European Banks – ESG Update (1H25)

- ESG bond volumes display resilience in face of policy headwinds and volatile market backdrop.
- Convergence of defence and ESG agendas gains broader acceptance for dual-use security related projects, but self-imposed investment restrictions and lack of market guidance remain obstacles.
- EU Omnibus provides welcome simplification to sustainable finance ruleset, may benefit SFDR funds.
- US review of MDB membership weighs on credit profiles, highlights diverging transatlantic approach.
- Robust primary market activity in 2025 so far signals maturity in face of adverse externalities. Secondary market spreads display less volatility, while narrowly maintaining greeniums.

William Hahn
Senior Credit Analyst
+44 20 7597 8355
William.Hahn@uk.daiwacm.com

Nicholas Cullum
Credit Analyst
+44 20 7597 8355
Nicholas.Cullum@uk.daiwacm.com

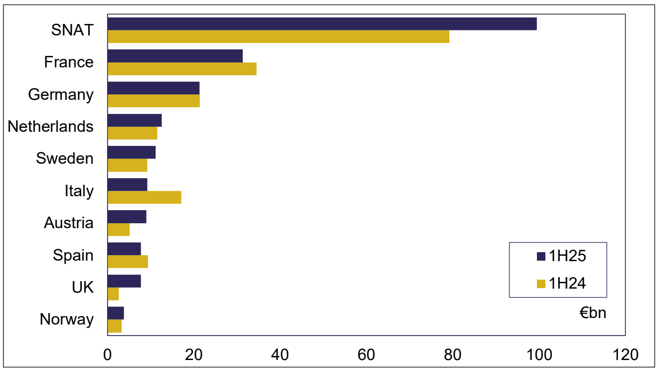
Overview: ESG markets remain resilient despite broad-based volatility

In 1H25, global ESG bond issuance across all sectors – comprising green, social, sustainable and SLB bonds stood at EUR559bn. This was 1.5% down on the same period last year but still represents the second strongest first half-year for issuance. The drop in 1H25 volumes was seen across most labelled categories, mainly due to restrained activity early in the year, which was largely but not fully offset by a strong 2Q25. The strongest reductions were registered among SLBs (-9% yoy), social (-4% yoy), as well as green bonds (-1.5% yoy). The only bright spot was sustainability debt issuance that rose on the back of greater activity among supranational and sovereign issuers (+1.6% yoy).

In Europe, ESG-linked bond sales from SSAs and FIGs reached EUR226bn in 1H25 according to Bloomberg data, ahead of last year's figures (+5.4% yoy). Of that total, green bond sales stood at EUR103bn (-9% yoy), sustainability bond volumes were EUR84bn (+23% yoy) and social bonds accounted for EUR40bn (+19% yoy). Entities from France, Germany, and the Netherlands led European ESG debt issuance in 1H25 alongside Supranationals. ESG-themed bonds issued by European financial institutions were also up by EUR12bn from a year earlier to EUR65.5bn (+22% yoy). SSAs experienced strong declines as volumes fell by EUR38bn to EUR161bn (-19% yoy). Only sustainability labelled debt grew (+20% yoy), partially offsetting the overall reduction. Euro themed bond issuance by FIGs and SSAs accounted for 9% of the overall bond market volume on average (1H24: 10%).

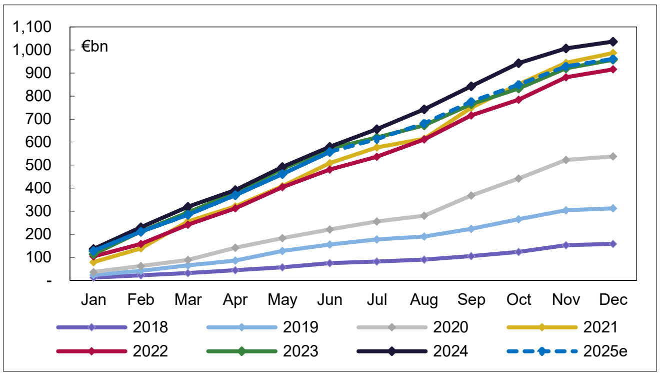
Overall, demand for sustainable debt remained healthy throughout the year, with 2Q25 volumes eclipsing last year's amount. This marks the largest second quarter on record, supporting a potentially strong annual outcome. Momentum behind global activity remains unabated with large new issuers, such as China placing its inaugural green bond in April, attracting international investors to support its environmental objectives. Europe is expected to benefit from Germany's expanded fiscal plans that foresee extensive investment for climate action and energy transition over the medium term. Some EUR100bn of the planned EUR500bn infrastructure and defence spending was pledged to such projects and will be managed by Germany's climate and transformation fund (KTF). Funding will go to emissions reduction efforts, sustainable infrastructure, and policies that support Germany's goal of climate neutrality by 2045.

European ESG Bond Issuance by Country



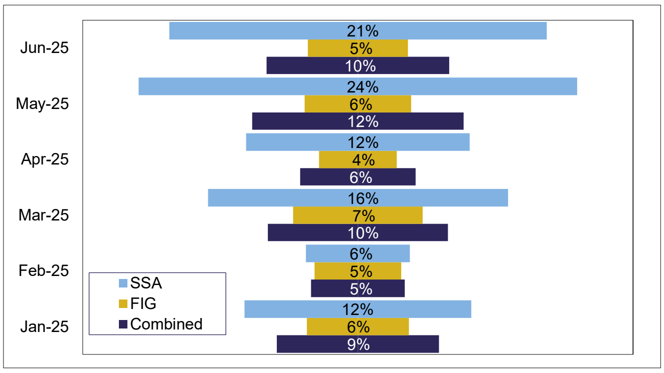
Source: Bloomberg; includes FIGs & SSAs; Daiwa Capital Markets Europe

Global cumulative sustainable debt transactions



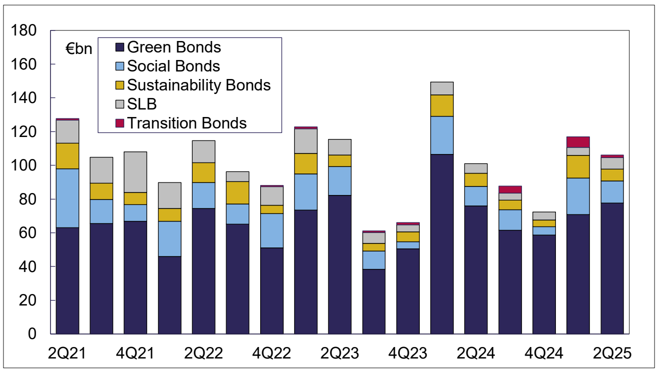
Source: Bloomberg; FIG, SSA & Corporates; Daiwa Capital Markets Europe

Proportion of ESG-themed debt to total issuance*



*Source: Bloomberg; *EUR by European issuers; Daiwa Capital Markets Europe*

Quarterly European ESG Bond Issuance by Type



Source: Bloomberg; FIG, SSA & Corporates; Daiwa Capital Markets Europe

Defence and ESG have a common agenda

Historically, issuers and investors have viewed European defence and ESG priorities as mostly mutually exclusive and ethically fraught, as they are seemingly misaligned with sustainability frameworks advocating 'do no significant harm' (DNSH) principles and promoting human rights. However, as the continent is undergoing a strategic realignment, both items are increasingly converging in policy and investment frameworks. The European Commission's ReArm Europe Plan, presented in March, targets EUR800bn in defence investment over four years, which will be made available by a new EUR150bn EU loan instrument (SAFE), national fiscal budgets, possible redirection of cohesion funds, and EIB support. It also aims to mobilise private capital, however this faces several challenges such as self-imposed industry exclusions, as well as reputational concerns. From a regulatory perspective, EU sustainable finance regulation does not outright ban defence investments, but it does impose restrictions on funding for companies involved in the production of harmful and controversial weapons (i.e. cluster ammunition, landmines, chemical and biological arms). Nevertheless, the integration of defence-adjacent investments under the ESG umbrella follows the rationale of serving the public interest and providing systemic stability. Geo-political tensions have put ESG themes such as social cohesion, energy security and digital trust high up the agenda of national governments as they are increasingly viewed as strategic concerns. Whether this redefinition strengthens the credibility of sustainable markets or opens the door to strategic ambiguity will depend on how clearly issuers draw that line.

European SSAs ready to fund defence ambitions on conditional inclusion basis

The EIB, which had largely excluded the defence industry from its lending activities, relaxed its stance in May 2024 and in March this year, it expanded eligibilities for security and defence investment and pledged to double investment into securing access to critical raw materials. In June, this was followed up by EU governments agreeing to raise the EIB's annual lending target by EUR10bn to a total EUR100bn, which would also treble funding for EU security and defence to EUR3.5bn. In nominal terms this allocation may seem like a small amount, likely rooted in the fact that the EIB is prohibited from investing directly in weapons or ammunitions. However, the EIB can provide lending for 'dual-use' purposes such as infrastructure or transportation. This has been echoed by several national development banks such as KfW or Bpifrance that have started to explore dual-use financing that supports sustainable technologies and energy infrastructure that have crossover military applications. Such projects tied to clear public benefits are therefore increasingly seen as being consistent with ESG goals. Issuers are increasingly promoting security to mitigate systemic risk, recognising it as an essential building block for open and free societies.

Sustainable funds reconsider role of defence amid rising demand

Whether defence spending will truly be considered sustainable remains debatable as critics point to the intrinsic purpose of defence capabilities that may end up causing harm and destruction. Such an outcome might be at odds with core principles of the UN Sustainable Development Goals (SDG) such as 'peace, justice and strong institutions' (SDG 16). Self-imposed investment criteria and restrictions will likely result in a range of sustainable investors avoiding the sector or at the least restrict investments to dual-use technologies or companies involved in controversial or offensive applications. However, those seeking a middle ground will probably look towards company assurances on defence applications, whilst also pursuing investments in supporting environmental projects and enabling infrastructure. Undoubtedly, spending on defence is increasingly entering the ESG space as it brands itself as providing resilience and social cohesion. 1Q25 data from Morningstar shows that the average weight of aerospace and defence stocks in active and passive European sustainable funds has risen threefold, albeit to nominally low levels of 1.9% and 0.6% respectively since the start of the war in Ukraine. Nevertheless, this means that 18% of Article 8 funds and 0.2% of Article 9 funds have a position in at least one defence company. Obstacles to further inclusion remain as many funds across all SFDR categories still impose tight defence and nuclear exclusions. 28% of Article 9 funds, 16% of Article 8 funds, and 4% of Article 6 funds have zero tolerance for nuclear weapons, and others apply revenue thresholds. This has limited the scale of defence-dedicated investment products, with only 24 defence-labelled funds in the EU totalling EUR7.5bn in assets.

Can defence projects be considered eligible under ICMA's Principles?

To integrate defence investments into sustainable finance, many institutional investors are assessing how to best balance their fiduciary duties with client values. A common approach is focusing on the broader beneficiaries of increased government defence budgets, such as logistics, cybersecurity, or resilient supply chains, avoiding controversial weapons and ammunitions manufacturers, but ultimately the sector is looking for more guidance. Just in June, ICMA addressed the question whether defence projects could be considered eligible under its principles and published an update of its Guidance Handbook. The document provides information on how to interpret the various principles, guidance and handbooks that have been published, especially for the practical application for transactions. The update confirms that ICMA's Executive Committee of the Principles considers defence projects, in most cases, ineligible for green, social or sustainable (GSS) bonds. The current frameworks were not designed to cover defence-related activities and, according to the Committee, most responsible investors remain reluctant to support GSS bonds with defence as an eligible use of proceeds. Definitional challenges remain between permissible and controversial defence activities, stemming from traceability concerns, and legislative restrictions. While ICMA emphasised the need to preserve existing ESG labels for their original purposes, it did leave the door open to future developments, acknowledging market discussions on separate, dedicated labels or guidance for defence bonds that would mimic ESG structures, and recognising that investments in broader security and resilience may be of interest to responsible investors.

European ESG ruleset on course for simplification

In February 2025, the European Commission proposed a wide-ranging set of amendments to the EU's sustainable finance rulebook, labelled the 'ESG Omnibus'. The stated objective is to reduce complexity, enhance usability, and promote capital markets participation in the green transition. The Commission set clear targets, such as delivering a reduction of at least 25% in administrative burdens, and at least 35% for SMEs. To achieve this, it proposed major, targeted revisions to key sustainability regulations, such as the EU Taxonomy, the Corporate Sustainability Reporting Directive (CSRD), and the Corporate Sustainability Due Diligence Directive (CSDDD). But market participants remain divided on whether the proposals strike the right balance between sufficient simplification and retaining regulatory integrity. The reforms arguably represent a strategic recalibration rather than a significant departure from the EU's overall sustainable finance agenda. Key changes are expected to feed into a restructure of the SFDR labelling regime, which may move away from Article 8 (light green) and 9 (dark green) classifications towards more intuitive categories. The Commission has also proposed alignment measures to reduce duplication across reporting frameworks, such as integrating European Sustainability Reporting Standards (ESRS) with international standards (ISSB, GRI). All these changes remain subject to final approval by the European Parliament and Council. But together they mark a significant shift towards simplification in the EU's approach to sustainable finance regulation.

Key changes to CSRD

The reporting regime set up under the Corporate Sustainability Reporting Directive (CSRD) requires both EU and non-EU companies with significant EU exposures to make comprehensive annual sustainability disclosures. Crucially, the principle of reporting on a 'double-materiality' basis remains intact, whereby companies must consider both the financial materiality of sustainability risks from their operations, as well as the material impacts on the environment and society. Overall, the regulatory scope of CSRD is broad and complex. But under the Omnibus revision, approximately 80% of companies will now be exempt from reporting obligations, narrowing the in-scope population to about 7,000 companies, including large unlisted and non-EU entities. In parallel, reporting content requirements will be simplified, with the European Financial Reporting Advisory Group (EFRAG) tasked to draft streamlined standards by November 2025. Importantly, a value-chain cap will exempt companies with fewer than 1,000 employees from certain disclosures, and the European Parliament and Council have already adopted amendments, delaying the implementation for companies to report to 2028 from 2026. This provides additional time for legislators to refine and align sustainability reporting requirements across the broader regulatory landscape.

Key changes to EU Taxonomy

The changes to CSRD directly impact the EU Taxonomy Regulation, which is being revised to further limit mandatory reporting to companies with more than 1,000 employees and annual turnover above EUR450m. The scope of reduction is expected to decrease the number of taxonomy-reporting companies by 33–50% and the reporting process itself will also be made less onerous, with simplified templates, reducing 'do no significant harm' (DNSH) criteria for pollution prevention related to some chemicals, and the introduction of 10% minimum materiality thresholds. The ability to report partial alignment for activities that meet some, but not all, technical screening criteria provides further flexibility, and the Commission has announced that additional simplification of technical screening criteria is forthcoming. These adjustments are designed to align more closely with the streamlined CSRD requirements and to relieve the compliance burden on smaller market participants. We expect this to also be conducive for further issuance under the EU Green Bond Standard (EuGBS) that seeks taxonomy alignment.

Key changes to CSDDD

The Corporate Sustainability Due Diligence Directive (CSDDD) is also in scope for recalibration. It covers due diligence obligations of large EU and non-EU companies, addressing specific adverse environmental or human rights impacts in their extended operations. The revised CSDDD proposal narrows due-diligence obligations to focus primarily on direct business partners and only requires assessment of indirect partners (i.e. value chain) when credible risks are identified. EU-wide civil liability provisions are eliminated, with national frameworks taking precedence, and the requirement to terminate business relationships for due-diligence failures is removed. Climate transition planning requirements are aligned with the CSRD, but without a binding obligation to implement Paris-aligned plans, and the frequency of due-diligence effectiveness reviews is reduced from annually to once every five years. The first phase of CSDDD implementation is now expected in 2028, following a one-year delay.

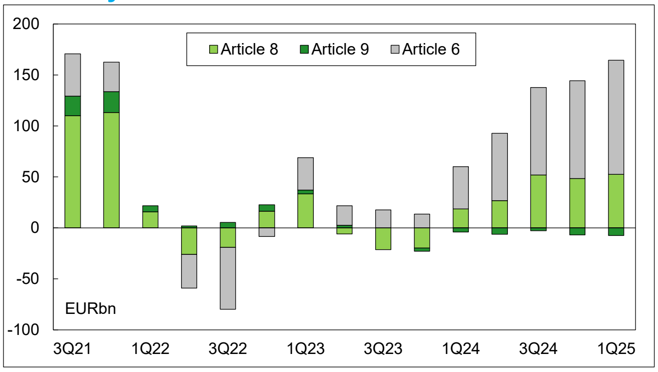
SFDR reform next?

Although the Sustainable Finance Disclosure Regulation (SFDR) was not addressed in the Commission's sustainability Omnibus, it remains closely interconnected with both the CSRD and EU Taxonomy. Therefore, the Commission launched a call for evidence in May, to support its impact assessment on simplifying and improving the SFDR, before expected proposals are presented in 4Q25. Secondary effects of the EU Omnibus package are considered to have positive impacts as they seek to harmonise and simplify interconnected sections within the EU sustainability framework. In the case of SFDR, it has been plagued by unclear definitions, operational complexities, and impractical disclosure requirements. The latter for instance lacked clarity and comparability between financial products, which has increased the risk of greenwashing and led to the unintended exclusion of certain sectors due to the way the rules are applied in practice. The Commission acknowledges that these problems are compounded by current inconsistencies within EU sustainability rules and is considering a number of amendments, among them a new product categorisation regime, away from the familiar Article 6, 8 and 9 labels. The advisory body to the Commission (the Platform on Sustainable Finance) recommended products with the following sustainability strategies:

- Sustainable: Contributions through taxonomy-aligned investments or sustainable investments with no significant harmful activities or assets based on a more concise definition consistent with the taxonomy;
- Transition: Investments or portfolios supporting the transition to net zero and a sustainable economy, avoiding carbon lock-ins, per the Commission's recommendations on facilitating financing for the transition to a sustainable economy;
- ESG collection: excluding significantly harmful investments / activities, investing in assets with better environmental and/or social criteria or applying various sustainability features.

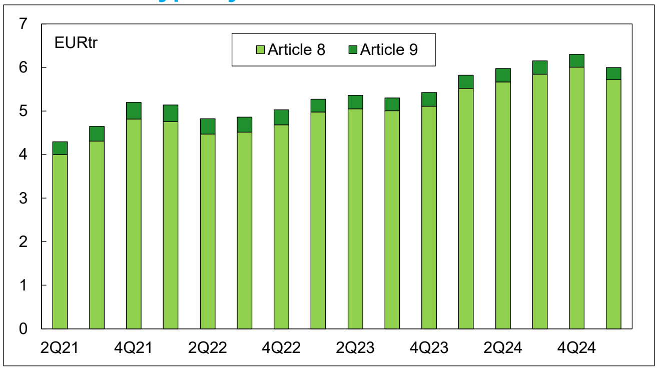
From a usability perspective, these reforms have merit as asset managers have long criticised the SFDR for its opacity and legal ambiguity. Significant SFDR fund reclassifications have taken place in recent years, with some EUR175bn of funds relabelling from Article 9 to Article 8 in 2023 alone, prompting investor confusion and exposing asset managers to reputational risk. If implemented, these proposals would redefine fund eligibility and therefore likely result in fund reclassifications based on the new sustainability criteria.

Quarterly SFDR net fund flows



Source: Morningstar; Daiwa Capital Markets Europe

SFDR fund type by cumulative asset values



Source: Morningstar; Daiwa Capital Markets Europe

Calibration matters

The aim of introducing a new categorisation scheme is to provide a clearer link between a product's sustainability objectives and the investment strategies it employs. Increasing the amount of comparable information for investors also enables the framework to support a broader range of sustainability objectives, including transition and security-related investments. Without changing sustainability features of existing products, the mapping of the existing and proposed categories indicates broad alignment. The proposal takes into consideration that investors have already invested considerable time and resources into understanding, operationalising, and building reporting systems in line with the current SFDR requirements. Therefore, one of the objectives of the advisory body was to minimise additional costs and resources. Ultimately, the ESG Omnibus should be considered a positive development as it delivers simplification, paired with stronger assurance standards, clearer fund classification rules, and enhanced data availability. Critics are focused on loosening standards just as ESG-labelled issuance seeks to scale, while for Article 8 and 9 fund managers, the next six months will determine whether the new proposed regime enhances clarity or perpetuates fragmentation.

SFDR – Proposed Category Mapping

Existing SFDR categories	Sustainable	Transition	ESG collection	Unclassified
Article 6	X	X	X	✓
Article 8	✓	✓	✓	✓
Article 9	✓	✓	X	X
Article 9 (tracking climate benchmark)	✓	✓	X	X

Source: European Commission; Daiwa Capital Markets Europe Ltd

Multilateral Strains: US–Europe Tensions Over MDB Reform and ESG Mandates

In February, the current US administration launched a six-month review of US membership and funding for international organisations such as UN agencies and multilateral development banks (MDB). The administration said it was eager to refocus these institutions on their 'core' mandates, which in turn raised questions about the US' continued commitment and involvement in these institutions. This stance has put it at odds with other key shareholders, notably from Europe, that are keen to maintain the climate finance leadership that these institutions have established in recent years, while preserving investor confidence. However, a potential withdrawal is not necessarily a remote scenario, as the US has demonstrated in the past that it would remove itself from organisations where it perceived misaligned agenda (i.e. World Health Organisation, or the Paris Agreement on Climate Change). The emerging transatlantic fault line over the future role of public development finance became more evident in April as Treasury Secretary Bessent reiterated calls for MDBs to prioritise poverty reduction and financial stability over expanded climate mandates, signalling concerns about institutional overstretch. This scepticism towards aspects of multilateralism is not unprecedented but the recent political rift with other key stakeholders in these institutions has become more evident, as European states remain committed to embed ESG priorities within wider MDB reforms and mandates.

MDB reforms considered positive in broadening mandates

MDB reforms first kicked-off in 2022 in order to provide these institutions with greater scope for action. They centred on three objectives: (1) expanding balance sheet headroom via callable capital and hybrid instruments, (2) scaling concessional finance for climate-vulnerable countries, and (3) greater alignment of operations with the Paris Agreement. For instance, the World Bank has gradually embraced this agenda, providing guidance on Paris alignment as well as integrating climate risk into core development operations as part of its 'evolution roadmap'. However, these and other developments across a range of institutions are potentially at risk of losing support from their key shareholder. US influence over institutions such as the World Bank remains significant as it not only holds a sizeable voting share but also supported around 90% of all borrowing projects between 2019-2023. With over 15% of voting shares, it can effectively veto major reforms, including capital increases or charter revisions.

Uncertainty over US shareholding may result in adverse rating action

A potential US withdrawal has also led key rating agencies to issue warnings about potential negative rating actions in the case of losing US support. Additional pressure on ratings may emerge from US tariff threats that disproportionally represent economic risks for developing market sovereigns. These are arguably more reliant on US trade and often major MDB borrowers. Therefore, downgrades to these borrowers may in turn have adverse impacts on MDB capitalisation ratios due to anticipated loan book deterioration. Ultimately, if the US were to step back from multilateral climate leadership, Europe and possibly China may need to assume greater responsibility in preserving the legitimacy and continuity of sustainable development finance. That could mean greater capital contributions, more strategic bond issuance, and stronger institutional coherence across European MDBs.

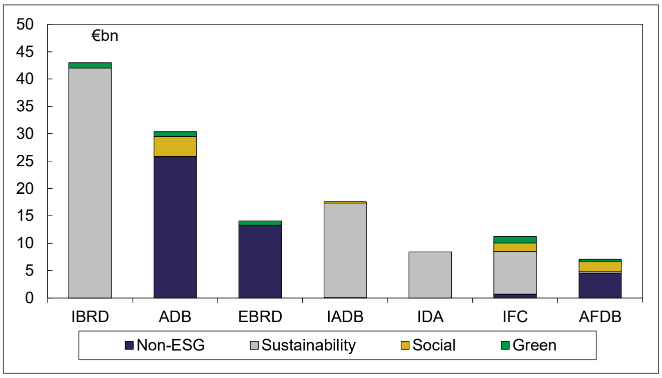
Institution	Agency Ratings	US Shareholding (%)	US Vote Share (%)	US Share of Paid-in Capital (US$bn)	Total Paid-in Capital (US$bn)	Reserves (US$bn)	Total Usable Capital or Equity (US$bn)	Callable Capital (US$bn)	Data as of:
International Bank for Reconstruction and Development (IBRD) - World Bank	AAA	16.73*	15.83*	3.81	22.79	32.81	55.60	303.10	Mar-25
International Development Association (IDA)	AAA	N/A	9.67	N/A	286.33	-90.88	195.45	0.00	Mar-25
International Finance Corporation (IFC)	AAA	18.08**	17.11**	4.28	23.69	15.41	39.09	0.00	Mar-25
Inter-American Development Bank (IADB)	AAA	30.02	30.01	4.74***	11.85	28.82	40.67	164.90	Mar-25
Asian Development Bank (ADB)	AAA	15.57	12.75***	1.10	7.07	50.14	57.21	133.97	Mar-25
African Development Bank (AFDB)	AAA	5.90	6.51	0.62	9.79	5.58	15.4	199.6	Dec-24
European Bank for Reconstruction and Development (EBRD)	AAA	9.40	9.69	0.65	7.18	19.03	26.2	24.4	Dec-24
Total				**15.2**	**368.6**				

*Source: Company reports; *As of June 2025; **As of May 2025; AFDB accounts in SDR (1 = USD1.300); EBRD in EUR (1 = USD1.035)*

The European angle and mitigation strategies

Europe's stance towards multilateral institutions has been notably more expansionary as exemplified by the European Investment Bank's increase in the level of climate and environmental commitments via its 'climate bank roadmap'. This shift in ambition has effectively transformed the EIB from being an EU bank supporting climate to 'the EU climate bank'. In April it became the first supranational to issue an EU Green Bond under the new voluntary standard. Elsewhere, other European institutions have been working to de-risk their exposure to potential US disengagement. The EBRD for instance has been exploring strategic alliances with regional development banks in Africa and Latin America to diversify co-financing channels. This unfolding regional divergence may see ESG risk premia reprice in the SSA sector as investors monitor whether MDBs continue to maintain high-integrity frameworks under growing political pressure. A retreat from Paris alignment or impact-linked lending could weaken the credibility of future labelled issuance, particularly in the green bond space. The policy path ahead for supranationals like the World Bank or the EIB may necessitate more explicit ESG narratives, captured in stronger second party opinions, clearer taxonomy alignment, or greater transparency around climate share of proceeds. National agencies may find renewed impetus to scale bilateral climate finance, using their own green and social bond programmes to fill potential gaps in the multilateral sphere. Institutions like AFD, KfW, or CDP have signalled that they could play more visible roles in anchoring the Union's sustainable finance credibility.

Average annual bond issuance volume by type - 2022-2024



Source: Bloomberg; Daiwa Capital Markets Europe

European primary markets in 1H25

SSA ESG issuance volumes in 1H25 reached EUR161bn, down 19% on the previous year, of which 50% had a sustainability bond indicator, 32% were green bonds, and 18% were social bonds. There was just one SLB transactions recorded during the second quarter, the first in our coverage since 3Q24. Performances across ESG categories were mixed, with strong declines among social (-56% yoy) and green bonds (-23% yoy), while sustainability bonds rose markedly to EUR80bn (+20% yoy). This was driven by strong issuance activity by supranationals that are some of the segment's largest issuers, such as the World Bank, IADB or IFC. For instance, the World Bank (via IBRD) placed roughly EUR4.7bn more during 1H25 compared to the same period last year, while the IADB placed EUR2.3bn more in sustainability debt compared with 1H24. Overall, the IBRD was once more the single largest issuer of themed bonds, issuing over EUR30bn, followed by the EIB.

SSA - Top 10 European ESG Issuers 1H25

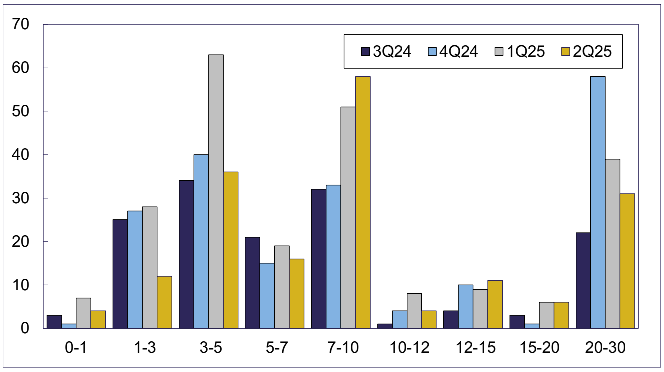
Issuers	Total Issued (€m)	Average Tenor (years)
IBRD	30,617	15.7
EIB	21,390	7.5
IFC	10,989	5.4
IDA	9,325	12.5
IADB	8,691	15.2
AIIB	6,414	7.7
KfW	6,172	4.6
CADES	5,121	4.5
Italy	5,000	21.3
AFD	4,724	6.8

Source: Bloomberg; Daiwa Capital Markets Europe

Solid 1H25 activity propped up by supranationals

The average deal size was down in 1H25 to EUR405m (-2.4% yoy), but the overall number of registered new issues increased to 409, up from 395. Bid-to-cover ratios improved against the previous year but fell just short of levels seen during the same period last year. 2Q25 SSA supply remained fairly evenly distributed, with the majority of deals carrying 7-10 year tenors (33%), followed by 3-5 years (20%), 20-30 years (17%), and 5-7 years (9%). Looking at half-year issuance data, we see that volumes were trailing in most months, apart from June (+24% yoy). April showed the largest shortfall, with volumes down -39% yoy, mainly due to U.S. government-induced tariff uncertainty that generated sizeable market volatility, hindering issuance activity. With uncertainty subsiding in subsequent months, May volumes showed the smallest shortfall (-8.5% yoy) while June data displayed greater activity.

Number of SSA transactions per tenor bucket

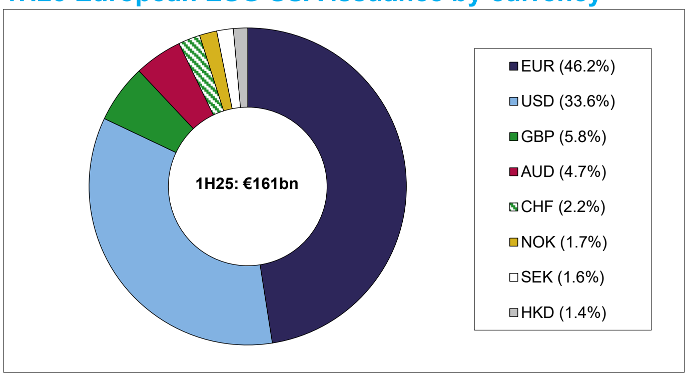


Source: Bloomberg; Daiwa Capital Markets Europe

Inaugural transactions, record order books and new issuance formats in defiance of policy headwinds

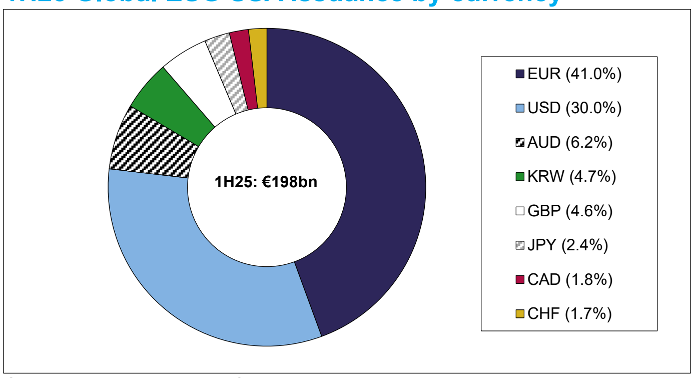
Since the start of the year, the **EIB** has been one of the most active SSA issuers, having placed EUR21.8bn across 15 trades. Most of this was placed in 1Q25 (EUR12.6bn), notably in January (EUR5bn; 10-year) and March (EUR4bn; 7-year). In April the EIB issued its inaugural EuGBS aligned Climate Awareness Bond, raising EUR3bn with a 12-year maturity. It was the first supranational to issue under the new EuGBS and the largest such deal to date. This followed a comprehensive update to EIB's climate awareness framework, reflecting EU-Taxonomy requirements and enhanced disclosure standards, setting a reference point for future issuance. Orderbook demand exceeded EUR40bn (>13x), allowing pricing to tighten by 3bp from guidance, more than the typical 1-2bp seen on recent EIB benchmarks. Demand was driven by central banks, official institutions, bank treasuries, and dedicated green investors, reinforcing the notion of continued strong appetite for taxonomy-compliant paper. In 1Q25, **IFC** issued its largest social bond to date, which was also the largest US dollar denominated social bond by a supranational. The issuance followed an update to IFC's social bond framework designed to enhance and expand the eligibility criteria for social bonds in line with best practices and ICMA principles. The USD2bn social bond carried a 3-year maturity and interest in the transaction was strong (5.3x oversubscribed). This made it the largest ever order-book for a single bond issue in IFC's history. Demand from high-quality investors such as central banks, official institutions or bank treasuries resulted in unusually strong spread tightening (-4bps) from IPT compared to the usual 1-2bps of its peer group.

1H25 European ESG SSA issuance by currency



Source: Bloomberg; Daiwa Capital Markets Europe

1H25 Global ESG SSA issuance by currency



Source: Bloomberg; Daiwa Capital Markets Europe

Total FIG ESG volumes in 1H25 reached EUR65.5bn (+22% yoy), with market activity fairly evenly distributed. There were however noticeable upticks in March and June activity against last year. We observed a degree of pre-funding taking place, likely in anticipation of worsening funding conditions from continued tariff uncertainty. Consequently, March accounted for most deals in 1H25 (23% of total), followed by January (18%) and February (16%). Green bonds by far made up the largest proportion with EUR51bn (+11% yoy), followed by EUR11bn in social bonds (+113% yoy) and EUR4bn in sustainability bonds (+59% yoy). SLB issuance remains absent since 2Q24. Bond maturities were concentrated in the 3-5 year maturity bucket (50% of total), followed by 0-1 years (23%) and 7-10 years (12%). Looking ahead, FIGs are expected to continue their commitment to ESG objectives, despite lower levels of public advocacy. Generalist use of proceeds are gradually giving way to more sophisticated and targeted outcome-focused projects. These in turn appeal to a more demanding investor base that is focused on greater returns as well as measurable impact. In recent years, this investor base has integrated themes such as climate, biodiversity and social impact into investment strategies.

FIG - Top 10 European ESG Issuers 1H25

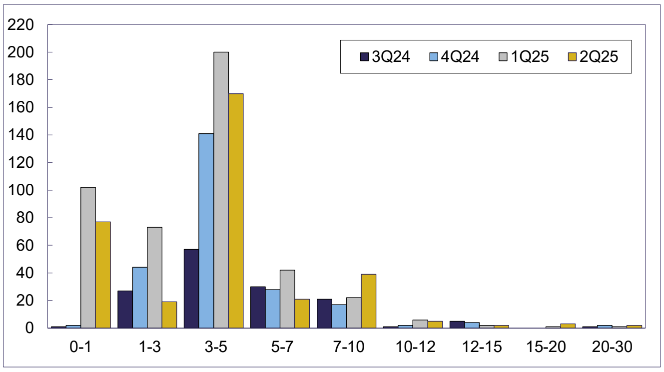
Issuers	Total Issued* (€m)	Average Tenor (years)
Crédit Agricole SA	2,650	7.5
Crédit Agricole SFH	2,500	6.6
DNB Bank	2,083	6.8
Lloyds	2,001	6.7
ABN Amro	1,750	5.0
Commerzbank	1,540	11.5
Erste Group Bank	1,500	7.1
Banco BPM	1,250	4.8
ING Groep	1,250	11.0
NatWest	1,250	11.0

Source: Bloomberg; Daiwa Capital Markets Europe

2H25 issuance outlook to remain stable, supported by solid bank credit

Looking ahead, the FIG sector has displayed remarkable resilience to externalities and market volatility. Both quarters have exceeded 2024 volumes, which in turn was a record year for FIG ESG bond issuance. June data was especially strong with FIGs placing EUR12bn, 2.5x more than last year's figure. Tariff induced April weakness as observed among SSA issuers did not materialise among financial institutions, and volumes were only marginally lower. Although new issue concessions edged up during this period, spreads at issue have been tightening in 2Q25, with high-quality issuers pricing deals with little to no premium. Strong 1Q25 and early 2Q25 earnings provide a soothing backdrop to investors, with most reporting better than expected figures. However, despite sound earnings, most banks kept their financial targets and outlooks for 2025 unchanged against previous guidance, in anticipation of further rates reductions and global trade uncertainty, among other things. FIG ESG supply outperformed our initial expectations in 1H25 and we expect the level of activity to remain steady over the coming quarter.

Number of FIG transactions per tenor bucket

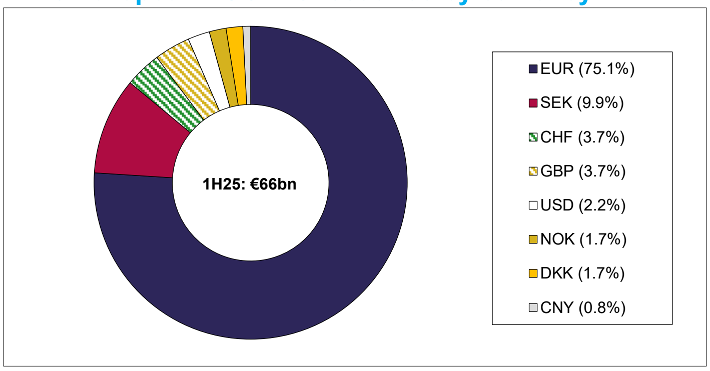


Source: Bloomberg; Daiwa Capital Markets Europe

Inaugural EuGBS bonds add depth to green bond market

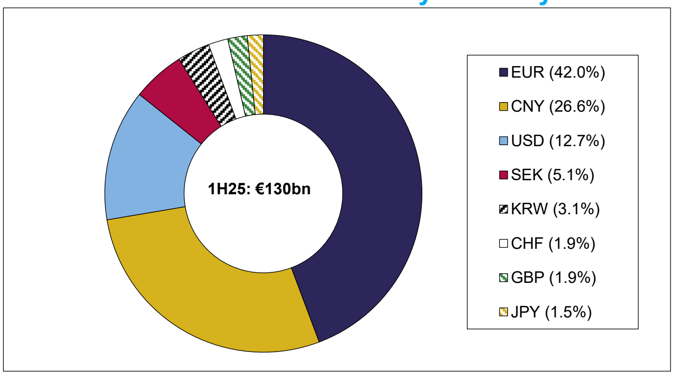
In 1Q25, **ABN Amro** became the first FIG to launch a green bond compliant with the EuGBS. The voluntary standard by the European Commission came into effect in December 2024 and was introduced to promote EU-taxonomy aligned bonds, enhancing the transparency and credibility of adopters of the format and the wider green bond market. It formed part of a senior preferred, dual-tranche transaction for a combined EUR2.25bn. The EuGBS aligned bond was sized at EUR750m with a 6-year tenor. Spreads over mid-swaps tightened -27bps to MS+68bps, on the back of solid demand (2.6x subscription), resulting in a small concession of just 3bps. ABN reportedly did not take advantage of the 15% flexibility pocket awarded under the EuGBS, which would permit the allocation of proceeds to non-taxonomy aligned projects. At the time of issue, the bond by ABN was only the third under the new standard, but since then the number has grown to nine, including a second one from ABN, placed in June. The EUR1bn SP, 4-year had a final spread of MS+65bps (-30bps from IPT). This implied a slim new issue premium of 3bps at issue.

1H25 European ESG FIG issuance by currency



Source: Bloomberg; Daiwa Capital Markets Europe

1H25 Global ESG FIG issuance by currency



Source: Bloomberg; Daiwa Capital Markets Europe

Key ESG Transactions 1H25

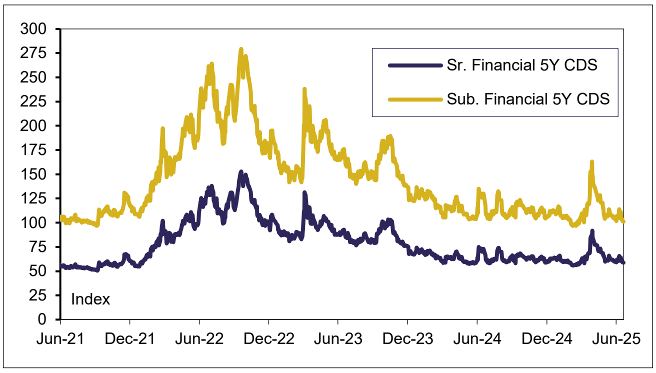
Bank	Rank	Amount	Maturity	IPT (bps)	Final Spread (bps)	Book Orders
SSA						
IBRD	Sr. Unsecured (SDB)	USD6bn	7Y	SOFR MS + 57	SOFR MS + 54	>USD12.6bn
IBRD	Sr. Unsecured (SDB)	USD6bn	5Y	SOFR MS + 44	SOFR MS + 42	>USD12.3bn
IBRD	Sr. Unsecured (SDB)	EUR3bn	10Y	MS + 49	MS + 47	>EUR6bn
IBRD	Sr. Unsecured (SDB)	GBP1bn	5Y	SONIA MS + 45	SONIA MS + 45	>GBP12.6bn
IBRD	Sr. Unsecured (SDB)	AUD1.75bn	5Y	ASW + 48	ASW + 47	>AUD3.1bn
EIB	Sr. Unsecured (CAB)	EUR5bn	10Y	MS + 47	MS + 45	>EUR47.3bn
EIB	Sr. Unsecured (CAB)	EUR4bn	7Y	MS + 34	MS + 32	>EUR23.5bn
EIB	Sr. Unsecured (CAB)	GBP1.5bn	3Y	SONIA MS + 33	SONIA MS + 32	>GBP2.8bn
Italy	Sr. Unsecured (Green)	EUR5bn	20Y	BTP + 8	BTP + 5	>EUR12.7bn
IADB	Sr. Unsecured (SDB)	USD4.25bn	5Y	SOFR MS + 44	SOFR MS + 42	>USD10.4bn
CADES	Sr. Unsecured (Social)	EUR2.5bn	5Y	FRTR + 9	FRTR + 7	>EUR30bn
BNG Bank	Sr. Unsecured (Social)	USD2.5bn	5Y	SOFR MS + 50	SOFR MS + 47	>USD6.65bn
IDA	Sr. Unsecured (SDB)	USD2.5bn	10Y	SOFR MS + 63	SOFR MS + 61	>USD5.3bn
IDA	Sr. Unsecured (SDB)	EUR1.25bn	15Y	MS + 72	MS + 69	>EUR13bn
UNEDIC	Sr. Unsecured (Social)	EUR2bn	8Y	FRTR + 6	FRTR + 4	>EUR12.3bn
AFD	Sr. Unsecured (Sustainable)	EUR2bn	10Y	OAT + 25	OAT + 21	>EUR6.7bn
AFD	Sr. Unsecured (Sustainable)	USD1bn	5Y	SOFR MS + 80	SOFR MS + 79	>USD2bn
AIIB	Sr. Unsecured (SDB)	USD2bn	5Y	SOFR MS + 45	SOFR MS + 44	>USD9.5bn
IFC	Sr. Unsecured (Social)	USD2bn	3Y	SOFR MS + 33	SOFR MS + 29	>USD10.6bn
Junta de Andalucia	Sr. Unsecured (Sustainable)	EUR1bn	10Y	SPGB + 25	SPGB + 19	>EUR4.1bn
Aut. Comm. Madrid	Sr. Unsecured (Sustainable)	EUR1bn	10Y	SPGB + 22	SPGB + 16	>EUR3.9bn
Ile de France	Sr. Unsecured (Sustainable)	EUR1bn	10Y	OAT + 20	OAT + 18	>EUR4.2bn
CEB	Sr. Unsecured (SIB)	EUR1bn	7Y	MS + 34	MS + 33	>EUR2.15bn
EBRD	Sr. Unsecured (Green)	EUR1bn	7Y	MS + 34	MS + 32	>EUR2bn
KfW	Sr. Unsecured (Green)	AUD1.25bn	5Y	ASW + 47	ASW + 47	>EUR2.51bn
NIB	Sr. Unsecured (NEB)	EUR750m	7Y	MS + 34	MS + 31	>EUR1.8bn
NRW Bank	Sr. Unsecured (Green)	EUR750m	7Y	MS + 34	MS + 33	>EUR3.1bn
EIB	Sr. Unsecured (CAB)	EUR5bn	10Y	MS + 39	MS + 36	>EUR56.6bn
EIB	Sr. Unsecured (CAB+)	EUR3bn	12Y	MS + 56	MS + 53	>EUR3.1bn
IBRD	Sr. Unsecured (SDB)	USD4bn	3Y	SOFR MS + 38	SOFR MS + 35	>USD12.3bn
IBRD	Sr. Unsecured (SDB)	USD5bn	7Y	SOFR MS + 57	SOFR MS + 55	>USD10.2bn
KfW	Sr. Unsecured (Green)	EUR4bn	5Y	MS + 24	MS + 21	>EUR22.5bn
CADES	Sr. Unsecured (Social)	EUR2.5bn	3Y	FRTR + 13	FRTR + 10	>EUR10bn
UNEDIC	Sr. Unsecured (Social)	EUR2bn	10Y	FRTR + 10	FRTR + 9	>EUR6.3bn
IDA	Sr. Unsecured (SDB)	EUR2bn	5Y	MS + 30	MS + 28	>EUR4.1bn
IDA	Sr. Unsecured (SDB)	EUR1.75bn	20Y	MS + 85	MS + 84	>EUR3.1bn
IDA	Sr. Unsecured (SDB)	USD2bn	5Y	SOFR MS + 46	SOFR MS + 46	>USD3.3bn
AFD	Sr. Unsecured (Sustainable)	EUR1.5bn	5Y	FRTR + 24	FRTR + 21	>EUR4bn
State of Hesse	Sr. Unsecured (Green)	EUR1.5bn	10Y	MS + 43	MS + 40	>EUR6bn
FIG (Senior)						
Société Générale	SNP (Social)	EUR1bn	6.5NC5.5	MS + 180	MS + 145	>EUR5bn
SCB	Sr. Unsecured (Social)	EUR1bn	8NC7	MS + 155	MS + 130	>EUR2.9bn
Lloyds Bank	Sr. Unsecured (Green)	EUR1bn	11NC10	MS + 155/160	MS + 128	>EUR1.5bn
Lloyds Bank	Sr. Unsecured (Green)	EUR1bn	3NC2	3mE + 85/90	3mE + 63	>EUR2.4bn
Crédit Agricole	SP (Green)	EUR1bn	7Y	MS + 105	MS + 78	>EUR1.3bn
SEB	SNP (Green)	EUR1bn	5Y	MS + 115	MS + 90	>EUR2.6bn
ABN Amro	SNP (Social)	EUR750m	6Y	MS + 95	MS + 68	>EUR2bn
Swedbank	SNP (Green)	EUR750m	4.5Y	MS + 115	MS + 90	>EUR2.2bn
Swedbank	SNP (Green)	GBP400m	5NC4	G + 120	G + 100	>GBP1.3bn
Erste Group Bank	SP (Green)	EUR750m	8NC7	MS + 125/130	MS + 98	>EUR1.95bn
Erste Group Bank	SP (Green)	EUR750m	6.25NC5.25	MS + 110	MS + 88	>EUR1.35bn
Jyske Bank	SNP (Green)	EUR750m	6.25NC5.25	MS + 160	MS + 127	>EUR3.2bn
DNB Bank	SP (Green)	EUR750m	6.5NC5.5	MS + 95	MS + 70	>EUR1.1bn
Commerzbank	SNP (Green)	EUR750m	7NC6	MS + 170	MS + 138	>EUR5.2bn
Rabobank	SNP	GBP500m	5.5NC4.5	G + 100/105	G + 85	n.a.
Banco BPM	SP (Social)	EUR500m	5Y	MS + 130	MS + 95	>EUR2.15bn
Hamburger Sparkas.	SP (Social)	EUR500m	6Y	MS + 95	MS + 72	>EUR850m
Iccrea Banca	SP (Green)	EUR50m	5Y	MS + 130	MS + 100	>EUR950m
NatWest	Sr. HoldCo (Social)	EUR1.25bn	11NC10	MS + 180	MS + 150	>EUR2.6bn
CaixaBank	SP (Green)	EUR1bn	10Y	MS + 130	MS + 95	>EUR1.8bn
Crédit Agricole	SP (Social)	EUR1bn	10Y	MS + 165	MS + 130	>EUR2.4bn
ABN Amro	SP (Green+)	EUR1bn	4Y	MS + 90/95	MS + 65	>EUR1.9bn
Bank of Ireland	Sr. HoldCo (Green)	EUR750m	7NC6	MS + 160	MS + 127	>EUR4.6bn
DNB Bank	SNP (Green)	EUR750m	6NC5	MS + 115	MS + 90	>EUR1bn
FIG (Subordinated)						
Generali	Tier 2 (Green)	EUR500m	10.5Y	MS + 195	MS + 160	>EUR2.1bn
Mediobanca	Tier 2 (Sustainable)	EUR300m	10.5NC5.5	MS + 200	MS + 175	>EUR600m
ING Groep	Tier 2 (Green)	EUR1.25bn	11NC6	MS + 210	MS + 180	>EUR3.3bn
Commerzbank	Tier 2 (Green)	EUR750m	12NC7	MS + 215	MS + 183	>EUR2.1bn

Source: BondRadar; Bloomberg; SDB=Sustainable Development Bond; CAB = Climate Awareness Bond; + = EuGBS aligned; SIB = Social Inclusion Bond; NEB = Environmental Bond; Daiwa Capital Markets Europe

Secondary markets in 1H25

At the end of the 1Q25, European bank CDS spreads rose in line with the broader market, peaking in early April but without signs of significant stress or individual banks underperforming their peers. The subsequent swift and orderly reduction in the CDS suggests confidence in the sector's stability, with some banks outperforming US peers, reflecting a relatively benign outlook despite the backdrop of policy uncertainty. The 3-month average price of the subordinated financials CDS index was 11bp wider in 2Q25 than the preceding three months, while the average senior index price was left 7bps wider over the same period. The 3-month difference between the subordinated and senior indices averaged some 50bps, 5bps wider than the preceding three-month period but still below the four-year average of 64bps. Solid 1Q25 and indicative 2Q25 credit fundamentals support FIG CDS prices and are expected to continue to do so over coming quarters.

iTraxx Financials Index

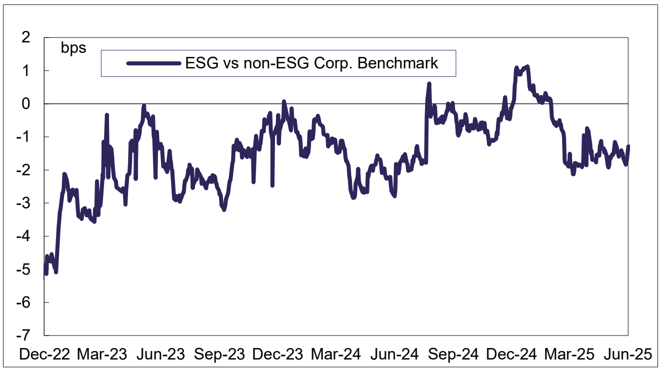


Source: Bloomberg; Data until 30.06.2025; Daiwa Capital Markets Europe

Greenium spread exceptionally thin

The option-adjusted spread (OAS) between the ESG and non-ESG themed indices has arguably been less reactive to key events since the beginning of the year, a sign of market maturity and demand/supply imbalances that have levelled out. The recovery of the greenium started at the beginning of the year and persisted through the more volatile conditions in April, as issuance volumes were healthier than expected. The steady and sizeable supply of themed bonds through 1H25 has helped maintain liquidity, stabilising the greenium to 1-2bps. The average 1H25 greenium between the benchmarks was measured at -1bp, but compared to the historical average of -3.3bps since 2020 this has significantly diminished. While periods of market stress and lower market liquidity have traditionally been factors compressing the greenium, we also point to the prevalence of ESG debt supply that over time eroded some of the spread differential. Looking ahead, we expect an extremely slim greenium to remain to cover higher structuring costs of ESG bonds compared to conventional debt.

Spreads (OAS) of ESG vs non-ESG benchmarks

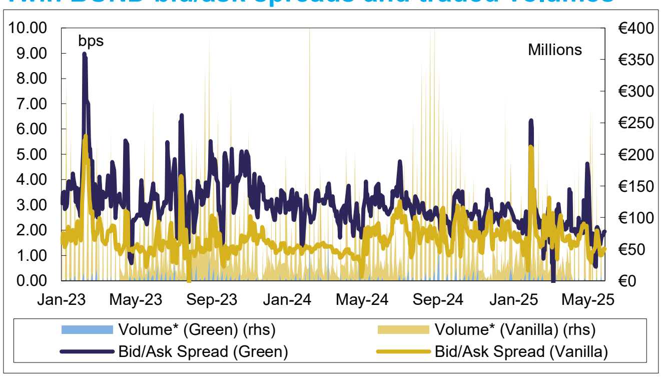


Source: Bloomberg; Barclays MSCI Euro-Corporate ESG Index vs Barclay Pan-European Aggregate Corporate Index; Data until 30.06.2025; Daiwa Capital Markets Europe

Bund greenium remains negligible near series low

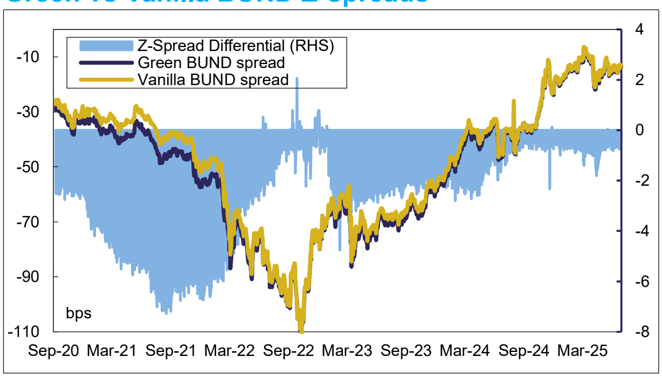
Average greeniums for liquid sovereigns such as German Bunds held firm so far this year, with buffers increasing in 1H25 compared to the same period last year. The 1H25 median spread differential of the German Twin Bunds was -0.7bp, outperforming 2H24 (-0.5bp). The tentative recovery in secondary market spreads mirrored developments in the primary market. The bid-ask spread of the green twin Bund narrowed slightly, despite a decline in traded volumes since December (-29% yoy). The 3-day rolling average spread over the past six months was 2bps for the green (previous 6-month reading: 3bps) and 2bps for the conventional bond (unchanged). The 6-month average bid-ask spread differential between green and vanilla was 0.5bp, compared to 0.9bps six months prior.

Twin BUND bid/ask spreads and traded volumes



Source: Bloomberg; until 30.06.2024; Daiwa Capital Markets Europe

Green vs Vanilla BUND Z-spreads



Source: Bloomberg; until 30.06.2025; Germany Aug-2030 Twin; Daiwa Capital Markets Europe

Credit Research

Key contacts

London		
Head of Research	*Chris Scicluna*	+44 20 7597 8326
Head of Financials, Supras/Sub-sovereigns & Agencies, ESG	*William Hahn*	+44 20 7597 8321
Credit Analyst	*Nicholas Cullum*	+44 20 7597 8844
Head of Translation, Economic and Credit	*Maki Duffield*	+44-20 7597 8101
Tokyo		
Chief Credit Analyst, Banks, Non-Japanese/Financials	*Fumio Taki*	+81 3 5555 8787
Local government, Government agency	*Koji Hamada*	+81 3 5555 8791
Real Estate, REIT, Non-Banks, Telecommunication Services	*Takao Matsuzaka*	+81 3 5555 8763
Non-Japanese/Corporates	*Stefan Tudor*	+81 3 5555 8754
Insurance, Non-Japanese/Financials	*Yuki Sakamoto*	+81 3 5555 8756
Chemicals, Iron & Steel, Marine Transportation, Pulp & Paper, Oil, Rail Transportation	*Kazuaki Fujita*	+81 3 5555 8765
Rail Transportation, Foods, Pharmaceuticals, Air Transportation	*Kotaro Kusaka*	+81 3 5555 8779
Automobiles, Power, Electronics	*Hiroki Uchida*	+81 3 5555 8693
International Credit		
Non-Japanese/Financials	*Fumio Taki*	+81 3 5555 8787
Non-Japanese/Financials	*Hiroaki Fujioka*	+81 3 5555 8761
Non-Japanese/Corporates	*Stefan Tudor*	+81 3 5555 8754
ESG		
Chief Strategist of Securitization	*Koji Matsushita*	+81 3 5555 8778
Chief Market Strategist	*Shun Otani*	+81 3 5555 8764
Chief Analyst	*Takao Matsuzaka*	+81 3 5555 8763
Economist	*Kaori Ichikawa*	+81 3 5555 8758

DAIR <GO>

All of the research published by the London and New York research teams is available on our Bloomberg page at DAIR <GO>.

Access our research at:
http://www.uk.daiwacm.com/ficc-research/research-reports

Please note the disclaimers and disclosures on the last page of this document.

IMPORTANT DISCLOSURES

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Securities Co. Ltd. retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.

Ratings
Issues are rated 1, 2, 3, 4, or 5 as follows:
1: Outperform TOPIX/benchmark index by more than 15% over the next 12 months.
2: Outperform TOPIX/benchmark index by 5-15% over the next 12 months.
3: Out/underperform TOPIX/benchmark index by less than 5% over the next 12 months.
4: Underperform TOPIX/benchmark index by 5-15% over the next 12 months.
5: Underperform TOPIX/benchmark index by more than 15% over the next 12 months.

Benchmark index: TOPIX for Japan, S&P 500 for US, STOXX Europe 600 for Europe, HSI for Hong Kong, STI for Singapore, KOSPI for Korea, TWII for Taiwan, and S&P/ASX 200 for Australia.

Target Prices
Daiwa Securities Co. Ltd. sets target prices based on its analysts' earnings estimates for subject companies. Risks to target prices include, but are not limited to, unexpected significant changes in subject companies' earnings trends and the macroeconomic environment.

Disclosures related to Daiwa Securities
Please refer to https://drp.daiwa.co.jp/rp-daiwa/direct/reportDisclaimer/e_disclaimer.pdf for information on conflicts of interest for Daiwa Securities, securities held by Daiwa Securities, companies for which Daiwa Securities or foreign affiliates of Daiwa Securities Group have acted as a lead underwriter, and other disclosures concerning individual companies. If you need more information on this matter, please contact the Research Production Department of Daiwa Securities.

Explanatory Document of Unregistered Credit Ratings
This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at: https://drp.daiwa.co.jp/rp-daiwa/direct/reportDisclaimer/credit_ratings.pdf. If you need more information on this matter, please contact the Research Production Department of Daiwa Securities.

Notification items pursuant to Article 37 of the Financial Instruments and Exchange Law
(This Notification is only applicable to where report is distributed by Daiwa Securities Co. Ltd.)
If you decide to enter into a business arrangement with our company based on the information described in this report, we ask you to pay close attention to the following items.

- In addition to the purchase price of a financial instrument, our company will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction. In some cases, our company also may charge a maximum of ¥2 million per year as a standing proxy fee for our deposit of your securities, if you are a non-resident.
- For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements**.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.
** The ratio of margin requirements etc. to the amount of the transaction cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with our company.

Corporate Name: Daiwa Securities Co. Ltd.
Registered: Financial Instruments Business Operator, Chief of Kanto Local Finance Bureau (Kin-sho) No.108
Memberships: Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association, Japan Security Token Offering Association