NORTON ROSE FULBRIGHT

ESG | Sustainability

Responsible Capital: An ESG Loans insights report

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1. Introduction and Executive Summary

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

The market for use-of-proceeds green loans (Green Loans), sustainability-linked loans (SLLs) and social loans (collectively, ESG Loans) continues to undergo recalibration amid policy fragmentation, heightened scrutiny of sustainability-linked structures and renewed demand for use-of-proceeds green finance. This market continues to move so quickly that understanding market 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 2025 and December 2025.

We plan to provide broader, deeper insights as our data set grows.

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2. Market overview, volume and deal activity

Whilst the number of Green Loan and SLL transactions completed in 2025 continued trends seen in the previous year, deal flow was front-loaded. Q1 accounted for the highest volume after which activity stabilised at a steady pace for the remainder of the year, demonstrating a maturing pipeline.

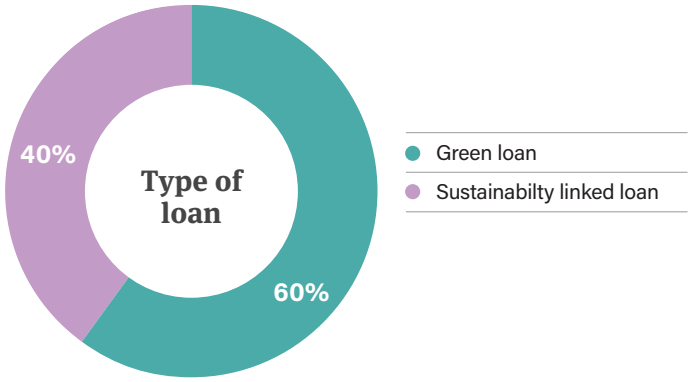
Aggregate deal value was dominated by large-scale renewables project finance transactions comprising multi-facility structures. Excluding such outliers, transaction sizes ranged from modest bilateral facilities to mid-market syndicated loans. This pattern is broadly aligned with trends across the wider EMEA sustainable finance market, where issuance remained steady on a year-on-year basis despite macroeconomic headwinds and a shifting political focus away from the energy transition in certain jurisdictions.

This 2025 data set sits within a wider sustainable finance market that has become more selective rather than less relevant. Global issuance moderated as policy uncertainty, political scrutiny of ESG and higher execution costs weighed most heavily on sustainability-linked instruments, while investor and lender demand increasingly favoured products with transparent use-of-proceeds, robust verification and demonstrable real-world impact.

Regulatory frameworks in Europe and Asia-Pacific (including sustainability disclosure, taxonomy, transition finance and assurance initiatives) continued to raise expectations around KPI ambition, data quality and external review, helping explain both the continuing relevance of ESG Loans and the increased scrutiny of margin ratchets, declassification mechanics and verification standards observed in this report.

3. Loan-type breakdown

Green Loans constituted the majority of the sample, accounting for approximately 60% of transactions. SLLs accounted for the remaining approximately 40%. This dominance is exhibited both in transaction share and aggregate value, principally due to Green Loans' concentration in asset-intensive sectors where identifiable green use-of-proceeds and expenditure could be clearly articulated (renewables, shipping, and infrastructure).



SLLs were concentrated in financial sponsor and fund-level financing, where use-of-proceeds restrictions and ring-fencing are typically impracticable.

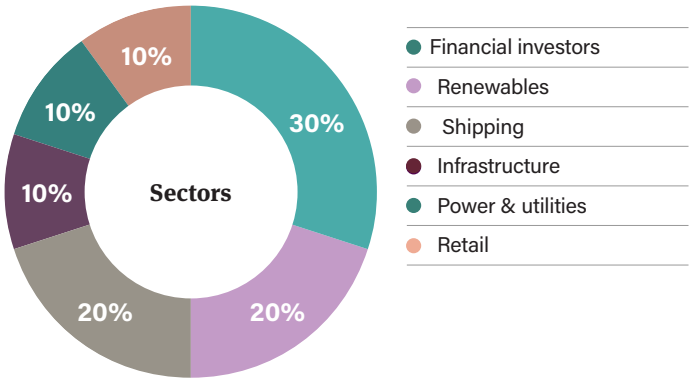
This bifurcation mirrors broader market dynamics: across EMEA, syndicated SLL issuance has been driven by financial institutions seeking to demonstrate alignment with prudential climate expectations under CRR III, while Green Loans have been favoured in sectors with tangible capital expenditure on green projects.

No social loans appear in the 2025 sample, in line with broader market conditions. Social loans remain a comparatively narrow segment of the broader sustainable lending market, with use-of-proceeds activity in 2025 continuing to be led by environmental assets and green expenditure rather than stand-alone social projects. In the wider sustainable labelled debt market, social transactions also faced headwinds as investors continued to favour clearer use-of-proceeds green products and financing exhibiting social or DEI-linked themes became more sensitive in some jurisdictions.

4. Borrower Profiles

The borrower base reflects a clear sectoral divide between Green Loan and SLL adoption. Financial investors (comprising private equity funds and alternative asset managers) represent the largest single borrower cohort, exclusively utilising SLLs. Asset-rich sectors with identifiable capital expenditure on green projects uniformly adopted Green Loan structures. Such sectoral distribution is consistent with broader EMEA and Asia-Pacific trends, where infrastructure and renewables borrowers have driven sustained Green Loan demand, while financial sponsors have favoured SLLs to align fund-level financing with decarbonisation trajectories and evolving investor expectations.

The presence of a retail sector SLL demonstrates the broadening of sustainability-linked finance beyond traditional heavy-emitting industries. This trend is also observed in the wider EMEA market, where consumer-sector deals tied to circular economy metrics have signalled that ESG-linked pricing is no longer confined to carbon-intensive borrowers.



5. Geography

The United Kingdom was the dominant borrower jurisdiction, accounting for approximately half of all transactions. The remaining deals were spread across Continental Europe and Asia-Pacific.

Green Loans exhibited greater geographic diversity, reflecting the project-specific nature of green financing and the cross-border reach of infrastructure and shipping assets. SLLs were predominantly UK-centric, reflecting the concentration of financial sponsor activity in London.

Across the wider market, ESG Loan issuance has been concentrated in Europe and Hong Kong, responding to a confluence of disclosure momentum, market infrastructure, and pipeline readiness. The refinancing of the 2020/2021 SLL cohort has been a key driver in Europe, with borrowers tightening KPI ambition and verification mechanics in response to heightened investor scrutiny. In APAC, rapid migration to ISSB-style reporting and an active transition finance toolkit for PRC-linked corporates have sustained volume despite macro volatility.

6. Key Loan Terms

6.1 Margin Ratchets (SLLs)

All SLLs in the data set incorporated two-way margin ratchets, providing for both an upward adjustment (penalty) upon failure to meet sustainability targets and a downward adjustment (reward) upon achievement. This aligns with LMA guidance and emerging best practice. In the wider market, two-way ratchets have persisted as the standard, although downward-only margin adjustments have been more popular, reflecting sustained competition among creditors for high-grade sustainable credits and a strategic willingness to tolerate modest margin compression in pursuit of sustainable finance mandates.

Additionally, a notable narrowing of ratchet bands was observed over the course of the year, raising the question of whether sufficient economic incentives are available to drive genuine improvements in sustainability performance. No SLL in the data set applied the margin ratchet beyond the margin itself (i.e. no adjustment to commitment fees or other pricing components was included). This is consistent with the wider market, where only isolated transactions have ring-fenced interest step-ups for ESG projects - instead, creditors have relied on KPI compliance to ensure credible ESG outcomes.

6.2 Key Performance Indicators (SLLs)

KPI selection across all SLLs was notably uniform. Each transaction incorporated two similar KPI categories:

- Greenhouse gas emissions (expressed as Net Zero targets or Carbon Footprint reduction metrics); and
- Global ESG assessment (through lender-proprietary scoring methodologies administered by the facility agent).

The homogeneity of KPI selection may reflect a market preference for readily measurable, comparable metrics in fund-level facilities.

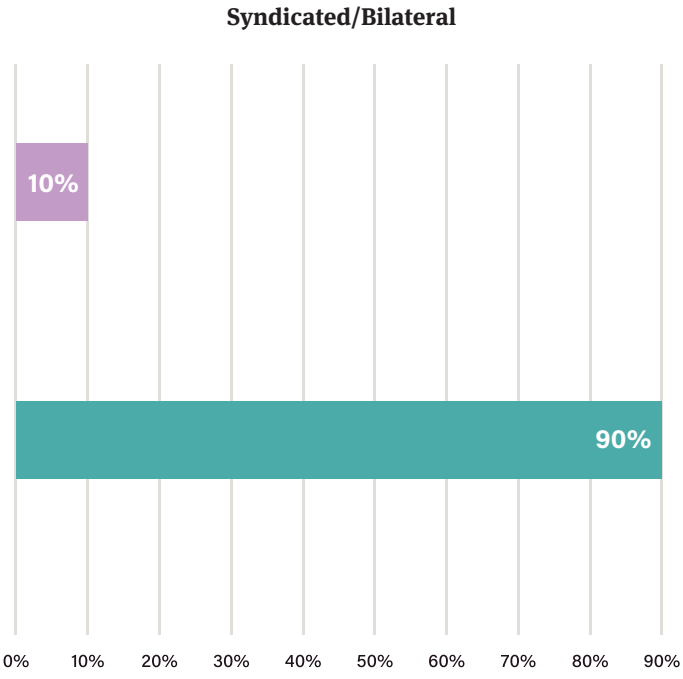
Across the broader EMEA market, environmental metrics remain universal. Every ESG loan surveyed in recent market studies incorporated targets linked to energy efficiency or greenhouse gas emissions, with most employing reduction pathways for Scope 1 and Scope 2 emissions. Scope 3 disclosure obligations are expected to increase, particularly for transport and logistics borrowers preparing for CSRD compliance. In shipping transactions,

the Poseidon Principles with carbon-intensity alignment scores have become a standard component of the margin grid.

6.3 Loan Structure

The substantial majority of transactions were syndicated, reflecting the market norm for larger ESG-linked facilities. Across EMEA, syndicated deals have accounted for roughly three-quarters of sustainability-linked issuance by volume since January 2024 and over 80% by aggregate commitments.

In Asia-Pacific, bilateral SLLs have remained more common among mid-cap borrowers, though average syndicate sizes are trending upward as regional creditors seek to diversify credit exposure and share ESG scoring methodologies.



7. Consequences of breach and declassification

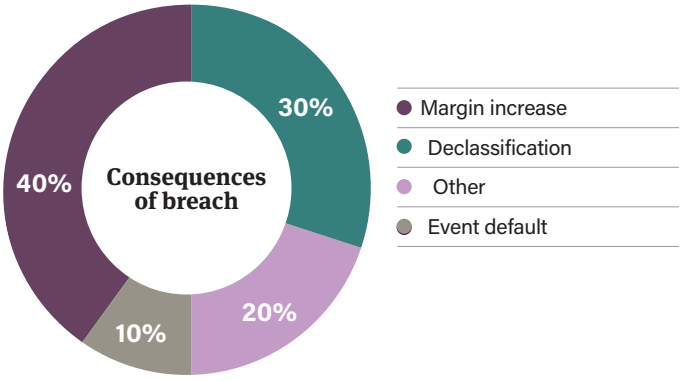
The consequences of an ESG-related breach diverge materially between Green Loans and SLLs, and represent an active area of market negotiation. In the broader market, approximately 75% of green and social loans have adopted declassification mechanisms rather than triggering an event of default, a position that aligns with both the LMA and APLMA Green Loan Riders.

7.1 SLLs

For SLLs in the data set, an upward margin ratchet was universally applied, resulting in a margin increase rather than an event of default or other acceleration remedy.

Each SLL also provides for automatic declassification of the facility as sustainability-linked if the breach is sustained past the applicable grace period. This position is more direct than the approach typically seen in the wider market, where declassification usually requires an express notice from the facility agent acting on majority lender instructions, often with a remedial cure window; a smaller number of transactions require all-lender consent before declassification can occur.

Overall, such approach follows LMA market guidance and reflects settled market practice for sponsor-level SLLs.



7.2 Green Loans

Green Loan breach consequences exhibited greater variation. In most cases, the consequence was declassification or loss of "green" branding, meaning the borrower would no longer be entitled to market the facility as green. A smaller number of transactions, concentrated in the shipping sector, applied a modest margin increase as a financial consequence of breach. The most aggressive approach was observed in one isolated bilateral transaction, where breach of the green loan provisions constituted an Event of Default. That approach remains an outlier when compared with the more common market position of reputational consequences, declassification or limited pricing adjustments.

One notable development within Green Loans is the inclusion of voluntary declassification rights permitting the borrower to elect to relinquish green status. This provision may indicate uncertainty around evolving

green classification standards in the maritime sector, particularly in light of the IMO 2023 revisions and the EU's expanding environmental regulation aimed at decarbonising the maritime industry. As green shipping technology continues to develop, the classification criteria for green-eligible vessels remain in flux, and voluntary declassification mechanisms provide borrowers with a degree of flexibility as these standards evolve.

8. Third-Party Verification

The adoption of external verification and standardised documentation frameworks varied significantly across the data set.

8.1 External Verification

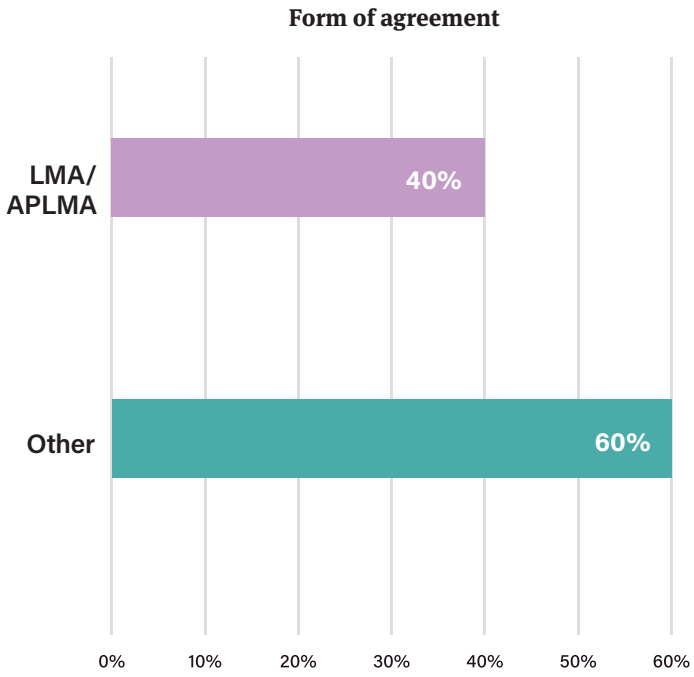
The data show that a majority of Green Loans required both external verification of Green Loan reporting throughout the life of the loan and verification that the relevant green project met external standards as a condition precedent. This is directionally consistent with the 2025 updates to the Green Loan Principles and related guidance, which place greater emphasis on clear environmental benefits, reporting integrity and the role of external reviewers in supporting the credibility of green loan classification.

SLLs within the data set continued to necessitate external verification of regular reporting throughout the life of the loan as required under the latest LMA Sustainability-linked Loan Principles and recent market practice.

8.2 Standardised Documentation

No SLLs in the data set used the LMA Sustainability-Linked Loan Rider and instead were documented on bespoke or precedent-based forms based on the LMA's rider. Whilst this demonstrates lenders' desire to develop and deploy their own tailored precedents, many mirrored the structure, principles and requirements of the LMA rider and hard-wired each institution's chosen positions from the LMA's optional drafting. This underscores the global dominance of these standards and the prevailing preference for contractual consistency among international lending syndicates.

The majority of Green Loans incorporated LMA or APLMA standard-form green loan provisions, reflecting higher adoption of template architecture in the green loan space. The LMA and APLMA each published green loan riders in 2024 – evidently market participants have, as expected, converged on these templates for recent transactions.



9. Regional and regulatory dynamics

European sustainability reporting and green finance standards, including the CSRD and the EU Green Bond Standard, are increasing expectations that loan-level sustainability data be consistent, auditable and capable of being mapped to KPIs, eligible green expenditure and ongoing reporting covenants. In Asia-Pacific, MAS guidance and ISSB-aligned disclosure frameworks are similarly moving market practice toward more structured climate-related disclosure, transition-plan evidence and governance controls that lenders can test against facility covenants and sustainability reporting undertakings.

As a result, verification and assurance requirements are expected to become more rigorous, with greater emphasis on independent review, assurance-ready data trails, methodology transparency and consistency between public sustainability reporting and information delivered under loan documentation.

For lenders, these developments are likely to heighten the importance of robust due diligence, clear information undertakings, declassification mechanics, verification triggers and rights to challenge inadequate sustainability information before pricing benefits are applied. For borrowers, ESG Loans will increasingly require early alignment between treasury, sustainability, finance and legal teams so that KPIs, green project eligibility, reporting timetables and external assurance processes are supported by reliable internal systems.

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