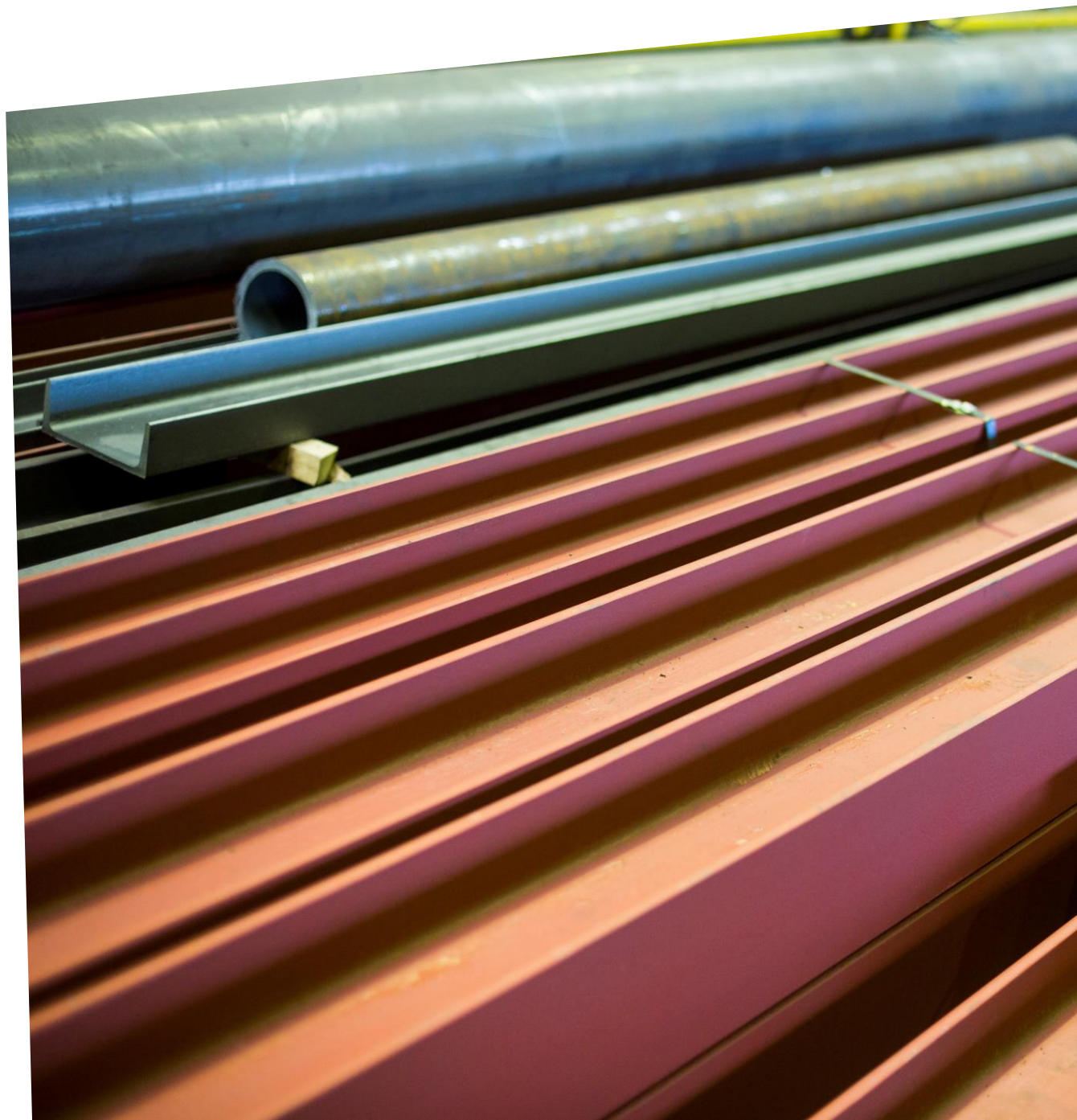


# Analysis of the taxonomy profile of industry

Low informative value of the Green Asset Ratio and need for transition finance



# From 2024 banks will report their Green Asset Ratios

## Overview



### Green Asset Ratio

From 2024, the Green Asset Ratio is intended to become the key figure indicating the ecologically sustainable share of banks' balance sheets. It will therefore outline the sustainability profile of a bank.

- Can the Green Asset Ratio really achieve that?
- How much can the taxonomy profile of the economy say about the status of the transformation?



### Study

Analysis of the taxonomy ratios of more than 450 companies

- Members of the (leading) indices of the 10 largest EU economies (by GDP) and from businesses in the STOXX Europe 600 listed on EU stock exchanges
- Based on their primary economic activity, each company is assigned to an industry, a supersector, a sector and a subsector
- Evaluation of the taxonomy-eligible and the taxonomy-aligned shares of turnover and capital expenditure

# Taxonomy's definition of sustainability

## Functioning & reporting requirements



The economic activity is included in the taxonomy, thus it can be sustainable (based on NACE codes)

- Climate protection
- Protection of water and marine resources
- Climate change adaptation
- Preventing environmental pollution
- Biodiversity
- Transition to circular economy

The economic activity does not, at the same time, harm any of the other environmental objectives of the taxonomy ("do no significant harm")

The economic activity respects minimum social standards (including labour laws and human rights)

Calculating the taxonomy-eligible and taxonomy-aligned shares of turnover and capital investment

- Banks calculate the taxonomy-eligible and taxonomy-aligned shares of their balance sheets (Green Asset Ratio)

# Industry at the beginning of the transformation

Total taxonomy eligibility and alignment of turnover



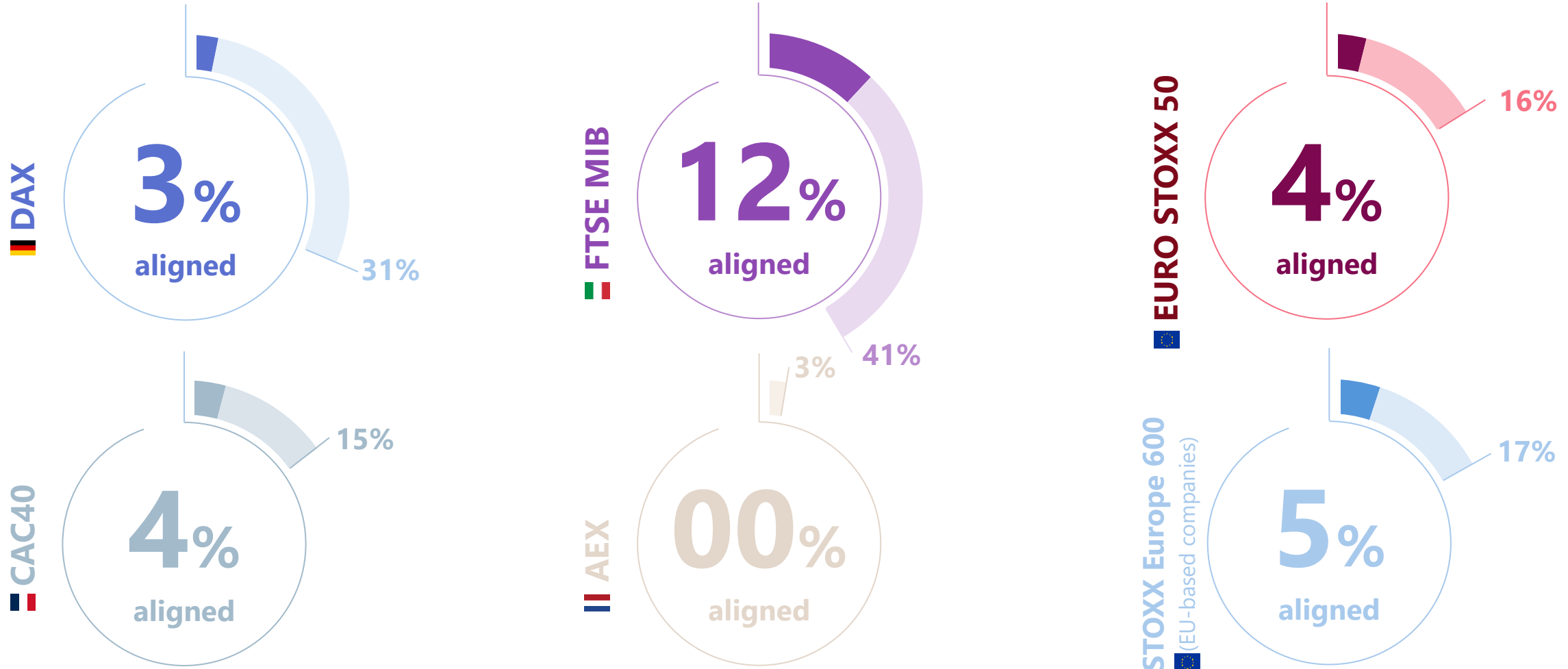
30%

**Taxonomy-eligible  
share of turnover**

Total taxonomy-eligible and taxonomy-aligned shares of turnover of companies (converted into EUR); conversion rates as of 31/03/2023.

# Industry is at the beginning of the transformation

Taxonomy eligibility and alignment of industrial businesses in selected indices

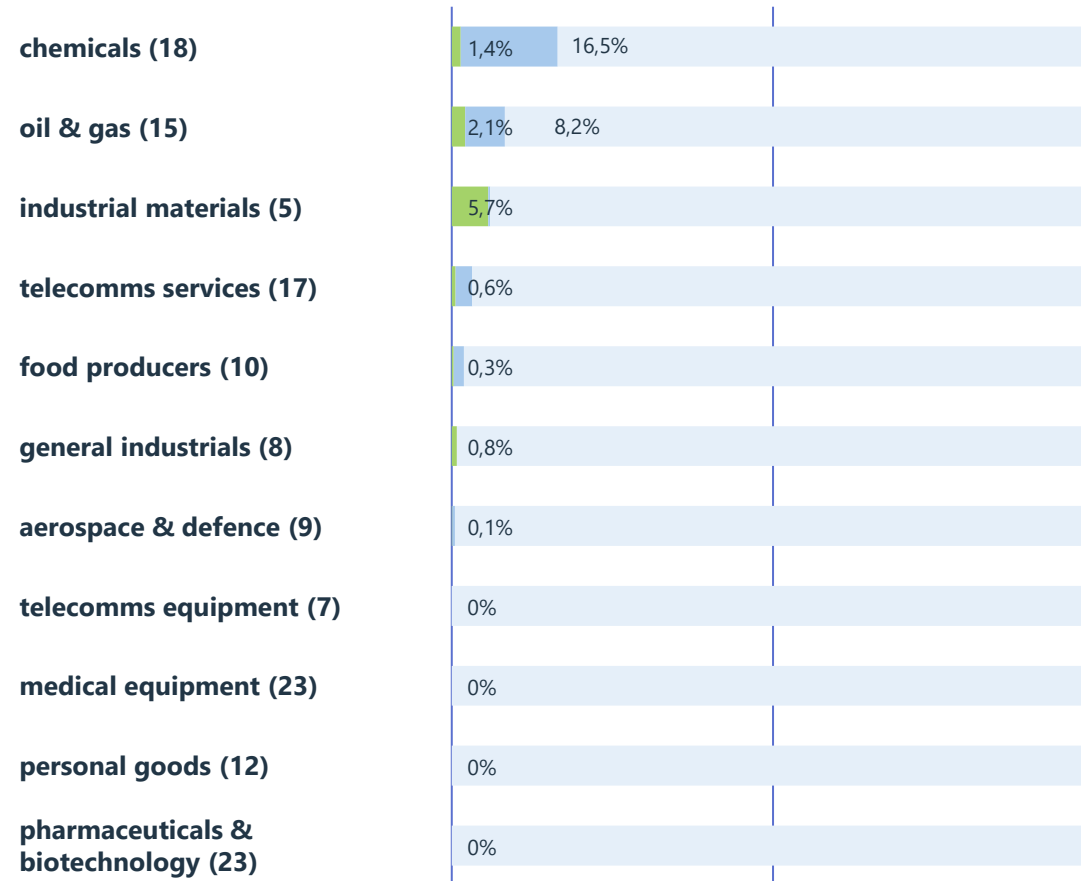
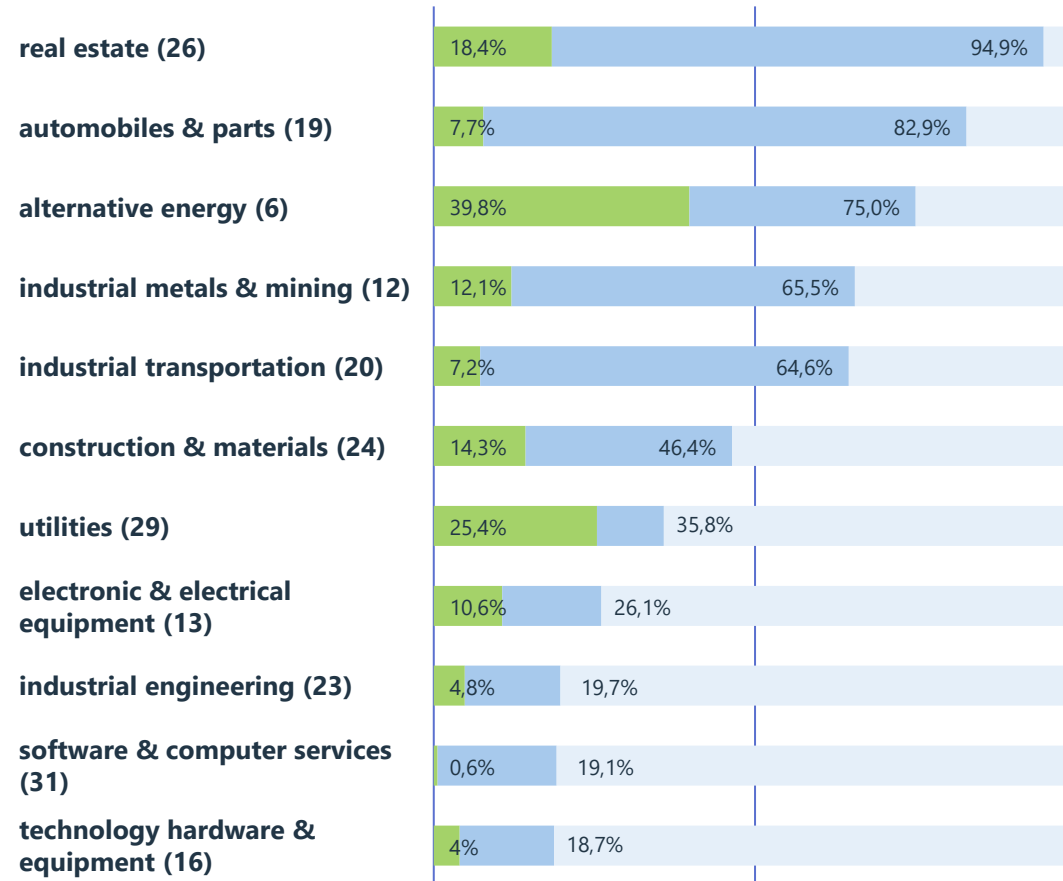


Based on transfer of turnover KPIs to weighting of indices as of 31/03/2023. Weighting typically based on market capitalisation. For details see: [DAX](#), [CAC40](#), [FTSE MIB](#), [AEX](#), [STOXX Europe 600](#).

# Taxonomy profile varies widely by sector

## Sectoral analysis

### Taxonomy eligibility & alignment of selected sectors



Based on the FTSE Industry Classification Benchmark (FTSE), companies are classified into 11 industries, 20 supersectors, 42 sectors and 151 subsectors based on their main activity. All values calculated on the basis of absolute turnover figures. Where only one value is shown, this is the compliance rate.

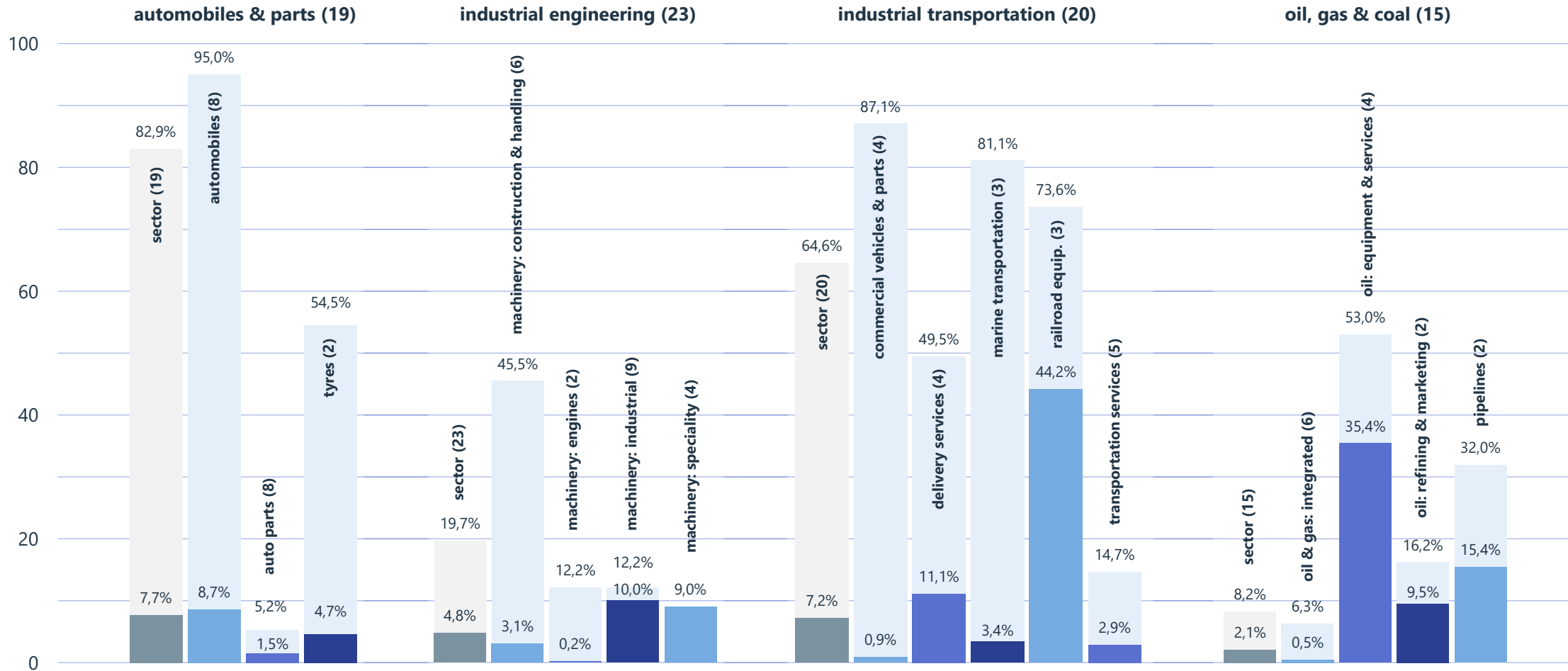
# Many activities are not represented at all

Sector analysis: sectors with low taxonomy-eligible ratios

	Sector / subsector	Turnover	Taxonomy eligible (%)	Taxonomy alignment (%)
<b>Consumer staples</b>	beverages (8)	111.2 bn EUR	0.00 %	0.00 %
	food producers (10)	66.5 bn EUR	1.87 %	0.29 %
	food retailers (8)	225.6 bn EUR	0.11 %	0.02 %
	clothing, accessories & footwear (10)	231.9 bn EUR	0.00 %	0.00 %
	personal care products (3)	82.7 bn EUR	0.02 %	0.00 %
<b>Health care sector</b>	health care providers (3)	62.3 bn EUR	0.68 %	0.00 %
	medical equipment (23)	78.3 bn EUR	0.00 %	0.00 %
	pharmaceuticals & biotechnology (23)	209.2 bn EUR	0.00 %	0.00 %
<b>Strategic sectors / key technologies</b>	production technology equipment (6)	25.5 bn EUR	1.06 %	1.06 %
	semiconductors (7)	21.0 bn EUR	35.79 %	6.88 %
	telecommunications equipment (7)	50.3 bn EUR	0.02 %	0.00 %
	telecommunications services (16)	267.0 bn EUR	3.16 %	0.60 %
<b>Sectors with environmental relevance</b>	aerospace (5)	94.3 bn EUR	0.60 %	0.01 %
	airlines (4)	87.1 bn EUR	0.00 %	0.00 %
	paper (4)	29.5 bn EUR	5.87 %	5.76 %
	containers & packaging (4)	25.3 bn EUR	0.92 %	0.92 %

# Ratios fluctuate even within individual sectors

Analysis of subsectors



Allocation in subsectors based on the company's primary economic activity. All values calculated on the basis of absolute turnover figures.

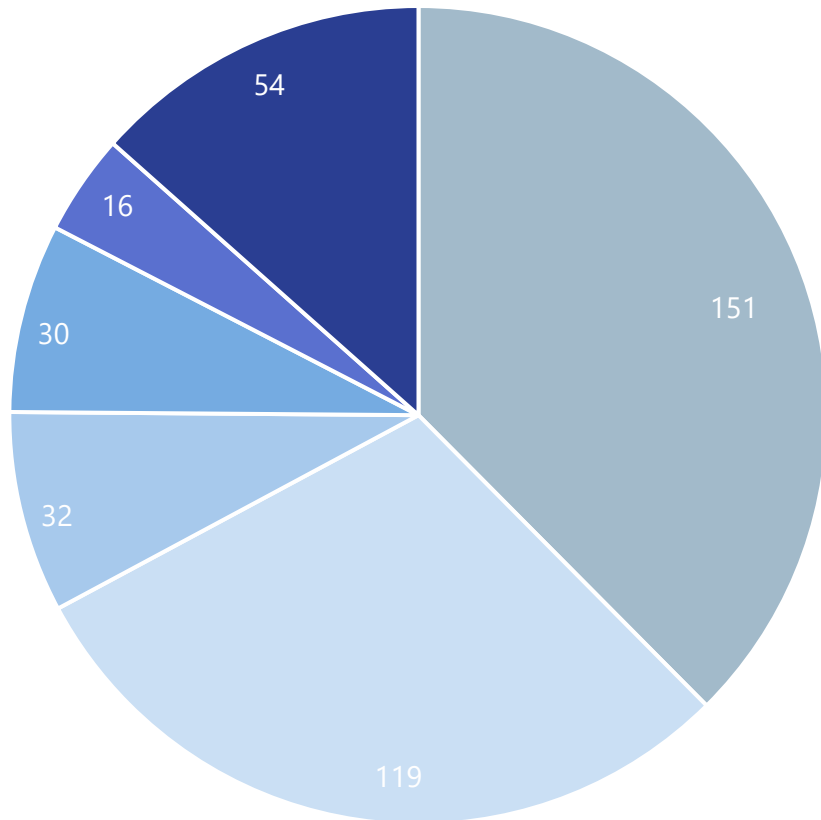


# Taxonomy does not even cover a third of the economy

Grouped according to taxonomy eligibility and alignment

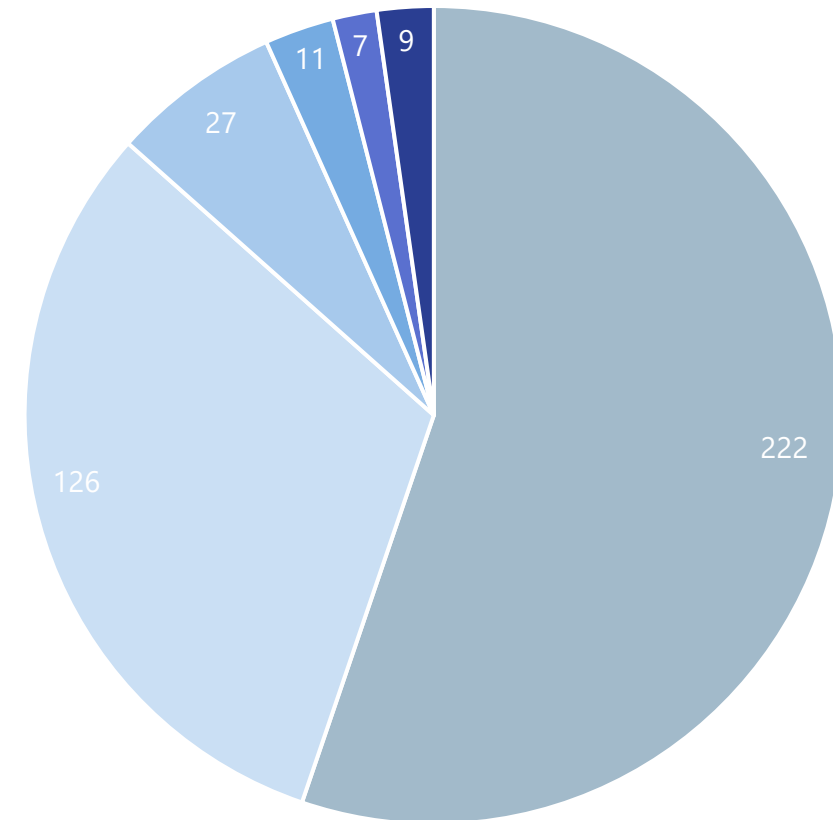
## Grouped according to taxonomy eligibility

(number of companies)



## Grouped according to taxonomy alignment

(number of companies)



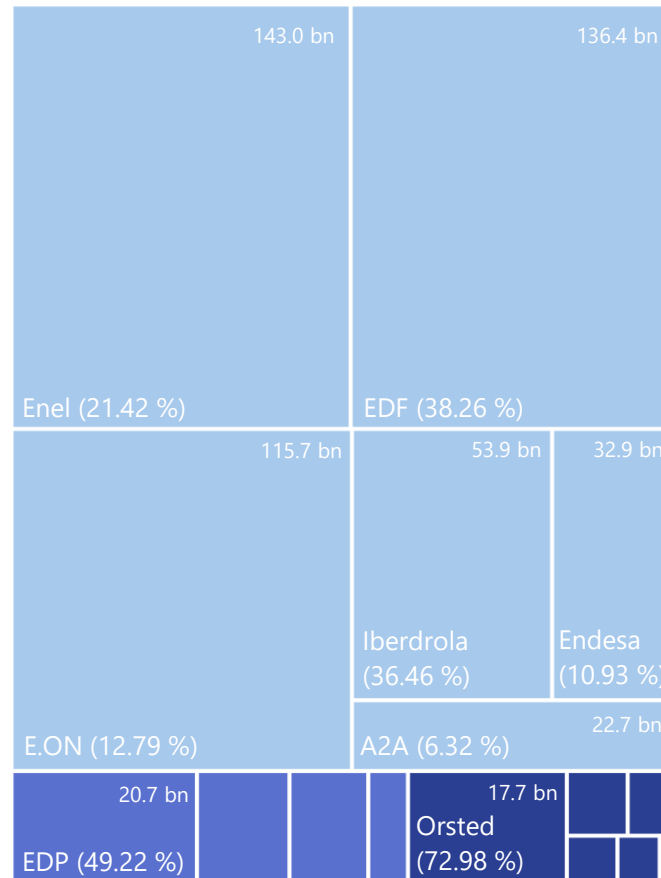
- 0.00 %
- 0.01 % - 20.00 %
- 20.01 % - 40.00 %
- 40.01 % - 60.00 %
- 60.01 % - 80.00 %
- 80.01 % - 100.00 %

Based on turnover KPIs. Companies that have not yet published taxonomy data (e.g. divergent fiscal year or not required to do so) are excluded from this presentation (affects 58 of the 460 companies).

# Even within subsectors, ratios vary widely

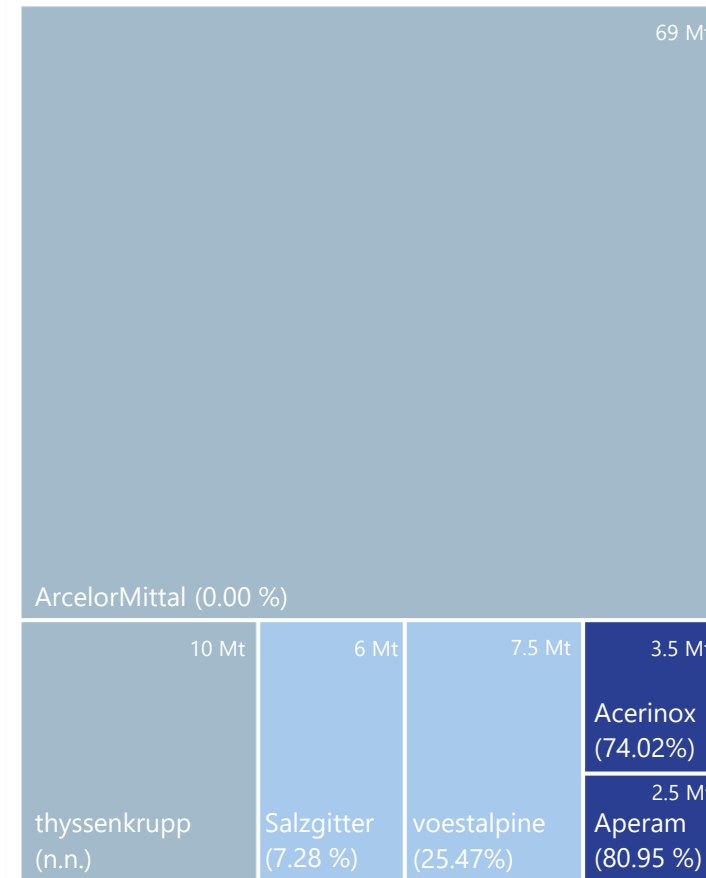
Spread analysis of subsectors

### Alignment vs. electricity turnover



Share of turnover vs. alignment ratios (grouped) into subsectors "alternative electricity" and "conventional electricity". Subsectors average: 37.51 % eligible, 28.95 % aligned.

### Alignment vs. steel production capacity



Source: World Steel Association ([steel-producing capacities](#)), Acerinox ([Website](#)) & Aperam ([Website](#)) (all as of 24/07/2023).

# Result: Green Asset Ratio has no controlling influence...

...and only reflects the sustainability profile of banks to a very limited degree

Taxonomy coverage

**ca. 30 %**

**only parts of the economy included**

whereas banks' balance sheets reflect entire economy

Alignment ratio of real economy

**max. 7 %**

**lower ratios among SMEs**

listed companies often addressed sustainability earlier

Green Asset Ratios will be low single digit figures



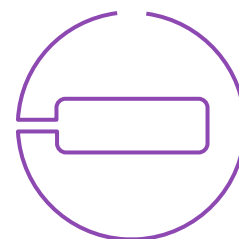
**Green asset ratio only reflects the sustainability profile of banks to a very limited degree**

**KPI does not reflect nature of transformation and process**

**KPI has no controlling influence**

Flawed

## Methodology



**Project companies excluded**

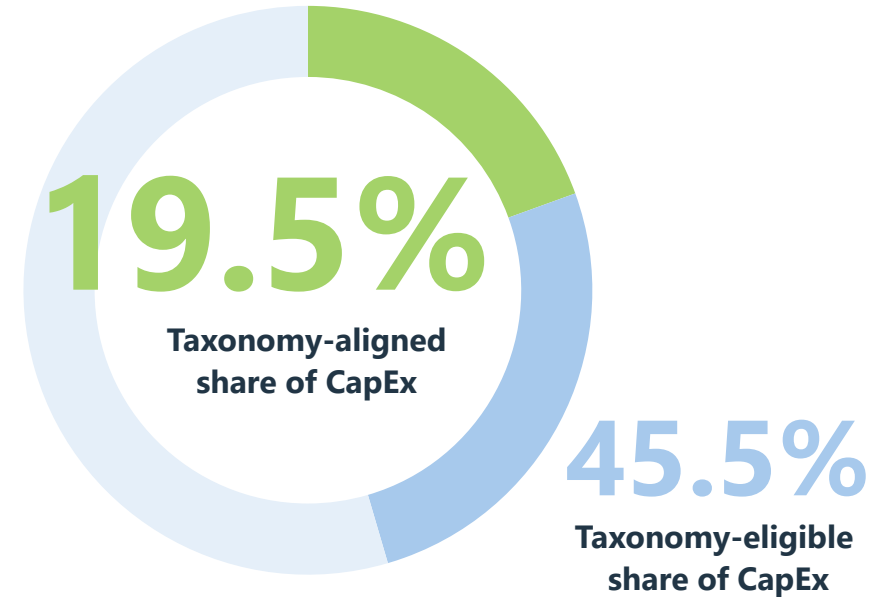
Means that e.g. wind farms and commercial real estate is excluded from the Green Asset Ratio – while the values remain in the denominator

# Outlook: ratios are increasing, but will remain low

Capital investment (CapEx)

Total volume of CapEx

711.2  
billion EUR



# Only “dark green” is not enough

Focus on transition finance – measures & outlook

# 1

## Don't overvalue Green Asset Ratio

The Green Asset Ratio (GAR) does not sufficiently reflect the sustainability profile of companies and banks.

It cannot be used as a steering or controlling KPI.

It should not be used as a benchmark to determine subsequent political or regulatory measures.

# 2

## Extend Green Asset Ratio

In order to improve the informative value of the Green Asset Ratio, at least to some degree, corrections should be made to its flawed methodology.

Above all, it should be possible to include project financing in the GAR – e.g. for wind farms.

# 3

## Focus on transformation

The taxonomy uses a black and white definition of sustainability. But the transformation of the economy is a process.

Expanding the taxonomy does not solve the problem, but only transfers it to other sectors, as well.

The transformation activities of companies and the financing of them should be given much greater weight. This is where transition finance comes in.

Principle-based framework needed.

# Your contacts



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