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Sustainable bank bond supply set for further growth in 2027

Sustainable bank bond supply is close to reaching a record in 2026, despite Europe's ESG simplification agenda. We expect another increase to €100bn in 2027, supported by sustainable lending growth, higher redemptions and resilient investor demand



Sustainable bank bond supply is blooming, nearing a record in 2026

Banks issued an unexpectedly large amount of sustainable debt this year despite Europe's ESG deregulation efforts. Up to mid-October 2026, they issued more than €86bn in sustainable bonds across different instrument types, up by almost €20bn from the same period last year.

This was a surprisingly strong increase given that favourable primary market conditions offered issuers little greenium, despite continued evidence that sustainable bonds attract higher investor demand, as reflected in stronger oversubscription rates. This suggests that the availability of sustainable assets was not a meaningful constraint on banks' sustainable debt issuance, thanks to higher redemptions and sustainable lending growth.

Issuers are also increasingly directing ESG bond issuance towards European capital markets, often at the expense of North American markets, reflecting the growing divergence in political and regulatory priorities between the two regions.

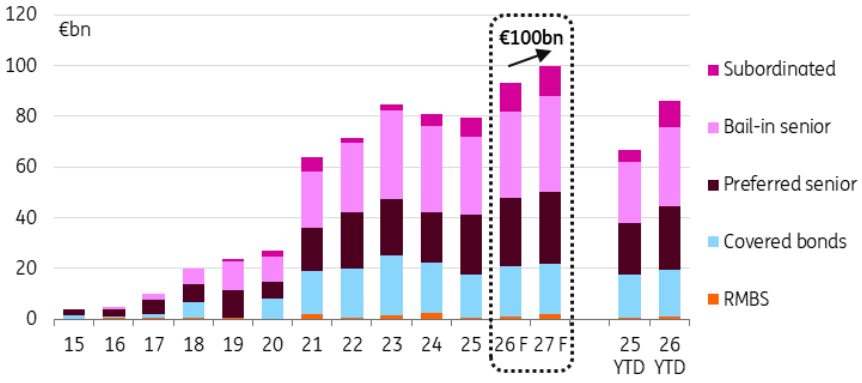
The bulk of the YTD supply (€76.6bn) (re)financed green assets, with green supply up €25bn from 2025. Instead, issuance in social and sustainability formats did not exceed €9.6bn, trailing last year's supply by €4.5bn. All instrument types, from secured to unsecured to subordinated, contributed to the higher ESG supply volumes. However, sustainable T2 and bail-in senior (senior non-preferred and HoldCo) issuance increased particularly strongly, as the funding cost advantage from sustainable issuance was better for these instruments than for covered bonds and preferred senior debt.

Issuance under the European Green Bond Standard (EuGBS) rose from €2.5bn to almost €12bn YTD. For many banks, ICMA-aligned green bond issuance remained the more practical option as it allows them to finance a broader pool of assets, rather than fully commit the bond proceeds to Taxonomy-aligned activities. This is particularly relevant when non-EU assets are financed, for which the EU regulation-based do-no-significant-harm requirements (DNSH) are difficult to apply.

That said, with the revisions to the EU Taxonomy's technical screening criteria around the corner (expected in 4Q 2026), we expect more banks to inaugurate European Green Bond Programmes, as more types of green assets will become available due to the EU's simplification agenda.

Sustainable bank bond supply will reach €100bn in 2027

€bn



Source: IGM, ING

Includes only euro-denominated bank bonds with a minimum size of €250m

What is driving growth in ESG supply in 2027?

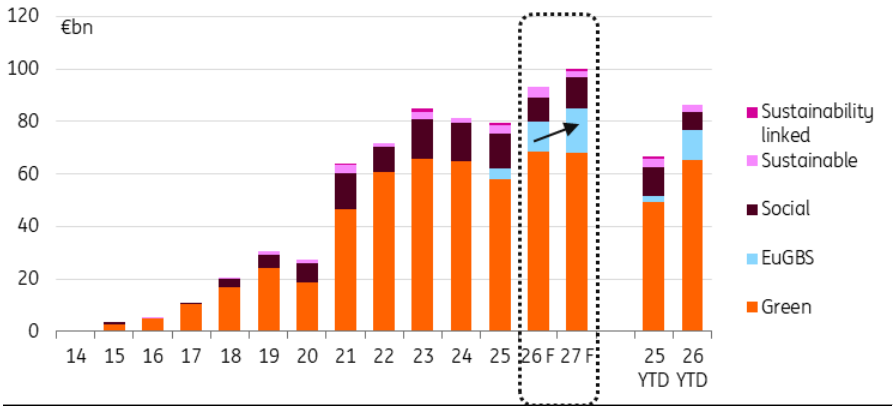
We expect sustainable bank bond supply to reach €100bn in FY2027, up from €93bn in FY2026 and equivalent to 22% of total euro-denominated bank bond supply. Green issuance remains dominant at €85bn, of which €17bn (20%) will be issued under the EU Green Bond Standard (EuGBS). Social, sustainable and sustainability-linked supply will total €15bn, of which 80% will

be issued in social format.

Greater availability of social assets, together with regulatory initiatives such as the Affordable Housing Act presented by the European Commission in September 2026, should help social issuance to gain further traction in 2027.

Green supply will reach €85bn of which 20% will be issued as EuGBs

€bn



Source: IGM, ING

Includes only euro-denominated bank bonds with a minimum size of €250m

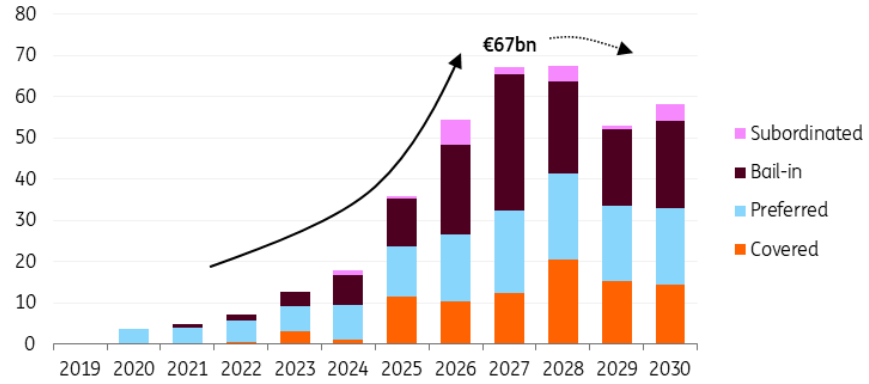
Sustainable loan origination will, in general, remain an important driver of ESG supply. Higher interest rate levels will dampen lending growth in 2027, but sustainable lending will likely be impacted to a lesser extent.

Borrowing for energy efficiency improvements or with a low carbon footprint could trim borrowing costs, while high energy prices and costs may incentivise companies and households to move forward with investments to reduce their energy dependence and use. Banks' net-zero commitments also support the continued focus on the greening of their balance sheets.

Moreover, banks will repay €67bn in EUR sustainable debt in 2027 up from €54bn in 2026. These redemptions should release some assets for refinancing, although loan amortisation, look-back periods and changes in use-of-proceeds criteria may prevent a full refinancing with new sustainable debt. In 2026, banks replaced 70% of their sustainable redemptions partially or fully with new sustainable supply. A comparable trend for 2027 would already cover close to half of our supply estimate for next year.

Sustainable bank bond redemptions rise to €67bn in 2027

€bn



Source: IGM, ING

Includes only euro-denominated bank bonds with a minimum size of €250m

Besides these fundamental supply drivers, periods of geopolitical or sovereign debt market volatility could encourage banks to apply a green or social label to a larger share of their issuance. This may help them broaden and diversify their investor base and support the execution of their transactions.

EU simplification and asset-identification developments

The EU's efforts to simplify ESG rules will have mixed implications for the growth of sustainable asset pools. The reduced corporate sustainability reporting scope may impede asset identification, while revisions to the Taxonomy's technical screening criteria could support the growth of eligible green assets.

This year's narrowing of the scope of the EU Corporate Sustainability Reporting Directive (CSRD) to companies with more than 1,000 employees and a turnover above €450m makes it more difficult for European banks to identify assets on their balance sheets that are suitable for sustainable bond issuance. The simplification of the European sustainability reporting standards (ESRS) and the value chain cap add to this challenge.

However, the voluntary reporting standards applicable from 1 January 2027 could still provide banks with some essential data on smaller companies in their value chain. This may include information on energy consumption, greenhouse gas emissions, waste generation, and recycling efforts, which could support the identification and origination of eligible sustainable assets.

The narrower CSRD scope will also have implications for EU Taxonomy disclosures, which are likely to be more important than the broader ESRS disclosures for the identification of eligible

green assets. The restricted scope reduces the availability of Taxonomy alignment data, as smaller companies and banks are excluded from these disclosures. The 10% materiality threshold may also allow smaller exposures to be excluded from Taxonomy alignment assessment, further limiting the value of Taxonomy disclosures for asset identification.

While these disclosure changes may complicate asset identification, the proposed revisions to the Taxonomy's technical screening criteria could support green portfolio growth once they enter into force in early 2027. For instance, the substantial contribution criteria for green buildings constructed before 2027 remain mostly unchanged. The criteria would also be expanded to include buildings that achieve a reduction in primary energy demand of at least 60%. Combined with the streamlining of DNSH criteria, this could support the expansion of Taxonomy-aligned green portfolios.

The technical screening criteria for buildings built after 1 January 2027 will converge more closely with the revised European Energy Performance of Buildings Directive (EPBD 2024/1275). However, they would already subject all new buildings to the Zero Emission Building (ZEB) criterion and life-cycle global warming potential (GWP) calculations ahead of the EPBD's 1 January 2030 deadline.

Additional recommendations from the Platform on Sustainable Finance could also make some criteria more restrictive. The Platform has recommended introducing a stricter top-15% benchmark for buildings constructed before 2021, based on 2023-26 building stock data, with the threshold tightening every five years to align with the trajectory towards net-zero by 2050. If incorporated into the final technical screening criteria, this recommendation could initially render more green buildings built before 2021 ineligible under the top-15 criterion. Over time, however, this periodic tightening would be consistent with the EPBD objective of achieving a net-zero building stock by 2050.

Taxonomy-aligned bonds will continue to find demand

The upcoming revisions to the Sustainable Finance Disclosures Regulation (SFDR) should also remain supportive of demand for sustainable bonds, even though these revisions will probably not apply before 2029 (i.e. two years after implementation).

The SFDR review is set to enter trilogue negotiations, with the Council agreeing on its position in June 2026 and the Parliament adopting its negotiating position in September 2026. The European Commission published its first proposals to revise the SFDR in November 2025, providing for three new product categories to replace the current disclosure-based framework.

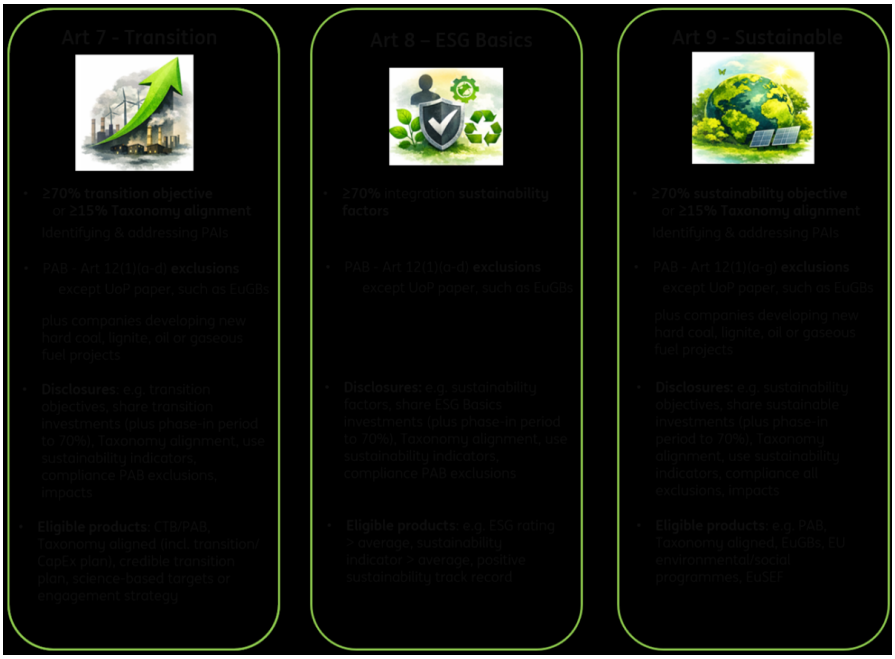
The **transition category** covers products that invest in companies or assets with a credible path towards sustainability or that pursue certain environmental or social transition-related objectives. The **ESG basics category** includes products that integrate other sustainability considerations beyond sustainability risks in their investment strategy. The **sustainable**

category encompasses products investing in companies or assets that already meet high sustainability standards or pursue a particular environmental or social objective.

For each category, a proposed minimum of 70% of the investments should be made according to the respective sustainability claim. For the transition and sustainable categories, the 70% condition would also be met if the proportion of investments in Taxonomy-aligned activities is at least 15%. This would support demand among investors subject to the SFDR for bonds that finance Taxonomy-aligned activities.

The applicable Paris-aligned benchmark (PAB) exclusions do not apply to use-of-proceeds instruments such as European green bonds (EuGBs), or instruments where the proceeds do not fund the activities that should be excluded according to the applicable PAB exclusions, as long as the issuer of the instruments does not breach the UNGC principles or the OECD Guidelines for Multinational Enterprises. This offers flexibility when investments are made in EuGBs or other eligible use-of-proceeds bonds.

New product categories under SFDR 2.0



Source: European Commission, ING

Simplification won't stall banks' sustainable supply

Europe's simplification drive is not derailing sustainable bank bond supply. Growing sustainable loan portfolios, higher redemptions and resilient investor demand should support further growth in 2027, even as overall bank bond supply remains broadly stable.

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