong El Niños – namely 1982 and 1997 – caused global income losses of USD4.1 trillion and USD5.7 trillion respectively.

El Niño has global impacts – with “super” impacts intensified



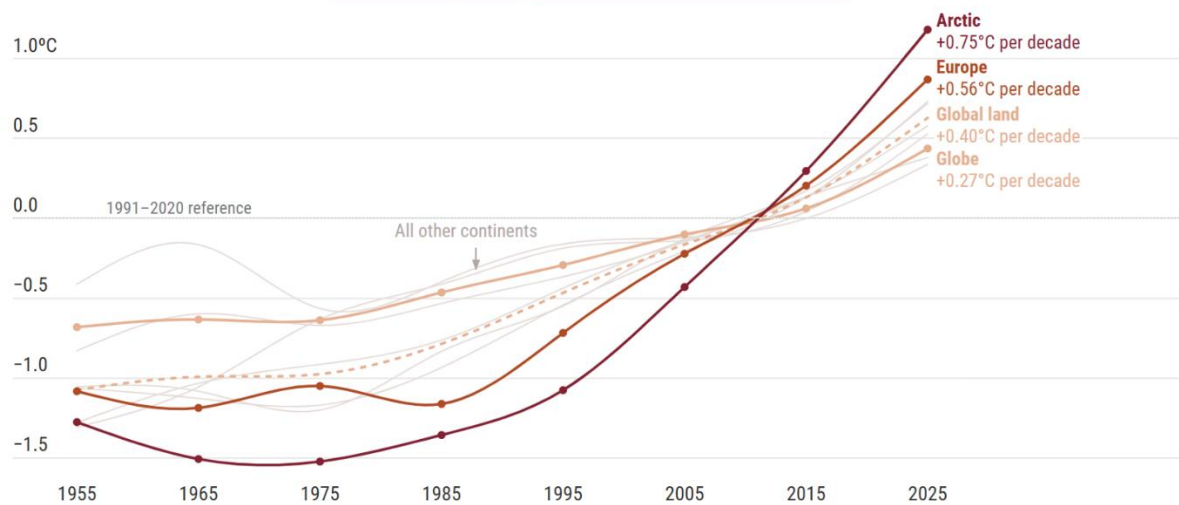
Source: European Commission

Europe's blistering hot summer points towards more to come

As El Niño gathers strength, the European region comes out of a hot and dry summer, where June and July were the hottest on record (see graph of the month below) - with more than 35,000 heat deaths, extensive wildfires and flash floods competing for headlines. Rivers systems like the Rhine have also faced very low water levels, impairing on cargo traffic on its waterways, while Norwegian water reservoirs for hydropower are at 30-year lows. These impacts are, however, not attributable to El Niño which is still building in power and typically impacts Europe less strongly than other regions.

Instead, researchers argue that Europe's rapid warming – at twice the rate of the global average and already at 2.5 degrees compared to pre-industrial levels – is due to several structural factors. These include climate change, shifts in atmospheric circulation, reduced air pollution increasing solar irradiation, decreased snow-cover and vicinity to the Arctic as the world's fastest warming region (see graph below). In other words, while a super El Niño will have significant impacts globally and for European supply chains – and perhaps also in Europe itself – the drivers behind extreme weather in the region are more structural and not attributable to one event.

Temperature anomalies for the globe, global land, each of the seven continental regions and the Arctic, alongside the rate of increase



Values are for land only except for the global average. Rates of increase per decade are estimates for the last 30 years (1996-2025).

Source: Copernicus

The finance sector is gearing up to face a riskier reality

In a world where adverse weather is becoming a recurrent rather than an exceptional source of financial risk, banks and insurers are moving physical climate risk closer to the core of underwriting and credit decisions. Sovereigns are increasingly also needing to look at climate catastrophes as a regular expense, as opposed to one-offs – which may require policy trade offs for countries with limited fiscal flexibility.

Banks are building geospatial data into portfolio screening, stress tests and borrower-level assessments to identify where floods, heat, drought or wildfire could weaken cash flows, disrupt supply chains, damage collateral or increase defaults. That said, translating hazard exposure into credit parameters remains difficult. Asset location data are often incomplete, adaptation measures vary and historical loss records are a poor guide to a changing climate. Hence quantifying and pricing risk remains challenging.

On the other hand, insurers have more direct experience of pricing weather losses, but rising claims are prompting higher premiums, tighter terms and reduced coverage in exposed areas. For example, about 25% of catastrophe losses are are insured in Europe, and there are rising concerns that more regular extreme weather events might reduce coverage further. This may protect individual insurers while shifting more losses to households, companies, governments and ultimately banks, making the widening insurance protection gap a broader financial stability risk.

Finally, and because of the above, central banks increasingly expect physical climate risk to be managed like conventional financial risk (see also in-brief). The European Central Bank requires banks to embed it across governance, risk appetite, lending,

collateral valuation, stress testing and capital planning, using forward-looking scenarios. Supervisory reviews still find material data and coverage gaps. The direction is nevertheless clear. Physical climate risk is moving from a specialist sustainability exercise into mainstream financial risk management, with banks expected to show how it affects lending, client engagement and resilience planning.

Sustainable products update

Sustainable Bonds Increasingly Finance Energy Security

European sustainable bond issuance reached USD 390bn during the first half of 2026, representing an increase of approximately 75% compared with the same period last year and already approaching the USD 395bn issued during the whole of 2025. Sustainable bonds also accounted for approximately 23% of total market volume during the period, marking a new record share.

Issuance growth has been broad-based across governments, financial institutions and corporates, reflecting substantial investments across Europe aimed at strengthening energy security, expanding power generation, modernising electricity grids and accelerating electrification. At the same time, sustainable fixed income mandates continue to attract inflows from both retail and institutional investors. The combination of strong investor demand and significant financing needs has supported a record pace of issuance so far this year.

While these investments support climate objectives, they are increasingly also driven by a broader ambition to reduce external dependencies and strengthen economic resilience. Europe is navigating a more complex geopolitical environment, positioned between an increasingly protectionist United States and China's dominant role in large parts of the electrification value chain. As a result, investments in renewable energy, electricity networks and critical infrastructure are increasingly viewed through both a climate and security lens. Recent years have shown that dependence on external energy supplies and critical supply chains is not only an economic challenge, but also a strategic risk.

These financing needs are becoming increasingly visible in sustainable bond markets, including the EUR corporate green bond market. EUR-denominated utility green bond issuance increased by approximately 66% during the first half of 2026 compared with the same period last year. At the same time, utilities accounted for approximately 60% of total EUR corporate green bond issuance, up from around 50% in recent years and 42% in 2020. Notably, around 70% of all utility bonds issued during the first half of 2026 were issued in green format. This highlights the growing role of sustainable bond markets in financing Europe's energy transition, electrification agenda and broader energy security ambitions.

Nordic Market Mirrors the European Trend

The Nordic sustainable bond market increased by approximately 17% during the first half of 2026 compared with the same period last year, reflecting many of the same trends visible across Europe. Continued investments in renewable energy, grid expansion and electrification have supported issuance growth, while banks and

utilities remain the primary drivers of activity. Swedish real estate companies also continue to contribute meaningfully to overall market volumes.

The region continues to benefit from a well-developed sustainable finance ecosystem, high sustainability awareness and a dedicated investor base, all of which continue to support market development.

Outlook

At the time of writing, global sustainable bond issuance stood at approximately USD 810bn, up almost 25% year-on-year. With several months remaining in the year, the market appears well positioned to exceed USD 1 trillion in annual issuance and potentially surpass the previous record of USD 1.1 trillion set in 2021.

Looking ahead, we expect growth to remain supported by continued investments in energy security, electrification and critical infrastructure across Europe. A growing amount of sustainable bond redemptions are also expected to be refinanced through new sustainable bond issuance, providing an additional source of supply.

Outside Europe, activity in Asia appears to be accelerating after a slower start to the year, particularly among Chinese financial institutions. Meanwhile, green bond issuance linked to data centres and digital infrastructure is emerging as an increasingly important source of future issuance.

While the exceptionally strong first half of 2026 may prove difficult to replicate, the market appears well positioned for another record year. More importantly, the underlying drivers of issuance continue to broaden beyond climate objectives alone, increasingly encompassing energy security, industrial competitiveness and infrastructure resilience.

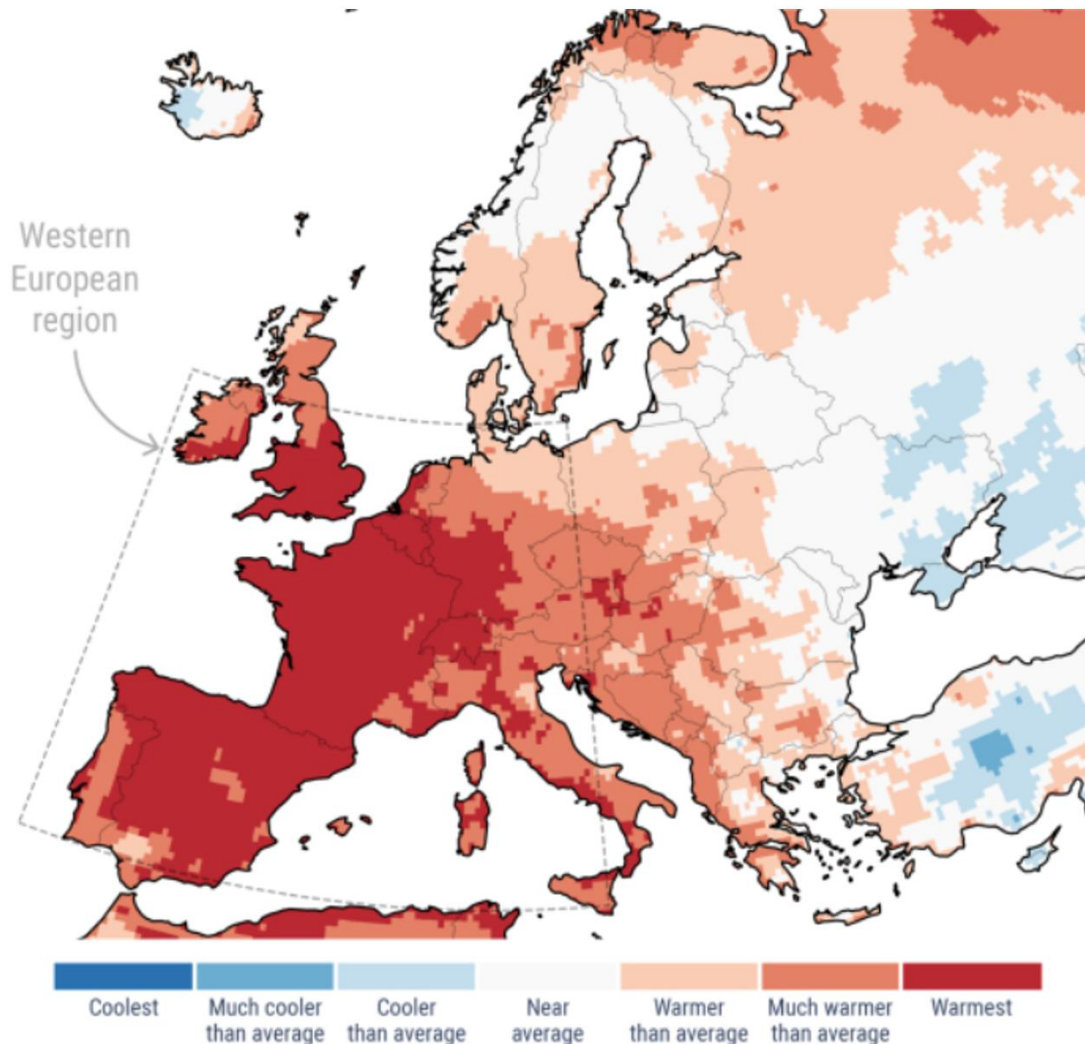
In brief:

- **On 24 July 2026, the ECB announced that it will extend the use of climate-related risk adjustments within its collateral framework to certain corporate loans pledged in Eurosystem refinancing operations.** The ECB argues that climate-related shocks, including policy changes, technological developments, shifts in consumer behaviour, litigation and broader macroeconomic adjustments, can affect the value of collateral and increase potential losses if liquidation is required. To address this, eligible corporate loans will be subject to an additional climate factor based on their exposure to transition-related risks. The more sensitive a loan is to climate-related uncertainties, the larger the reduction in its collateral value. The maximum additional haircut will be 5%. The measure builds on the climate-related haircut introduced for corporate bonds in 2025. While corporate bonds account for less than 2% of pledged collateral, corporate loans represent approximately 29%, significantly broadening the scope of climate risk integration within the ECB's collateral framework. Although the direct impact on corporates is likely to be limited in the near term, the decision reinforces the message that climate transition risks are increasingly being treated as financial risks by the ECB and other financial institutions. Over time, this could strengthen the link between companies' exposure to transition risks, financing conditions and collateral eligibility. Implementation is expected no earlier than the end of 2027, with climate factor values updated annually.
- **Denmark has introduced emergency legislation to reform access to its increasingly constrained electricity grid.** The proposal would replace the current first-come, first-served system with a four-tier priority system favouring existing customers, households, small businesses and projects supporting electrification and the green transition. Batteries and very large electricity consumers, including data centres, would receive lower priority based on their ability to adjust demand during periods of grid congestion. Data centre applications could be rejected where capacity is insufficient. The reform comes as Denmark seeks to accommodate rising electricity demand and renewable generation.
- **Onshore windfarm applications in England have reached their highest level in a decade.** Around 45 applications were submitted in the year to March following Labour's removal of the de facto ban introduced by the Conservative government in 2015, according to a Guardian analysis of government data. Proposed capacity entering the planning system has since more than tripled. Since the ban was lifted, applications in England have totalled 428MW, compared with 490MW in Wales, and 5,280 in Scotland over the same period.
- **Extreme weather is featuring in a record share of European corporate earnings calls.** According to data from AlphaSense, terms related to extreme heat, drought, and wildfire were mentioned in a record one in ten earnings calls among European companies with a market value above USD1 billion. While some companies reported that heat, drought, and wildfires had

interrupted business activities, others benefited from increased demand for products such as swimming pools, air conditioning, sunscreen, groundwater pumps and electricity generators.

Graph of the month:

Anomalies and extremes in surface air temperature for June-July 2026



**The colour categories refer to the percentiles of the temperature distributions for the 1991-2020 reference period. The "coolest" and "warmest" categories are based on June-July rankings for the 1979-2026. The western European region outlined in the map and used for the time series covers all land area within 11 W-15 E, 37-55N. Source: Copernicus*

Subscribe: If you wish to receive this newsletter in the future, please contact Sustainability Expert at Corporate and Sustainability Advisory - Daniel Brenden at danbr@danskebank.no

Unsubscribe: If you do not wish to receive this newsletter in the future, please reach out to danbr@danskebank.no

DISCLAIMER: This presentation has been prepared by Danske Bank A/S ("Danske Bank") and is provided for informational purposes only. It does not constitute or form part of, and shall under no circumstances be considered as, (i) an offer to arrange or finance transactions of any kind, or (ii) an offer to purchase or sell or a solicitation of an offer to purchase or sell any relevant financial instruments.

This presentation is an overview of the trends in the market and is not intended to be and does not constitute or form part of any advice. This presentation has been prepared independently and solely on the basis of publicly available information which Danske Bank considers to be reliable. Whilst reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness, and Danske Bank, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this presentation.

Danske Bank, its affiliates, subsidiaries and staff may perform services for or solicit business from any issuer mentioned herein and may hold long or short positions in, or otherwise be interested in, the financial instruments mentioned herein. The Equity and Corporate Bonds analysts of Danske Bank and undertakings with which the Equity and Corporate Bonds analysts have close links are, however, not permitted to invest in financial instruments which are covered by the relevant Equity or Corporate Bonds analyst or the research sector to which the analyst is linked.

Danske Bank is authorized and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority (UK) are available from Danske Bank upon request.

This presentation is not intended for retail customers in the United Kingdom or the United States.

This presentation is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank's prior written consent.