# Taxonomy Disclosures: poor results and an uncertain future

European banks' second full Taxonomy disclosures showed no improvement from the year prior. The average GAR reached only 3.7% for 2024, while the eligibility remains at 35%. Data gaps and methodology flaws are still the main factors explaining these results. Beyond these challenges, the EU Taxonomy's future is now uncertain due to the Omnibus package


European Commission President Ursula Von der Leyen published the sustainability Omnibus proposal in November.

In our piece "A slow start, but a start nonetheless", published last year, we zoomed in on European banks' first full Taxonomy disclosures. The exercise uncovered what can only be described as disappointingly low results, especially when it comes to the Green Asset Ratio (GAR), a measure designed to become the snapshot indicator of banks' environmental sustainability. The average GAR for the financial year 2023 reached just 3%.

This year's reiteration of the exercise pointed to very similar results with an average GAR at 3.7% for our sample of 40 banks from 13 Member States. We also note the stagnation in the share of banks' eligible assets under the Taxonomy, holding steady at an average of 35%.

The lack of improvement from last year's disclosures is not only an indication of banks' slow transition to more sustainable assets, but also stems from the lack of changes in the Taxonomy's methodology. While the next extension of the enforcement scope was initially planned for 2026, the highly anticipated sustainability Omnibus proposal led to a two-year delay in the subsequent waves. Therefore, not only should we not expect any improvement in the coming two years, but the very future of the European Taxonomy is now in question. Read our piece on the Commission's Omnibus proposal here.

That being said, the road towards completing the Omnibus package is still long. Therefore, it is worth looking in more detail at banks' second full Taxonomy disclosures. As last year's piece discussed the different variables considered in the Taxonomy and GAR, this report will directly focus on highlighting the financial year 2024 results. The second part will review the challenges still faced by banks. We will conclude by exploring the future of the regulation and the broader implications of the Commission's Omnibus proposal.

## Another year, another low GAR

This year marked the fourth time that financial institutions reported under the European Taxonomy. However, this is only the second year they are required to report their eligible and aligned assets, along with the GAR.

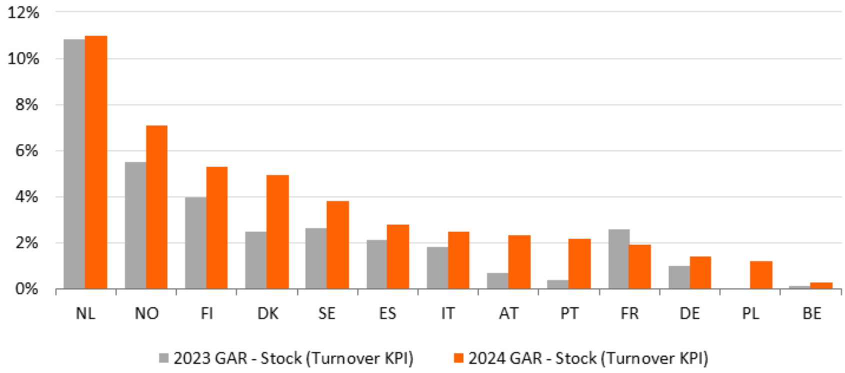
For the first time this year, all banks in our sample reported results with both the Turnover and CapEx KPI. Additionally, all entities made use of the somewhat harmonised disclosure template, which significantly increases the transparency and availability of their report. Overall, this year has brought significant improvements in data accessibility.

Turning to the results, our sample continues to highlight variations depending on the KPI used. In fact, GAR reported based on the CapEx KPI tends to be slightly higher, on average, than the Turnover-based measure. Within our sample, the Turnover-based GAR averages 3.7%, while the CapEx-based measure stands marginally higher at 3.8%, a difference of just 0.1 percentage point. Overall, these figures underscore stagnation in the sector's sustainability indicators since last year.

The consistency in the average GAR also hides disparities between banks and countries. Dutch banks once again take the lead with the highest share of aligned activities at 11% on average. This can partially be explained by the country's building energy performance scale, which remains less strict than most of its European counterparts. The disparity also stems from the regulatory choices for household inclusion. Indeed, using the top 15% most energy-efficient buildings of the national stock and EPC label A, or only one of those criteria, might reflect differently in the results.

Norwegian institutions are in second place, with a GAR at 7% on average, up nearly two percentage points since last year. We also note an increase in the results of both Finnish and Danish banks, taking third and fourth place in our sample. The graph below highlights the regional differences, with Nordic countries (plus the Netherlands) disclosing the highest GAR. Polish and Belgian banks show the lowest disclosed GAR, just like last year.

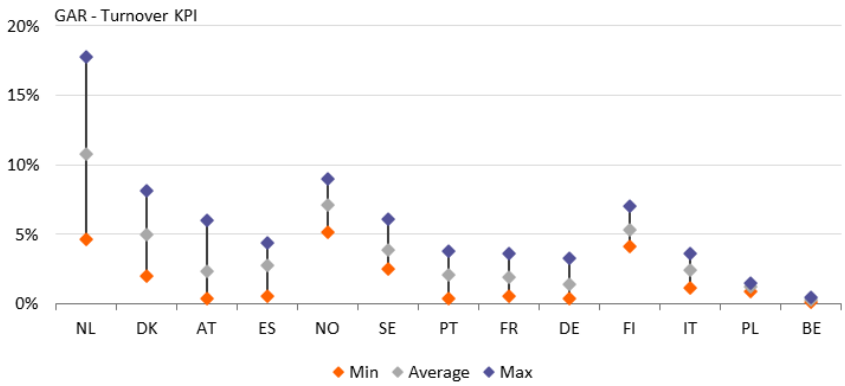
## Banks' average Green Asset Ratio disclosed per country




Source: Banks' disclosure report, ING research

We also note that the Netherlands shows the largest variations within banks' results nationally, with a more than 15 percentage point (pp) difference between the lowest and the highest reported GAR. The graph below depicts the maximum and minimum values reported in each country. While there is little change in the lowest reported values, we do note an increase in the maximum disclosed GAR. Indeed, six of our sampled countries have a maximum GAR over 5%, which is twice what was recorded last year. Despite that, none of the institutions in our sample disclosed a GAR above 20%.

## Green Asset Ratio variations within jurisdictions




Source: Banks' disclosure report, ING research

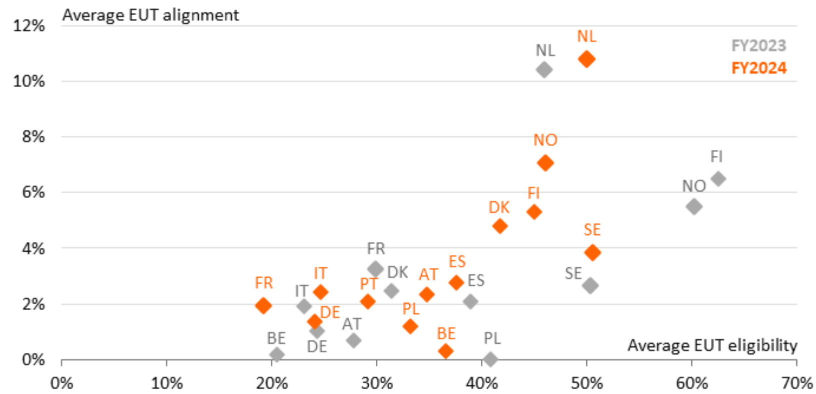
The GAR is a useful tool to assess the sector's sustainability at a glance. However, due to both the scope of assets included in the ratio and the inherent asymmetry of the calculation, the view remains rather incomplete and even biased. One should therefore also look at the Taxonomy eligibility and alignment ratios. Those give insights into the share of banks' portfolios that could become green. Between 2022 and 2023, we noted a 5pp increase in the eligibility ratio. This year's reporting points to a stabilisation of that share at 35%.

Also, the drop between the share of eligible and aligned assets remains significant at nearly 32pp. This is a slight, 2pp, increase compared to 2023. However, just like the GAR, those results vary between countries. Last year, we noted that Nordic jurisdictions applied more of a cautionary approach to the calculation of their alignment ratio and therefore showed the highest difference between their eligibility and alignment scores.

The graph below points to a change in our Nordic sample disclosures, as they show an increase in their alignment rate (with the exception of Finland). We also note that Norwegian and Polish institutions decreased their reported eligibility without much of an impact on their alignment rate. This change comes from the addition of a new bank in the sample. Finnish banks also show an eligibility decrease, but this stems from an increase in the bank's share of assets not subject to the NFRD/CSRD.

In contrast, Belgian and Dutch banks have seen an increase in their average eligibility, resulting in a mediocre alignment increase. Austrian and Danish banks show a decent increase in their alignment resulting from the hike in eligibility. Finally, German, Swedish, Italian and Spanish averages show little movement compared to last year's disclosures.

## Average national correlation between EUT eligibility and alignment rate



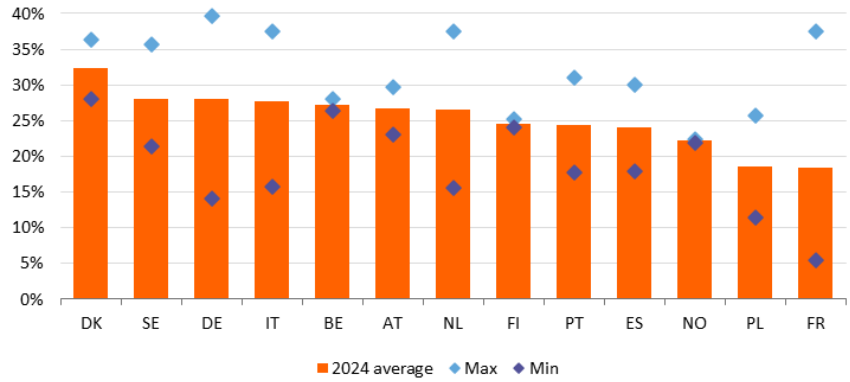

Source: Banks' disclosure report, ING research

## Other changes

One last variable is necessary to consider, namely, the share of non-financial counterparties not subject to the NFRD/CSRD. It's an interesting ratio to analyse under the assumption that the CSRD scope will be extended as laid out in the current Directive. In other words, if we completely ignore the probable scope change stemming from the Omnibus package.

In our sample, we record an average share of nearly 23% of non-financial assets not subject to the NFRD/CSRD and therefore not eligible to be aligned to the Taxonomy yet. Here again, the number varies between jurisdictions, with Danish banks showing the highest scores. That said, some entities in Germany, France, Italy and the Netherlands report rates of nearly 40%. This indicates that within those jurisdictions, some financial institutions would potentially significantly benefit from the widening of the EUT scope, if a large share of these clients were to be Taxonomy aligned.

## Share of non-financial counterparties not subject to the NFRD/CSRD




Source: Banks' disclosure report, ING research

## Challenges remain for European banks

In summary, from our sample of 40 banks from 13 Member States, we note only a very slight increase in the average Green Asset Ratio (Turnover KPI) for 2024 at 3.7%. This marks an exact 0.6 percentage point increase from 2023 at 3.1%. In other words, the GAR was and remains extremely low.

While Dutch banks are still leading with an average GAR at 11%, their Norwegian counterparts are now placed second at about 7%. We also continue to note important variations between banks within the same jurisdiction. Additionally, results point to a stagnation of the EUT eligibility rate at 35%.

Despite the low results and the only slight improvement, we like to remain hopeful and stress the importance of taking these results with a pinch of salt. Indeed, several of the challenges faced last year remain true for this year's disclosures. This section unfolds two reasons why one should remain cautious when looking at Taxonomy and GAR results.

### 1 Large data gaps

Despite the improvements in the availability and accessibility of banks' Taxonomy reports, the European Taxonomy remains an extensive and heavy piece of regulation. It requires corporates to collect substantial information on their activities, which can still prove challenging after just a couple of years of enforcement. This also impacts banks as the sector inherently relies on clients' disclosures for its own.

Additionally, discrepancies remain when it comes to the availability of Energy Performance Certificates (EPC) used for banks' building portfolio assessment. Institutions in countries where a large part of the building stock has an EPC label and one that is publicly available will be able to more accurately represent their mortgage portfolio, affecting both the eligibility and alignment rates.

Furthermore, various interpretations exist between countries, especially when it comes to the treatment of banks' mortgage portfolios. We note a very significant difference in the share of the institutions' building portfolios considered to be eligible. While Dutch banks systematically report nearly 100% of their portfolio as eligible, other countries barely report 60% of their assets as eligible. These different approaches not only imply lower eligibility but also affect both banks and national average alignment rates.

## 2 Imperfect methodology

Just like last year, one should remain cautious when interpreting these results, as the formula by which they are derived still doesn't give a full view of banks' assets or sustainability.

Indeed, as the current scope of the Taxonomy doesn't include smaller or third-country companies, banks with a large share of their books dedicated to these types of entities will report a lower alignment and GAR - regardless of their actual sustainability. The situation was initially intended to be corrected by the CSRD's gradual increase in scope, but will now be reconsidered as the Omnibus proposal would significantly change the CSRD and Taxonomy scope. We'll come back to this in the last part of this piece.

Aside from not truly reflecting banks' portfolios, the exclusion of smaller corporates and foreign entities mathematically brings the GAR results down. Indeed, as those assets are included in the denominator of the calculation and not the nominator yet, it has a negative impact on all banks' results.

Finally, the calculation still doesn't include banks' activities in project finance, as those are often financed through special purpose vehicles and don't appear on financial institutions' balance sheets. While the current regulation aims to address the distortions caused by the first two factors, there is no plan regading to inclusion of project finance upon full enforcement of the Taxonomy.

A large part of these challenges could be solved once the CSRD scope is fully implemented, in other words, by 2029. However, the Commission's proposal for a sustainability Omnibus package has opened the door to a significant overhaul of the Taxonomy policy as it is currently enforced. The next section dives into the changes the Omnibus could imply for the Taxonomy and what that would mean for the European banking sector.

## Commission's Omnibus proposal for the EU Taxonomy

In February, the European Commission published the eagerly awaited sustainability Omnibus proposal. The project to merge the Corporate Sustainability Reporting Directive (CSRD), Corporate Sustainability Due Diligence Directive (CSDDD) and the European Taxonomy through an Omnibus package was announced in November 2024 by the Commission's President Ursula Von der Leyen.

An Omnibus package is the European Union's legal tool to simplify its regulation by merging several directives into one.

The Commission's proposal published in February, included the final proposal for both the CSRD and the CSDDD as well as a draft proposal for the European Taxonomy. The draft in question was submitted to consultation for a month, until mid-March, after which the Commission reviewed the answers and is expected to publish its final proposal.

Although not yet final, the published draft provides a clearer view of the Commission's vision for the European Taxonomy. As previously noted, it slashes the scope of the policy. This section focuses solely on the proposed changes to the European Taxonomy, while a review of the broader proposal is available here.

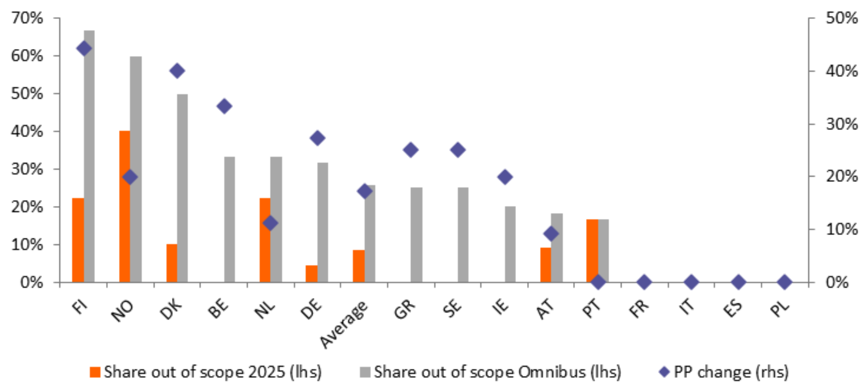
The Taxonomy disclosure requirements are currently applicable for corporates and financial institutions in the first wave of the CSRD. These include only the larger companies with over 500 employees. The Omnibus proposal aims to further align the scope of the different reporting directives, so the dramatic scope reduction proposed for the CSRD would therefore be mirrored in the European Taxonomy.

However, the Commission's proposal doesn't stop there. Indeed, it suggests implementing an opt-in clause allowing entities with over 1000 employees but a net turnover below €450m to disclose under the Taxonomy. This implies that all entities with a net turnover of less than €450m would be exempted from the disclosures, even if they have over 1000 employees.

The change would partially streamline the scope of the nominator and denominator in the Green Asset Ratio, which is currently asymmetric. Indeed, only considering the largest entities will balance both sides of the calculation by removing the smaller, out-of-scope entities currently accounted for in the denominator. However, the Commission proposes to apply the CSRD scope to the GAR while allowing entities with a turnover below €450 million to opt into Taxonomy reporting. This means that financial institutions in scope of the Taxonomy will be required to calculate their GAR with assets in scope of the CSRD, while part of those corporates will themselves not have to disclose under the Taxonomy.

In our piece on the Omnibus proposal, we assessed the impact of the CSRD scope change on the banking sector. Based on a sample of 140 banks from 15 countries, we estimated that just below 25% of them would fall out of the scope of the CSRD when applying the Commission's proposal. This is a 17 percentage point increase from the 8% currently out of scope. The graph below depicts the share of banks that would fall out of scope when applying the Commission's proposal per country.

## Estimated share of banks out of scope from the CSRD, pre and post Omnibus proposal




Source: ING research

While this number is already significant, it would be even more so when enforcing the threshold proposed for the European Taxonomy. For financial institutions falling out of scope, this would significantly ease the reporting burden. However, for the rest of the institutions still in scope, it is not necessarily good news.

Indeed, they would face lower data availability as the scope reduction also affects corporates. Banks would not have access to the growing availability of their clients' disclosures. Rather, only very large corporates would disclose under the CSRD, while for the rest of their books, financial institutions will have to rely on either bilateral agreements or on proxies.

This adds to the legislative uncertainty surrounding the Omnibus package, especially for the sample of institutions that could fall out of scope of the CSRD or the Taxonomy. This is especially true as it remains an arduous task to estimate the time necessary to finalise the sustainable Omnibus.

## Poor results and an uncertain future

To conclude, the second year of full Taxonomy disclosures for European banks pointed to a mere stagnation in the GAR, at just 3.7%. The same can be said of the average share of bank assets eligible for the Taxonomy, which stands at 35%.

The average values hide some variations both within and between countries. However, none of the banks in our sample displayed a notable increase in any of the sustainability metrics. This mainly stems from the unchanged scope of the CSRD and thus the Taxonomy. Only the largest corporates are currently required to disclose under the Taxonomy and the GAR remains skewed. The imbalance between the nominator and denominator continues to mathematically bring down the result and therefore banks' disclosures.

While the current version of the Taxonomy plans to address the asymmetry through a gradual increase in scope, the very future of the policy is being reconsidered with the Omnibus proposal.

Under the Commission proposal, the staggering reduction in the number of entities in scope of the CSRD and even more significant reduction for the EUT would imply new challenges for banks. Data accessibility, quality and legislative uncertainty are among those. Additionally, while we note an improvement in banks' disclosure, the exclusion of a majority of banks' assets from the calculation would imply a major shift in the essence of the GAR, despite partly addressing the asymmetry. Indeed, the ratio was initially designed to reflect and give insight into banks' sustainability. Removing most of the sector's portfolio from the calculation would take away that ideal.

Reducing the complexity of the Taxonomy and GAR is a welcome step. However, it raises questions about whether this reduction undermines the policy's original intent. The current Omnibus proposal only reflects the Commission's view on the matter, and significant work remains to be done before it is finalised. The coming months will therefore be crucial to determine the future of the Taxonomy and the GAR.

## Author

**Marine Leleux**
Sector Strategist, Financials
marine.leleux2@ing.com

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