NORTON ROSE FULBRIGHT

ESG | Sustainability

Responsible Capital: An ESG Loans insights report

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Introduction

Welcome to the fourth edition of our ESG Loans Insights Report.

The market for green loans, sustainability-linked loans (**SLLs**) and social loans (collectively, **ESG Loans**) continues to evolve in a challenging environment. This market often moves so quickly that understanding trends can prove difficult. We have developed an online platform which helps to provide a more complete, and data-driven, picture of the market.

Since early 2022 we have gathered key data on the ESG Loans which our EMEA offices have advised on. We worked with our innovation programme (known as NRF Transform) to develop an online platform to collect, store and analyse this data. You can find our previous ESG Loans Insights Report here. The current report is prepared based on data we have gathered from ESG Loans across Europe, the Middle East and Asia Pacific issued between January 2024 and August 2025.

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Market overview

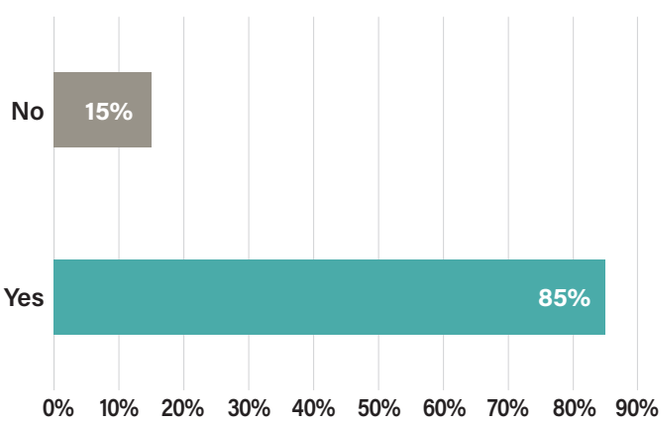
Over the past 18 months, the sustainable finance market has faced its greatest challenges to date. Political priorities have changed and the energy transition, once top of international agenda, has slipped behind security and other objectives. One recent casualty from the market's continuing movement of focus away from sustainable initiatives is the collapse of the Net Zero Banking Alliance, which announced it would cease operations immediately in October 2025. Climate change and social inequality continue to pose considerable risks and threats to the global economy, yet markets have tended to focus on shoring up other risks in this rapidly changing economic environment. Despite these headwinds and 2023's notable slowdown in transactions, issuance across all segments in the sustainable finance market remained steady on a year-on-year basis.

The discernible shift towards more homogenised documents reflects a trend towards standardisation and uniformity, particularly in reporting frequency and transparency. Additionally, there has been a slight but noticeable move towards more borrower-friendly positions, such as Majority Lender-driven declassification triggers and the removal of requirements for separate Green / Social Loan accounts. These developments highlight the evolving nature of financial practices and underscore the importance of adapting to new expectations in the industry.

Drafting precedents

Practitioners continued to converge on the Loan Market Association (**LMA**) template architecture.

SLL loan agreements drafted based on LMA rider



The vast majority of SLLs surveyed embedded the LMA Sustainability-Linked Loan Rider (latest version published in 2023) (the **LMA Rider**) without material deviation. This underscores the global dominance of these standards and the prevailing preference for contractual consistency among international lending syndicates.

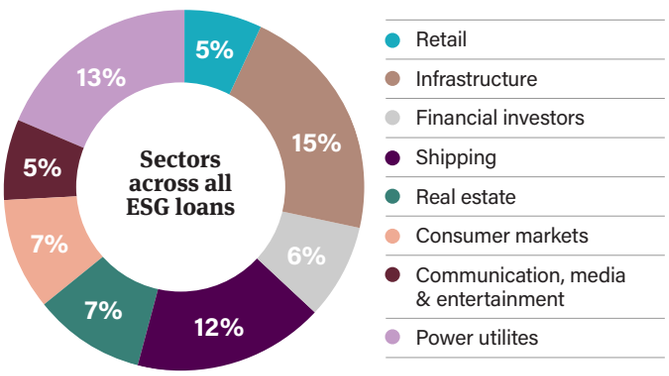
The LMA and APLMA each published green loan riders in 2024. We summarised the material points and key differences between the two riders in this article: LMA Green Loan Rider – what you need to know | Global law firm | Norton Rose Fulbright). Most of the green and/or social loans in our data set were entered into before the riders were published, but we expect future green and/or social loans will be based on one of these riders as market participants more broadly adopt them.

Syndicated versus bilateral deals

Syndicated deals accounted for roughly three-quarters of sustainability-linked issuance by volume since January 2024 and over 80 per cent by aggregate commitment. Europe continued to see the highest share of club-style transactions, while in Asia-Pacific bilateral SLLs remained common among mid-cap borrowers in export-oriented economies. Notably, even in Asia-Pacific, the average syndicate size crept upward as regional creditors sought to diversify credit exposure and share ESG scoring methodologies.

The green and social loan markets since January 2024 were dominated by syndicated transactions, with most deals involving multiple creditors. Bilateral green and / or social loans were less common, particularly in larger financings and cross-border transactions.

Markets



Sectoral distribution reflected pronounced, continued strength in infrastructure, driven by asset-heavy corporates keen to align financing costs with decarbonisation trajectories and public-private partnerships targeting renewable energy and digital connectivity projects. Sustainability-linked shipping mandates have been buoyed by IMO 2023 revisions and the EU introducing of a raft of environmental regulation aimed at decarbonising the maritime industry.

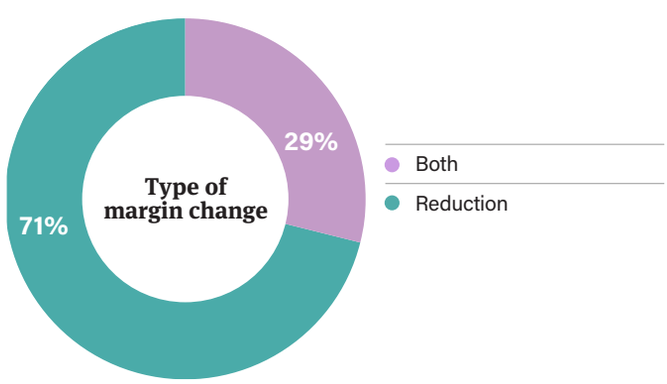
Developments of green technology within the shipping sector are also leading to a greater number of loans being eligible for sustainability-linked or green status. For example, next year will see the world's first hydrogen powered cruise vessel, "Viking Libra", come into operation. NRF acted for the lenders and ECA in relation to the financing of this vessel and, as this sort of technology continues to develop, financings of greener vessels are likely to become more frequent.

Financial institutions remained active both as lenders and as lead sustainability / green coordinators, particularly in Europe where CRR III implementation heightened the strategic value of SLLs to demonstrate alignment with prudential climate expectations. Real estate borrowers - notably green-building developers in Japan - leveraged SLLs to offset construction cost inflation.

A prominent uptick in consumer-sector deals, with some tied to circular economy metrics, indicated that ESG-linked pricing is no longer confined to traditional heavy-emitting industries.

Reporting frequency, verification, margin ratchets and application

Across all regions, information undertakings were calibrated to match existing financial reporting timetables, typically semi-annual or annual, thereby minimising incremental administrative burdens. Creditors nonetheless retained a discretion to call for ad-hoc KPI and sustainability performance target verification following a material ESG event or upon occurrence of an event of default - this feature is increasingly prevalent in the US where institutional investors demand real-time transparency under evolving SEC climate-risk rules.



Pricing adjustment mechanics in SLLs reflected a cautious yet borrower-friendly backdrop. Two-way ratchets persisted, but downward only margin adjustments were evidently more popular amongst parties. This imbalance shows sustained competition among creditors for high-grade sustainable credits and a strategic willingness to tolerate modest margin compression in pursuit of sustainable finance mandates. Only one transaction reviewed imposed ring-fencing of interest step-ups for further ESG projects or initiatives; instead creditors across all jurisdictions analysed relied on KPI compliance to ensure credible ESG outcomes.

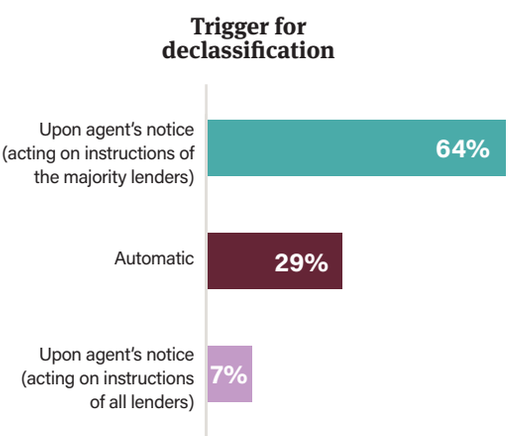
In a break from previous trends, a minority of Green or Social Loans required third party verification as a condition precedent to funding. However, in compliance with the latest Green Loan Principles and Social Loan Principles (as relevant), the requirement for external verification during the life of the loan was maintained. This shows creditors continued to seek ongoing assurance that proceeds were being applied in accordance with the relevant green criteria.

Key performance indicators

Environmental metrics remained universal. Every loan studied incorporated targets linked to energy efficiency or greenhouse gas emissions, with most employing reduction pathways for Scope 1 and Scope 2 emissions. The documentation surveyed did not feature Scope 3 disclosure obligations, which are expected to have increased in Europe, particularly for transport and logistics borrowers preparing for Corporate Sustainability Reporting Directive compliance. Similarly, shipping transactions uniformly referenced the Poseidon Principles with carbon-intensity alignment scores forming part of the margin grid.

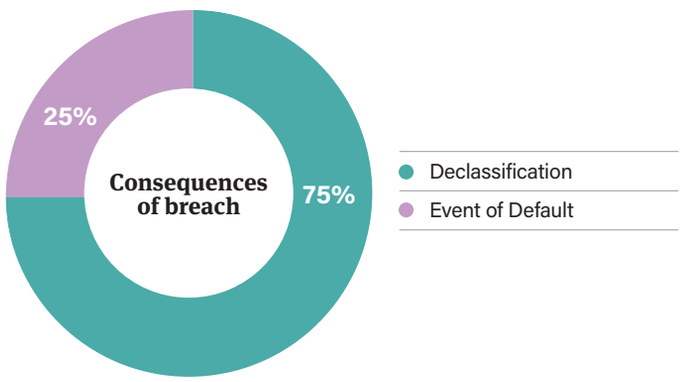
Within the social KPIs reviewed, diversity, equity and inclusion metrics - especially female representation in senior management - were intensely negotiated in EMEA. Such metrics sometimes attracted enhanced disclosure obligations under local equality legislation. Asian borrowers integrated supply-chain human rights audits, reflecting regulatory developments in Germany and forthcoming EU forced-labour restrictions. An illustrative innovation arose in the consumer products sector, where a European manufacturer pegged a KPI to the percentage of recycled core components in new products sold, explicitly advancing circular economy objectives.

Declassification trigger



Market practice diverged on the trigger for declassification following KPI breach. Well over half of loans reviewed required an express notice from the facility agent acting on majority creditor instructions, providing a remedial cure window and preserving fiduciary discretion.

The minority required the highest threshold of all lender consent to trigger declassification. The balance adopted automatic declassification upon failure to comply with the relevant sustainability-linked provisions. This is consistent with the position often adopted on European transactions where regulatory scrutiny and reputational risk are perceived to be higher.



75% of loans included a declassification mechanism for breach of a Green Loan or Social Loan provision rather than triggering an event of default. This position aligns with both LMA and APLMA Green Loan riders, showing how these templates reflect market practice and sentiment.

Green / social loan account dynamics and financing frameworks

None of the agreements reviewed required the borrower to maintain a separate green / social loan account for Green Loan or Social Loan proceeds to be paid into. Instead, borrowers were to track the use of proceeds through appropriate internal mechanisms, provided that sufficient transparency and evidence of allocation could be demonstrated to creditors. This reduced operational load on borrowers and showed creditors' increased trust and/or borrowers' stronger negotiating position.

Borrowers were not all required to provide a separate and dedicated Green or Social Finance Framework as a condition precedent; instead documentation relied on the framework set out in the LMA Green Loan Principles or Social Loan Principles. Whilst the Principles are generic in nature, some creditors are now comfortable this arrangement provides a consistent baseline for eligible projects and reporting, even in the absence of bespoke borrower frameworks.

Regional and regulatory dynamics

Regulatory variation across jurisdictions shaped documentation nuance. The EU's evolving Taxonomy and the CSRD sharpened definitional accuracy in European term sheets. Concurrently, Asian creditors balanced voluntary ASEAN standards with home-jurisdiction guidelines, such as the Monetary Authority of Singapore's environmental risk management expectations. Borrowers with strong ESG credentials wielded significant leverage, frequently obtaining waiver or limitation of look-back penalties and securing more favourable ratchet thresholds. Conversely, emerging-market borrowers experienced tighter scrutiny of KPI integrity and, in some cases, higher assurance standards to mitigate perceived data quality risks.

In line with the above-mentioned drivers, ESG Loan issuance in our data set was concentrated in Europe, Hong Kong and West African markets, responding to a confluence of disclosure momentum, market infrastructure and pipeline readiness. In Europe, refinancing of the 2020 / 2021 SLL cohort has been a notable driver, with borrowers tightening KPI ambition and verification mechanics in response to heightened investor scrutiny and procurement linked sustainability requirements across value chains. In Hong Kong, rapid migration to ISSB style reporting and an active transition finance toolkit for PRC linked corporates has sustained volume despite macro volatility. In West Africa, a strong energy and infrastructure pipeline, supported by sovereign and quasi sovereign anchors and blended finance risk sharing structures (including DFI guarantees), have supported ESG Loan execution.

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