

Bank Pulse: Banks are reducing their exposure to more polluting activities

Since the beginning of the year, European banks have had to start disclosing their exposure to taxonomy eligible and non-eligible activities. Based upon the EBA transparency statistics, we find that most European banking sectors seem to be making an effort in reducing their exposure to more polluting companies



The Frankfurt skyline

Since the start of the year, European banks have to start disclosing their exposure to taxonomy-eligible and taxonomy non-eligible activities as a first step towards the green asset ratio disclosure requirements applicable from 1 January 2024. In this Bank Pulse, we'll update you on the corporate loan exposures of European banks to activities that are taxonomy 'out of scope' based on the latest European Banking Authority transparency statistics. We'll also look at the loan book exposures to more polluting sectors.

Please see our report [“Green asset ratios: What's in store for banks?”](#) of March 2021 for further background information.

Matching the taxonomy economic activities with NACE codes

The taxonomy climate delegated act identifies nine core economic activities that contribute substantially to the climate change mitigation objective, and thirteen core economic activities that contribute substantially to the climate change adaptation objective. These activities are further organised into different sub-groups of economic activities contributing substantially to the first two environmental objectives of the EU taxonomy. However, the economic activities identified for the purpose of the EU taxonomy do not perfectly match the statistical classification of economic activities commonly used in the EU (NACE).

On 20 December 2021, the Platform on Sustainable Finance published an EU taxonomy NACE alternate classification mapping. This table provides an indicative description of how the statistical classification of economic activities in the EU (NACE) relates to the economic activities identified in the climate delegated act on the EU taxonomy's climate change mitigation and climate change adaptation objectives. The table below gives a summary overview of the mapping organised by the 21 NACE level 1 sections (A-U), and not by the level 2 through level 4 numerical codes.

Sorting climate change mitigation and climate change adaptation activities by NACE group

Taxonomy activity	NACE group	Taxonomy sub-group activities
1. Forestry	A. Agriculture, forestry and fishing	(1.1, 1.2 and 1.3)
2. Environmental protection and restoration activities	No NACE	(2.1)
3. Manufacturing	C. Manufacturing	(3.1, 3.2, 3.3, 3.4, 3.5, 3.6, 3.7, 3.8, 3.9, 3.10, 3.11, 3.12, 3.13, 3.14, 3.15, 3.16 and 3.17)
4. Energy	D. Electricity, gas, steam and air conditioning supply	(4.1, 4.2, 4.3, 4.5, 4.6, 4.7, 4.8, 4.9, 4.13, 4.14, 4.15, 4.16, 4.17, 4.18, 4.19, 4.20, 4.21, 4.22, 4.23, 4.24 and 4.25)
	F. Construction	(4.1, 4.2, 4.3, 4.5, 4.6, 4.7, 4.14, 4.15 and 4.16)
	H. Transport and storage	(4.14)
	No NACE	(4.10, 4.11, 4.12)
5. Water supply, sewerage, waste management and remediation	E. Water supply	(5.1, 5.2, 5.3, 5.4, 5.5, 5.6, 5.7, 5.8, 5.9, 5.10 and 5.12)
	F. Construction	(5.1, 5.2, 5.3, 5.6, 5.7, 5.8, 5.9 and 5.11)
	H. Transport and storage	(5.11)
6. Transport	F. Construction	(6.13, 6.14, 6.15, 6.16 and 6.17)
	H. Transport and storage	(6.1, 6.2, 6.3, 6.5, 6.6, 6.7, 6.8, 6.9, 6.10, 6.11, 6.12 and 6.14)
	C. Manufacturing	(6.9 and 6.12)
	N. Administrative and support service activities	(6.1, 6.2, 6.3, 6.4, 6.5, 6.6, 6.10, 6.11, and 6.12)
7. Construction and real estate activities	F. Construction	(7.1 and 7.2), (7.3, 7.4, 7.5 and 7.6)
	C. Manufacturing	(7.3, 7.4, 7.5 and 7.6)
	S. Other services	(7.3)
	M. Professional, scientific and technical activities	(7.3, 7.4, 7.5 and 7.6)
	L. Real estate activities	(7.7)
8. Information and communication	J. Information and communication	(8.1 and 8.2)
9. Professional, scientific and technical activities	M. Professional, scientific and technical activities	(9.1, 9.2 and 9.3)
10. Financial and insurance activities	K. Financial and insurance activities	(10.1 and 10.2)
11. Education	P. Education	(11)
12. Human health and social work activities	Q. Human health services and social work activities	(12.1)
13. Arts, entertainment and recreation	R. Arts, entertainment and recreation	(13.1 and 13.2)
	J. Information and communication	(13.3)
NACE out of scope	B. Mining and quarrying	
	G. Wholesale and retail trade	
	I. Accommodation and food service activities	
	O. Public administration and defence, compulsory social security	

Source: Platform on Sustainable Finance, ING

Nordic banks have the least corporate exposure to 'out of scope' sectors

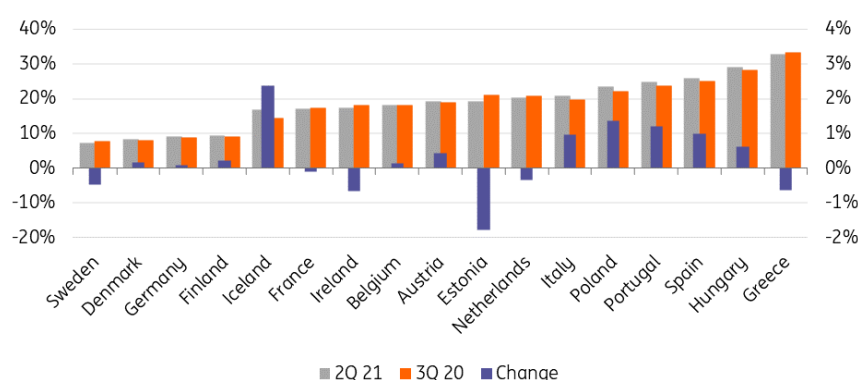
On 3 December 2021 the EBA published the annual 2021 EU-wide transparency exercise, providing data for 120 banks across the EEA/EU for the last two quarters of 2020 and the first two of 2021. The database includes among other things statistics on the breakdown of loans and advances to non-financial corporations by NACE sector. While this represents only part of the bank balance sheet exposures, including non-EU exposure, the statistics do give an idea on what loan exposures to non-financial corporations could be considered taxonomy out of scope based on the

platform on sustainable finance's mapping ideas.

The mapping indicates that as far as the climate change mitigation and climate change adaptation objectives are concerned, four NACE sectors are taxonomy out of scope, ie mining and quarrying, wholesale and retail trade, accommodation and food and services, and public administration and defence, compulsory and social security. The chart below gives an overview of the loan exposures of a sub-sample of 74 European banks to these out-of-scope activities.

The graphic confirms that the corporate lending books of Nordic and German banks have the smallest exposures to out-of-scope activities. This could be seen as a positive to their green asset ratio reporting at a later stage. After all, the more exposure to activities that are taxonomy in scope, the broader the exposure base is which, potentially, can contribute positively to the taxonomy KPIs of the bank.

Exposures by banking sector to NACE activities that are taxonomy out of scope



Source: EBA (Transparency Data 2021), ING

That said, while having less exposure to out-of-scope activities may be beneficial to the green asset ratio disclosures by banks per 2024, it does not give the complete picture of the carbon footprint of such exposure. After all, some of these out-of-scope exposures may not cause any harm to the environment to begin with. If the European Commission were to decide to expand the environmental taxonomy with No Significant Impact (NSI) activities, banks would in the future also be able to give better insight into these exposures.

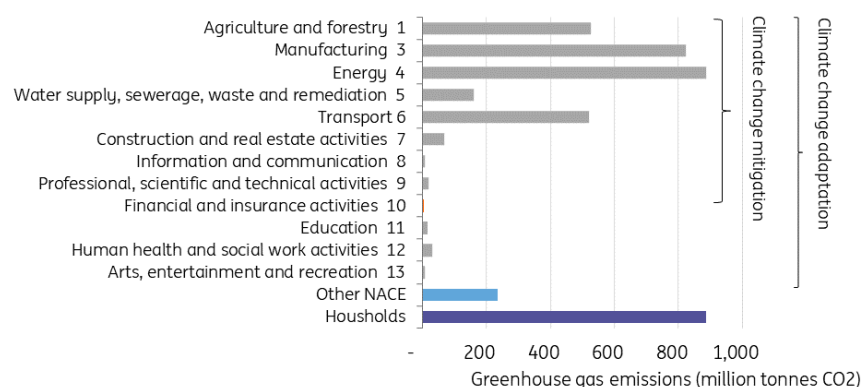
We note that the platform on sustainable finance launched a consultation on the taxonomy extension options linked to environmental objectives in July 2021. This included the platform's first ideas on the expansion of the taxonomy for significantly harmful activities and no significant impact activities. The platform anticipates sharing its final report on the environmental transition taxonomy with the European Commission in the first quarter of this year.

Corporate lending book exposure to more polluting sectors are declining

The EBA's transparency statistics also allow us to gain further insight into the exposure of bank corporate lending books to more polluting sectors. The chart below confirms that NACE activities

with the strongest environmental footprint, based on their greenhouse gas emissions, include 1. agriculture, forestry & fishing, 2. manufacturing, 3. energy, and 4. transport.

Greenhouse gas emissions per economic activity

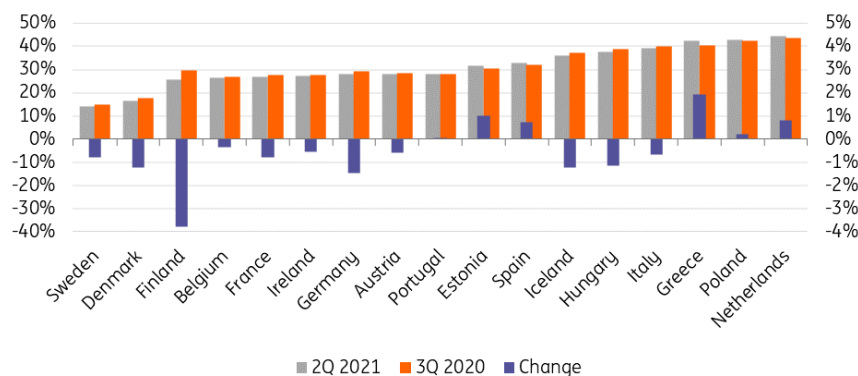


Source: Eurostat (2019 EU28), ING

The corporate lending books of the Nordic banks once again have the smallest exposure to these more polluting economic activities. However, another important read from these statistics is that most banking sectors do appear to be reducing their exposures to the more polluting activities. For most countries, the share of bank lending exposure to the four activities with the highest greenhouse gas emissions has declined between 3Q 2020 and 2Q 2021. The percentage point decline has been highest for Finnish banks.

This suggests that banks indeed are making efforts to reduce their lending book exposure to more polluting companies. These high-level statistics do not give any further insight however into the support offered by banks in terms of helping more polluting companies transition towards more sustainable business models. We also note that the trend observed by means of these statistics is just indicative as it is only based on a portion of the bank balance sheet exposures organised at the highest level 1 NACE classifications.

Most banking sectors are reducing their relative exposure to more polluting activities



Source: EBA (Transparency Data 2021), ING

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