European Banks – Quarterly ESG Update

- ESG-themed bonds continue their growth trajectory compared to last year
- Sustainable taxonomies emerging around the world are mostly referencing the EU ruleset as a benchmark. The Common Ground Taxonomy, developed by the EU and China, is an attempt to prevent a global standard-setting race whilst seeking global harmonisation of frameworks.
- Primary markets in 3Q saw largely senior issuance, with sterling gaining ground on its peers

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Overview: ESG issuance maintains momentum in 3Q21

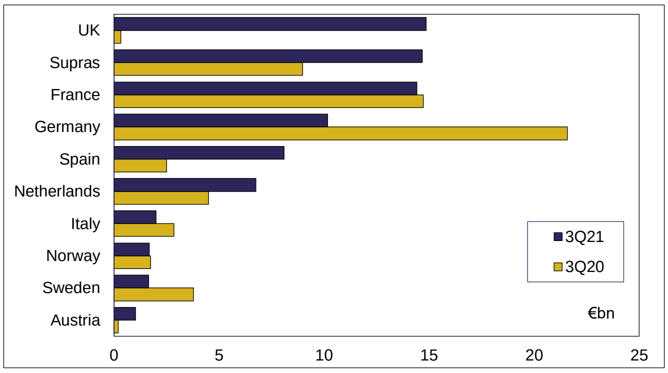
Issuance of ESG bonds – comprising green, social and sustainable bonds – continues to experience tremendous growth. Global ESG bonds in 3Q21 amounted to EUR215bn (3Q20: EUR137bn), taking the total for the first nine months of the year to EUR672bn (9M20: EUR285bn) and thus remaining on track to achieve our full-year projection of EUR850bn.

European ESG-linked bond sales from SSAs and FIGs reached EUR83bn in 3Q21 according to Bloomberg data. This represented an increase of 7% yoy. Of that total, green bond sales amounted to EUR46bn (-3% yoy), social bond volumes stood at EUR15bn (-28% yoy) and sustainable bonds accounted for EUR22bn (+126% yoy). There was no issuance of sustainability-linked bonds (SLBs) by SSAs and FIGs in 3Q21 as regulatory concerns persist over their MREL eligibility. That market remains almost entirely driven by non-financial entities. Alongside Supras, the UK, France, Germany and Spain led the way in European ESG debt issuance in 3Q21.

ESG-themed bonds issued by European financial institutions reached EUR24bn last quarter compared to EUR16bn in 3Q20, an amount equivalent to 57% of total 2020 issuance and accounting for 19% of the global total in the sector. During the summer months, we observed a slowdown in the proportion of euro-denominated ESG-themed debt in relation to total FIG and SSA issuance by European entities. But issuance picked up again in September, particularly among SSAs with further sovereigns coming to market with inaugural sustainable bonds (i.e. Spain, UK).

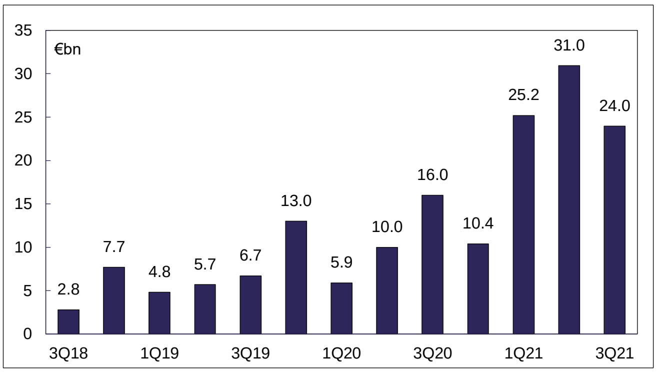
As was the case last quarter, social bond issuance declined significantly during 3Q21, due largely to lower volumes from the largest issuers in this space. The EU, CADES and UNEDIC only issued a combined EUR7bn over the last quarter compared to a combined EUR80bn during 1H21, highlighting issuer concentration in this segment. Sustainability bond volumes were down somewhat compared to previous quarters and were issued in almost equal parts by SSAs and their corporate counterparts. SLB volumes in Europe reached their highest level on record (EUR15.4bn) but are still almost exclusively issued by non-financial corporates.

European ESG Bond Issuance by Country



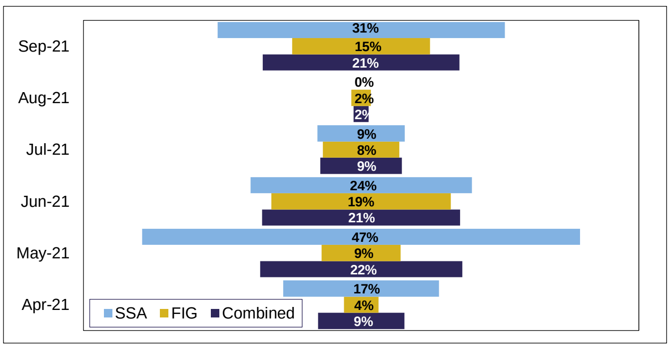
Source: Bloomberg; includes FIGs & SSAs; Daiwa Capital Markets Europe Ltd.

Quarterly ESG Bond Issuance: European FIGs*



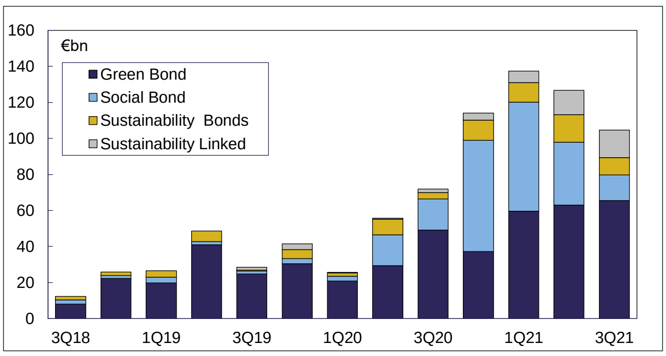
*Source: Bloomberg and Daiwa Capital Markets Europe Ltd.; *Green, social and sustainability labelled bonds >€250m.*

Proportion of ESG themed debt to total issuance*



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

Quarterly European ESG Bond Issuance by Type



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

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Sustainable taxonomies around the world: Taking stock

EU Taxonomy for Sustainable Activities represents a key benchmark

COP26 in Glasgow represents the key forum to accelerate global efforts to counter climate change with all countries urged to commit to a 1.5°C aligned future. The conference hopes to reach several milestones, one of which is renewing the drive of climate finance from developed to developing countries, and mobilising USD100bn per year by 2023 for investments in climate change mitigation and adaptation. There is an expectation that following COP26 more countries and regions will set environmental disclosure regulationsto reduce greenwashing while making sustainable financial products more transparent to market participants. The EU is recognised as playing an important role in these developments via its taxonomy. However, taxonomies are not outcomes in and of themselves, but should rather be seen as a means of directing capital flows towards aligned, sustainable projects.

The EU's taxonomy for sustainable activities was established in June 2020, laying the foundation for standardising and recognising 'green' activities for the benefit of market participants. It also sought to enhance disclosure requirements around taxonomy alignment. The aim is to assist investors in making informed investment decisions on such activities, grounded in science-based criteria and thresholds. Since then, many other jurisdictions have been developing their own taxonomies that, to varying degrees, are tailored to their own regional requirements. Nevertheless, the EU taxonomy remains the most comprehensive and sophisticated framework globally and has thus acted as a benchmark that some jurisdictions aspire to attain and others utilise as an influence when setting their own pathways.

The EU has often underscored that its taxonomy and the delegated acts (DAs) therein should be considered to be a 'living document' that will evolve over time, responding to new policy commitments and technological progress. Criteria applied today will be subject to regular reviews to ensure that new sectors and activities, including transitional and other enabling activities, can be added to the scope over time. In a similar vein, all non-EU taxonomies will continue to evolve. Transition taxonomies will also require regular adjustments, as will social taxonomies, which might respond as societal norms and expectations change.

In Europe, the next steps will be undertaken by the Platform for Sustainable Finance, the main advisory body on the EU Taxonomy. The Platform has six sub-working groups whose key focus is the further development of the DAs that contain the technical screening criteria, as well as the taxonomy extension to social and transitional activities. So far only two (i.e. climate change mitigation and adaptation) of the six DAs have been adopted by the European Commission while the remaining four (i.e. sustainable use and protection of water and marine resources; transition to a circular economy; pollution prevention and control; protection and restoration of biodiversity and ecosystems) were recently presented in a draft report. Having received stakeholder feedback, the final report is expected end-November. However, delays in the final approval of the first two DAs have put into question whether disclosure obligations expected to apply as of January 2022 would enter into force. A number of EU member states have indicated that they are unwilling to give their approval to the climate DAs until the Commission clarifies how it will treat nuclear energy and natural gas in the future.

Globally, we count a total of 32 taxonomies that are either in existence, in development or at the very least under discussion. The vast majority (81%) can be identified as environmental or green taxonomies seeking to promote finance for climate change adaptation and mitigation, pollution prevention and control, waste management, biodiversity, and water and marine protection. While taxonomies should seek to spur investment towards such sustainable activities, their strategic objectives can vary significantly. In some jurisdictions, policymakers prioritise the preservation of legislative sovereignty, while others hope to position themselves as leading hubs of green finance.

Green Taxonomies dominate the global landscape, but with varying strategic objectives

	EU	China	Japan	UK	Malaysia	Singapore	S. Africa	Canada	Russia
Type									
Green/Environmental	✓	✓		✓	✓	✓	✓		✓
Social	✓	✓					✓		
Transition	✓		✓	✓			✓	✓	
Status									
Existing	✓	✓✓	✓		✓				✓
In Development	✓✓			✓✓		✓	✓	✓	
Under Discussion							✓✓	✓	
Approach to Eligibility									
Technical Screening Criteria	✓						✓		
Principles-based				✓		✓			
Voluntary			✓		✓	✓			
Whitelisted Activities		✓						✓	✓

Source: Daiwa Capital Markets Europe Ltd; ✓=Green; ✓= Social; ✓=Transition; Access Taxonomies by clicking on the tick marks under 'Type'

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UK taxonomy to build on EU approach

While the **UK** aims to become a green finance hub, its own taxonomy remains under development and is not expected until end-2022. It intends to use metrics adopted in the EU taxonomy as its basis, subject to the review of the UK's Green Technical Advisory Group (GTAG) to assess appropriateness for UK markets. As many mining companies are listed in the UK and these activities are not covered under the EU Taxonomy, the UK might also take inspiration from Chile's mining-focused guidelines. The UK was one of the first countries to make the Task Force on Climate-Related Financial Disclosures (TCFD) requirements mandatory by 2025, with rules for many of the largest UK companies and financial institutions to come into force from April 2022. The TCFD established common principles for how companies and other organisations should provide information on risks associated with climate change. While TCFD recommendations were only partially adopted into the EU's sustainability disclosure regime, the EU passed its own ESG-related regulations on disclosures – the Sustainability-Related Disclosure Regulation (SFDR) and the Taxonomy Regulation – and in July, the ECB stated that climate-related disclosure requirements would be a key criterion for its collateral rules and asset purchases. Although the SFDR and Taxonomy Regulation will not be imported directly into UK law, the expectation is that future UK rules will be harmonised with it. Like the ECB, the BoE aims to reinforce the UK Government's timeline towards mandatory climate disclosures via the 'greening' of its £20bn corporate bond purchases, details of which were published on 5 November. The BoE targets a 25% reduction in the weighted average carbon intensity of its portfolio by 2025, a move expected to increase the price gap between environmentally conscious and carbon-intense issuers.

A patchwork of taxonomies under development in Asia

While Europe leads the way in developing the ESG landscape, regulatory frameworks are gaining traction in Asia. Taxonomies are in place or under development in the most developed economies (Japan, South Korea and Singapore), the most populous (China and India) and major extraction-based economies (Indonesia, Kazakhstan and Mongolia). Among the most notable:

- In **Japan**, the Ministry of Economy, Trade and Industry (METI), jointly with the Financial Services Agency (FSA) and the Ministry of the Environment (MOE), inaugurated a Taskforce on Preparation of Environment for Transition Finance. The FSA published draft guidelines on climate transition finance in accordance with ICMA's transition finance handbook and in May 2021 the 'Basic Guidelines on Climate Transition Finance' were published to strengthen climate transition finance and contribute to achieving Japan's 2050 carbon-neutral goals. While these steps do not represent the development of a comprehensive taxonomy, they take the country in the right direction. METI has also set up a Roadmap Taskforce to formulate sector-specific roadmaps while the FSA's expert panel on sustainable finance published its annual strategy report in August. Key announcements relate to: i) enhancement of corporate disclosures; ii) demonstration of capital market function, iii) financial institutions' support for borrowers and investees, and iv) risk management.

- In May 2021, **China** finalised its 'Green Bond Endorsed Project Catalogue', removing ambiguity in previous versions that conflicted with policies of other Chinese regulatory entities. The Chinese Catalogue was jointly released by the National Development and Reform Commission (NDRC) and the China Securities Regulatory Commission (CSRC). Arguably, the biggest improvement from previous editions was its convergence with internationally accepted standards by removing certain fossil fuel projects from the list of activities. It also added many activities that have undergone rapid growth in recent years and addresses the issues of climate change, environmental improvement, the circular economy, waste recycling and pollution prevention while also adding the principle of 'do no significant harm'. China's closer alignment with the EU Taxonomy gives it credibility as co-chair of the International Platform on Sustainable Finance (IPSF). However, differences exist on items such as the mandatory nature of some of China's measures and statistical classifications.

- **Singapore**'s proposed green taxonomy will classify activities considered either green or transitioning. It aims to reference similar environmental objectives as the EU Taxonomy while initially focusing on a subset of sectors. In aiming to become the hub of green finance in SE Asia, Singapore aims to be relevant to the economies and environmental objectives of all 10 ASEAN countries. Expected use will likely centre on Singapore-based financial institutions and their classification of sustainable portfolios and loan books. Singapore proposes to use a traffic-light system (green, yellow, red) to address transition and distinguish activities based on scientific tolerance thresholds. These need to be defined and developed in the next phase of taxonomy development.

- In April 2021, **Malaysia's** central bank (BNM) published a principles-based taxonomy focused on climate change mitigation and adaptation. Unlike the quantitative thresholds of the EU taxonomy or the qualitative descriptions in the Chinese catalogue, the principles-based approach does not define 'sustainability' as such. It puts forward five guiding principles along with a non-exhaustive list of examples as to what types of investment qualify under each. It also provides a framework to FIGs to classify their assets into categories related to climate transition by climate friendliness ranging from C1 (climate supporting) to C5 (watchlist). Climate-related risks and exposures are to be reported to BNM for internal risk management and supervisory purposes. What sets Malaysia's taxonomy apart from others is that it looks at sustainability at both the transactional and issuer levels to determine positive or negative environmental impacts.

Social Taxonomies

The EU, China and South Africa are currently drafting frameworks for social taxonomies. In September 2020, the EU's Sustainable Finance Platform replaced the Technical Expert Group (TEG) as the permanent expert group of the European Commission tasked with developing sustainable finance policies, including the EU taxonomy. In July, one of its six subgroups published a report exploring how to extend the EU taxonomy beyond green objectives towards social topics to meet relevant targets under the UN's sustainable development goals (SDG). By end-2021, the Platform should release a report on 'minimum social safeguards', which according to the Taxonomy Regulation should be a condition for economic activities to qualify as sustainable. However, social attributes do not need to be born out of existing taxonomy frameworks. Depending on the region, they could be set arbitrarily or in alignment with other guidelines such as ICMA's Social Bond Principles (SBPs). Social objectives can include providing basic infrastructure and services, affordable housing, food security or the empowerment of socially marginalised groups. In China, these measures are integrated into the 'Technical Report on SDG Finance Taxonomy', published in June 2020 and authored by the United Nations Development Programme and the Chinese Ministry of Commerce. Eligible activities are modelled on ICMA's SBPs and the effectiveness is measured by performance indicators. However, weaknesses appear in the assessment and reporting aspect of the report as independently audited reports are not prescribed and KPIs only loosely defined.

Transition Taxonomies

The EU, Japan and Canada are also in the process of developing transition taxonomies, aiming to establish criteria to help high CO2 emitting industries transition towards cleaner technologies. The EU published a transition-finance report in March 2021 and subsequently launched a public consultation on taxonomy extension in July. So far, while these standards are voluntary, they are recognised as an important step to achieve carbon neutrality by 2050. The Canadian transition taxonomy activity is noteworthy as the initiative is not sponsored by the Federal Government but rather by the private sector. Financial institutions, NGOs and other industry groups are collaborating with the Canadian Standards Authority (CSA) to form a Taxonomy Technical Committee (TTC). In the absence of a single internationally-aligned taxonomy encompassing not just green definitions, but a broader mapping of transition and resilience-linked economic activities, Canada has started to develop coverage for transition activities suited to the country's industrial makeup. By leading the development on transition taxonomies, with a framework expected to be finalised by end-2021, Canada could provide a blueprint for other nations with similar resource endowments (e.g. Australia, Chile or the USA).

Can international cooperation prevail over a global standard-setting race?

As increasing numbers of countries develop their own taxonomies, alignment becomes harder to achieve. Companies operating internationally run the risk of having to navigate multiple rulesets and ensure they meet the highest standards across the board. The majority of these taxonomies developed by sovereigns, standard-setting bodies or private initiatives have inadvertently kicked off a global standards-setting race. In 2020 the World Bank published a guide for financial regulators to develop green taxonomies, marking an early attempt to develop a common language to support decisions related to climate risk in fundraising, lending, and investment activities. One motivation for this guide was that, in the absence of formally agreed definitions, market actors face a lack of comparability, reliability, accountability, and higher transaction costs. International cooperation should concentrate efforts to set global standards for sustainable finance at a time when only a handful of taxonomies are fully-developed and divergence should be relatively limited.

By offering a forum for dialogue between policymakers, the International Platform on Sustainable Finance (IPSF) has a valuable role to play. Formed in October 2019, the IPSF counts 18 members, including the EU, that together represent 55% of the world's greenhouse gas emissions, 50% of the world population and 55% of global GDP. The stated goal is to enable its members to exchange and disseminate information on best practices, compare their different initiatives, and identify barriers to and opportunities from sustainable finance. The IPSF recognises that taxonomies developed in isolation may lead to more fragmentation of practices and rules and could inhibit growth of sustainable finance markets. Therefore, after being in development for two years, the working group has just published a 'Common Ground Taxonomy' (CGT) that presents the commonalities and differences between the EU and Chinese green taxonomies. The CGT looks at six industrial sectors and 80 economic activities, prioritising those contributing the most to carbon emissions including agriculture, forestry and fishing; manufacturing; electricity, gas, steam and air conditioning supply; water supply; sewage, waste management and remediation activities; construction; transportation and storage.

Some core principles of the European taxonomy, such as 'do no significant harm' are not yet covered in the CGT given the technical complexity of the exercise. Challenges also arose related to the EU's climate change adaptation objective as the Chinese Taxonomy does not have criteria specified for adaptation, instead putting a greater emphasis on climate change mitigation. Nevertheless, these differences are expected to be worked out in future iterations of the report. As the CGT is not legally binding, it should be viewed as a starting point, designed to help other jurisdictions that wish to harmonise their green taxonomies at the most advanced level. Concerning usability, challenges remain around reference to local legislation while improved data availability is needed to support certain activities, while standardised metrics are still needed to accurately specify quantitative thresholds. The IPSF said it seeks feedback on the activities listed in the CGT until 4th January 2022. The CGT dovetails with the work of the G20 Sustainable Finance Working group, for which the IPSF produced an input paper in September, taking stock of the varying approaches to sustainable finance.

Primary markets in 3Q21

Third quarter **SSA** volumes reached EUR53bn of which 46% had a green bond indicator, 34% were sustainability bonds and 20% were social. Social bond volumes in particular declined as these had been heavily concentrated among a handful of issuers that scaled back issuance during the quarter. The EU, CADES and UNEDIC are the main issuers in this space and only issued a combined EUR7bn during 3Q21 compared to EUR80bn during the previous two quarters. Covid-19 had propelled social bond issuance to the forefront of overall ESG bond issuance, making it the fastest-growing segment. Widespread and successful vaccine rollouts ultimately allowed for a return to economic normality, reducing the need for social bonds aimed at mitigating the adverse effects of the pandemic. Nevertheless, investor demand in this segment will likely remain unabated as issuers gravitate towards alternative social projects. Emerging social taxonomies in the EU and elsewhere will further promote the format, providing a framework around issuance for a wide array of uses.

SSA - Top 10 European ESG Issuers 9M21

Issuers	Total Issued (€m)*	Average Tenor (years)
European Union	46,137	14.4
CADES	31,248	7.1
IBRD	18,050	6.2
UK	11,634	11.9
UNEDIC	10,000	12.2
France	9,280	23.3
KfW	8,820	3.9
Italy	8,500	24.1
Germany	6,000	29.2
EIB	5,777	8.0

*Source: Bloomberg, *Cumulative issuances 9M21*

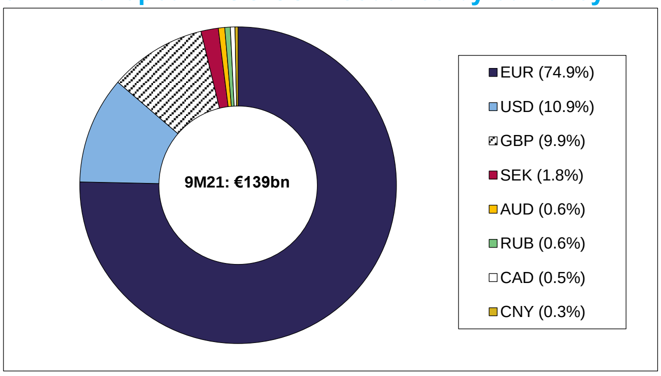
More than half of all SSA-themed bond supply in 3Q21 came from just a handful of issuers, some of which entered sustainable markets for the first time. The **UK DMO's** inaugural green Gilt from September attracted significant investor interest. The Treasury came to market with a GBP10bn transaction, which up until then was the largest ever green bond issued, also attracting the largest ever order book of GBP100bn. The massive interest in the deal caused the 12-year bond to settle at G+7.5bps, helping it price through the conventional curve by ~2.5bps. A second green Gilt followed in October and is therefore not captured in our quarterly count. The second transaction was upsized to by GBP1bn to GBP6bn compared to prior communication given the strong interest in the offering. The second leg with 32-year maturity made it the world's longest dated sovereign green bond with demand reaching 12x deal size.

The Government of **Spain** also launched its inaugural green bond in September, one week ahead of the UK's syndication, having announced plans for such a transaction already in early 2019. Parliamentary budget discussions, difficult coalition talks following domestic elections, and the pandemic kept delaying the planned issuance. However, when the EUR5bn 20-year issue finally launched it received a strong reception by the market (EUR60bn in book orders) with spreads over the October 2040 Bono settling at SPGB+6bps (-3bps from IPT). The Spanish Treasury regards the issuance as a success, not only because of the strong interest and the perceived 2bps greenium, but also because it attracted new, specialised ESG investors that helped widen and diversify the sovereign's investor base. These investors received roughly 67% of the allocated amount.

KfW was also very active in the ESG space, having issued some EUR11.6bn YTD (EUR3.1bn 3Q21), the majority of which was Euro-denominated (60%). The German development bank decided to increase its overall funding target for 2021 in response to the strong development of promotional business in 1H21, upsizing funding requirements by EUR5bn to a range of EUR75bn-85bn. The Euro green bond issuance saw KfW exceeded its 2021 green bond funding target of EUR10bn by EUR1bn. Book orders for the deal reached EUR22bn (7.3x oversubscribed) making it one of the largest non-sovereign SSA order books for a green bond ever.

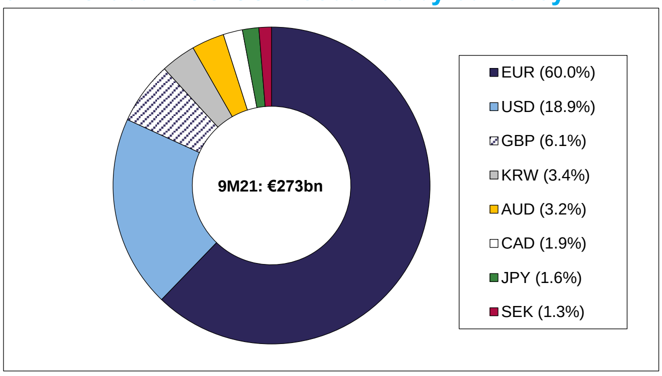
Compared to previous quarters, there was a significant rise in themed Sterling transactions in 3Q21, which accompanied the upturn in use of the currency in recent months. Of the GBP15.3bn issued, the UK DMO's debut green bond contributed 65% to the overall (FIG+SSA) supply during the quarter. Of the 13 themed Sterling transactions in 3Q21 alone, five were SSAs and the remainder were FIGs. Among SSAs, Sterling ranks third among global and European issuers, in 9M21, still well behind Euro. We expect more ESG themed Sterling issues from SSAs in the near term as the likes of KfW and Rentenbank have already signalled interest to come to market in the currency. The UK is making progress in the development of its own green taxonomy, due by end-2022 that should further facilitate issuance.

9M21 European ESG SSA issuance by currency



Source: Bloomberg; 8 largest currencies Daiwa Capital Markets Europe Ltd.

9M21 Global ESG SSA issuance by currency



Source: Bloomberg; 8 largest currencies Daiwa Capital Markets Europe Ltd.

Total **FIG** ESG supply remained strong despite the traditional summer lull, at EUR29.6bn in 3Q21 (+51.2% yoy) bringing the 9M21 total to EUR95bn. Primary market activity was somewhat back-loaded during the quarter with 46% of all deals taking place in September, 38% in July and 17% in August. Towards the end of the quarter, there was a perception in the market that conditions had reached their peak, prompting a flurry of deal flow in September. While issuer fundamentals remained strong, some central banks appeared to be gradually pivoting away from their ultra-loose monetary-policy stances just as liquidity concerns surrounding Chinese property developer Evergrande escalated. The third quarter saw a continued emphasis on senior debt issuance as there were hardly any subordinated transactions. Notable issuers and transactions include:

FIG - Top 10 European ESG Issuers 9M21

Issuers	Total Issued (€m)*	Average Tenor (years)
Caixa Bank	3,582	7.7
LBBW	3,290	8.0
CTP NV	2,500	6.6
LeasePlan NV	2,000	5.0
Helaba	1,800	8.0
Digital Intrepid BV	1,502	7.9
BPCE SFH	1,500	9.5
DNB Boligkreditt	1,500	10.0
ING Groep	1,429	9.4
Swedbank	1,407	6.2

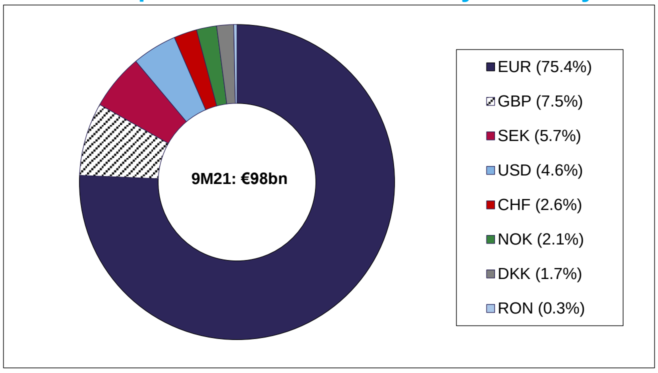
*Source: Bloomberg, *Cumulative issuances 9M21*

- **ABN Amro** – The third largest bank in the Netherlands came to market in September with its debut green SNP bond. The EUR1bn bond had an 8-year maturity and priced at MS+60bps (-25bps from IPT). Final books were reportedly 2.6x oversubscribed, signalling a successful day in the capital markets despite having received the adverse news of having to pay EUR250m compensation payment to the Dutch Consumer Association the same week. The fine arose from excessive interest rate charges on consumer loans bearing variable rates. The figure is certainly manageable for ABN in nominal terms as provisions were already partially built and the impact on CET1 was low at just 15bps. However, just in April ABN reached a settlement with Dutch prosecutors for EUR480m regarding violations of anti-money laundering regulations. The bank could face further fines as prosecutors are investigating ABN's role in dividend tax transactions between 2009 and 2013. In conjunction with other fines and settlements incurred by the Dutch group in recent years, a pattern of lax oversight and poor conduct appears to be putting ABN's 2024 cost targets as well as its governance record at risk. We understand that the bank has taken meaningful steps to correct these inadequate procedures however, ever-greater transparency and regulatory oversight in a maturing ESG landscape could adversely affect ABN's ESG credentials in the future if the failings are left unchecked.

- **BBVA** – In September, BBVA launched a EUR1bn, SP social bond. The 2-year floating rate note was intended to finance and refinance social projects as defined in BBVA's SDG Bond Framework developed in 2018. IPT was 3mEuribor + 35bps and tightened to +15bps (-20bps from IPT) on the back of a reported order book 3.6x. This was BBVA's second social bond following its debut outing in May. BBVA noted that it has EUR1.3bn in eligible loans in its social asset pool. Little to no further ESG issuance is expected from BBVA for the remainder of the year as the bank committed to fund at least one ESG bond every year and this transaction already constitutes its second of the year. BBVA made a 2025 sustainability pledge in which it aimed to issue EUR100bn in sustainable finance between 2018-2025. As of 3Q21, the bank had already reached EUR75bn of that commitment and consequently announced a significant uplift of its pledged amount to EUR200bn within the same timeframe. At COP26, BBVA stated that it set intermediate targets to reduce carbon intensity of its loan portfolio by 52% between 2020-2030. Earlier this year BBVA decided to stop financing companies engaging in coal-related activities by 2030 in developed countries, and by 2040 across the remainder of its footprint.

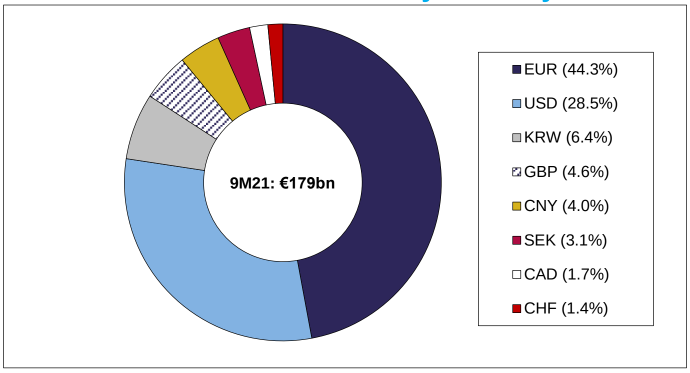
- **Caixa Geral de Depositos** – Rated 'Baa2'/'BB+ by Moody's and Fitch respectively, was the first Portuguese bank to issue sustainable debt, showcasing that banks from Europe's periphery are increasingly pushing into the ESG space. Caixa launched its debut sustainability bond in SP format in September. The EUR500m no-grow deal has a 6NC5 tenor and will allocate proceeds in line with the bank's recently published sustainable finance framework that is aligned with ICMA's green and social bond principles and its sustainability bond guidelines. The deal spread was set at MS+70bps after attracting strong investor demand. The bond also forms an important part in the bank's funding plan to comply with MREL requirements, set by Banco de Portugal, the national central bank. Later that month, Banco Comercial Portugues (BCP) also issued its debut themed SP deal that was MREL eligible. The EUR500m social bond was issued under BCP's recently formulated green, social and sustainability framework. Although the transaction priced in September, the settlement date was in October and therefore does not count towards our quarterly ESG count.

9M21 European ESG FIG issuance by currency



Source: Bloomberg; 8 largest currencies Daiwa Capital Markets Europe Ltd.

9M21 Global ESG FIG issuance by currency



Source: Bloomberg; 8 largest currencies Daiwa Capital Markets Europe Ltd.

(Table 1) Key ESG Transactions 3Q21

Bank	Rank	Amount	Maturity	Final Spread (bps)	IPT (bps)	Book Orders
SSA						
UK DMO	Sr. Unsecured (Green)	GBP10bn	12Y	G + 7.5	G + 7.5/8.5	>GBP100bn
IBRD (World Bank)	Sustainable Dev. Bond	USD5bn	7Y	MS + 6	MS + 7	>EUR9.5bn
CADES	Sr. Unsecured (Social)	EUR5bn	10Y	OAT +13	OAT +15	>EUR12.7bn
Spain	Sr. Unsecured (Green)	EUR5bn	20Y	SPGB + 6	SPGB + 9	>EUR60bn
IDA	Sustainable Dev. Bond	GBP1.5bn	7Y	G + 29	G + 30	>GBP1.7bn
KfW	Sr. Unsecured (Green)	EUR3bn	10Y	MS - 13	MS - 11	>EUR22bn
Ned. Waterschappen	Sr. Unsecured (Social)	EUR1bn	25Y	MS + 9	MS + 11	>EUR1.8bn
AFD	Sr. Unsecured (Sustainable)	EUR2bn	10Y	OAT + 18	OAT + 21	>EUR8.2bn
FIG (Senior)						
ABN Amro	SNP (Green)	EUR1bn	8Y	MS + 60	MS + 85	>EUR2.6bn
BBVA	SP (Social) FRN	EUR1bn	2Y	3mE + 15	3mE + 35	>EUR3.6bn
Caixa Geral de Depositos	SP (Sustainability)	EUR500m	6NC5	MS + 70	MS + 90/95	>EUR1.45bn
Credit Agricole	SNP (Social) FXD-FRN	EUR1bn	8NC7	MS + 68	MS + 90/95	>EUR3bn
NIBC Bank NV	SP (Green)	EUR750m	5Y	MS + 60	MS + 75	>EUR1.3bn
Ceska Sporitelna AS	SNP (Green)	EUR500m	7NC6	MS + 78	MS + 80	>EUR1.25bn
mBank	SNP (Green)	EUR500m	6NC5	MS + 125	MS + 150	>EUR1.2bn
Banco BPM	SP (Social)	EUR500m	5Y	MS + 130	MS + 140/145	>EUR610m
Abanca Bancaria SA	SP (Green)	EUR500m	6NC5	MS+85	MS + 105/110	>EUR1.3bn
UK DMO	Sr. Unsecured (Green)	GBP10bn	12Y	G + 7.5	G + 7.5/8.5	>GBP100bn

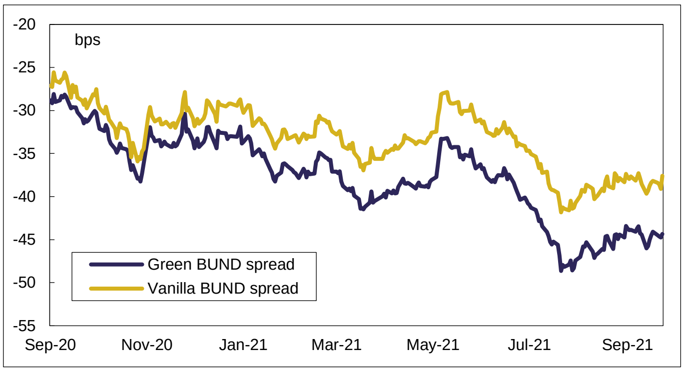
Source: BondRadar, Bloomberg, Daiwa Capital Markets Europe Ltd.

Secondary markets in 3Q21

For the most part, funding conditions remained favourable throughout 3Q21 supporting the increase in issuance volumes compared to the same period last year. However, towards the end of the quarter in particular, central banks had to respond to sharply rising inflation as energy prices soared and supply-chain bottlenecks tightened. During this period sovereign yields jumped following more hawkish commentary from certain central banks, including the Bank of England (BoE), as well as rate hikes from Norges Bank and various emerging market central banks. In September, Eurozone inflation reached a 13-year high, dividing opinion on how transitory or persistent inflation would be going forward. But while in September it announced a slight moderation in the pace of net PEPP asset purchases, the ECB Governing Council left key parameters such as interest rates and forward guidance unchanged, reiterating its expectation that inflation will fall back over the course of 2022 to below the 2% target, a view that Daiwa economists broadly share.

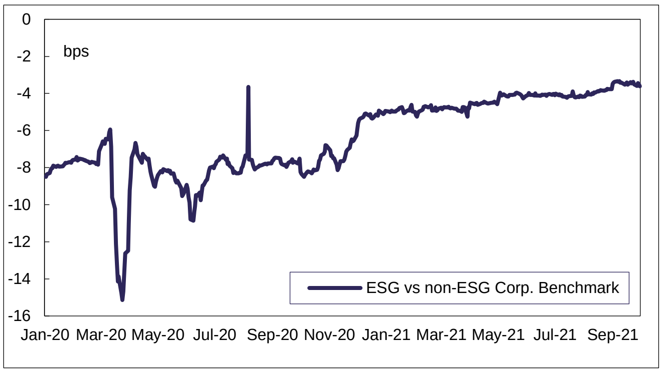
Against this backdrop, bank spreads remained relatively stable despite the yield movements among sovereigns, as trading volumes were somewhat restrained. In particular, option adjusted spreads (OAS) for ESG and non-ESG themed indices appeared to be gradually converging during 9M21 as funding conditions remained largely accommodative in 3Q21. The median negative OAS between Barclays MSCI Euro-Corporate ESG Index and Barclays Pan-European Aggregate Corporate Index over the two year observation period was -6.67bps (at 2Q21: -7.46bps). As we mentioned in previous publications, we believe ESG debt issuance has very much become an established element within issuer funding plans and the share of labelled debt as a proportion of the overall supply is firmly in the double digits during traditional issuance windows. An increased understanding of ESG pricing in a maturing secondary market could explain why in recent quarters the negative OAS between our select indices has narrowed. On a quarterly basis, the median OAS differential during 3Q21 was just -3.88bps compared to -4.85bps during 1Q21. We also note that the greenium for liquid sovereigns such as German BUNDS remains in place compared to their conventional curve. Over the course of 3Q21 the median spread differential continued to widened to -6.4bps (1Q21: -4.2bps; 2Q21: -5.2bps).

Green vs Vanilla BUND Z-spreads



Source: Bloomberg; Daiwa Capital Markets Europe Ltd.

Spreads (OAS) of ESG vs non-ESG benchmarks



Source: Bloomberg; Barclays MSCI Euro-Corporate ESG Index vs Barclays Pan-European Aggregate Corporate Index

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1) As of 26 April 2016, Daiwa Securities Co. Ltd., its parent company Daiwa Securities Group Inc., GMO Financial Holdings, Inc., and its subsidiary GMO CLICK Securities, Inc. concluded a basic agreement for the establishment of a business alliance between the four companies.
As of end-December 2017, Daiwa Securities Group Inc. owned shares in GMO Financial Holdings, Inc. equivalent to approximately 9.3% of the latter's outstanding shares. Given future developments in and benefits from the prospective business alliance, Daiwa Securities Group Inc. could boost its stake in GMO Financial Holdings, Inc. to up to 20% of outstanding shares.

2) Daiwa Real Estate Asset Management is a subsidiary of Daiwa Securities Group Inc. and serves as the asset management company for the following J-REITS: Daiwa Office Investment Corporation (8976), Daiwa Securities Living Investment Corporation (8986).

3) Samty Residential Investment became a consolidated subsidiary of Daiwa Securities Group Inc. effective 10 September 2019.

4) On 30 May 2019, Daiwa Securities Group Inc. formalized an equity/business alliance with Samty, and as of 14 June 2019 it owned 16.95% of shares outstanding in Samty along with convertible bonds with a par value of Y10bn. Conversion of all of said convertible bonds into common shares would bring the stake of Daiwa Securities Group Inc. in Samty to 27.28%.

5) Daiwa Securities Group Inc. and Credit Saison Co., Ltd. entered into a capital and business alliance, effective 5 September 2019. In line with this alliance, Daiwa Securities Group Inc. is to acquire up to 5.01% of Credit Saison's total common shares outstanding (excl. treasury shares; as of 31 Jul 2019).

Notification items pursuant to Article 37 of the Financial Instruments and Exchange Law
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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.

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