



# **Report on European Taxonomy disclosures of financial undertakings**

**Financial year 2023**



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Financial year 2023

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# I Introduction

This report describes the disclosures included in the non-financial information statements (NFIS) for 2023 pursuant to Article 8 of [Regulation \(EU\) 2020/852 of the European Parliament and of the Council](#) – or **Taxonomy Regulation**<sup>1</sup> – regarding the indicators corresponding to sustainable environmental activities, provided by financial undertakings issuing securities admitted to trading on regulated European Union (EU) markets, when Spain is the Member State of origin (hereinafter, “issuers” or “financial undertakings”). These indicators include, namely, the Green Asset Ratio (GAR), provided by credit institutions, and the Key Performance Indicator (KPI) and proportion of non-life insurance and reinsurance premiums, provided by insurance undertakings.

The Taxonomy Regulation is supplemented by Delegated Regulation (EU) 2021/2139<sup>2</sup> (Climate Delegated Act), which describes the criteria for assessing the contribution to climate change mitigation and climate change adaptation, and Delegated Regulation (UE) 2021/2178<sup>3</sup> (Disclosures Delegated Act), which specifies the content and presentation of the information to be disclosed. Both were published in the *Official Journal of the European Union (OJEU)* in December 2021.

Furthermore, Delegated Regulation (EU) 2022/1214<sup>4</sup> (Complementary Climate Delegated Act), relative to nuclear energy and gas, which considers both energy sources, under stringent conditions, transitional activities that contribute to mitigate climate change, was published in March 2022.

Lastly, in June 2023, the European Commission (EC) issued two delegated regulations, which were published in the *OJEU* in November, updating and extending the scope of the previous regulation.

Thus, Delegated Regulation (EU) 2023/2486<sup>5</sup> includes amendments to Delegated Regulation (EU) 2021/2178 and implements the technical screening criteria for determining when an economic activity substantially contributes to any of the other four non-climate environmental objectives and when it does not significantly harm any of them. These four objectives relate to the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control, and the protection and restoration of biodiversity and ecosystems.

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1 <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=LEGISSUM:4481971>

2 <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021R2139>

3 <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021R2178>

4 <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32022R1214>

5 [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L\\_202302486](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L_202302486)

Delegated Regulation (EU) 2023/2485<sup>6</sup> expands the technical screening criteria for climate change mitigation and adaptation objectives, extending the scope of the eligible activities under the taxonomy through the incorporation of new activities from various sectors.<sup>7</sup>

The previous regulation requires financial undertakings to provide, for the first time, in relation to financial year 2023, the alignment indicators or KPIs<sup>8</sup> for the climate change mitigation and adaptation objectives and the eligibility ratio of new activities corresponding to the climate objectives and the four other environmental objectives.

The following table summarises the disclosure obligations of financial and non-financial undertakings obliged to report taxonomy information for 2023 and future financial years:

**Disclosure obligations of financial and non-financial undertakings**

TABLE 1

	Environmental objectives	2023	2024	2025
Non-financial undertakings	Climate (mitigation and adaptation)	Eligibility and alignment	Eligibility and alignment	Eligibility and alignment
	Environmental + new activities climate objectives	Eligibility		
Financial undertakings	Climate (mitigation and adaptation)	Eligibility and alignment	Eligibility and alignment	Eligibility and alignment
	Environmental + new activities climate objectives	Eligibility	Eligibility	

Source: CNMV.

In order to help the financial industry in its efforts to report on the degree of alignment of its activities with the taxonomy, in December 2023 the EC published the document *Draft Commission Notice*<sup>9</sup> on the interpretation and application of the obligation of financial undertakings to disclose eligible and aligned activities under the EU Taxonomy. Additionally, the EC has also published several Q&A documents.<sup>10</sup>

Considering the novelty and relevance of the inclusion of said information by financial undertakings in 2023, an analysis of the disclosures relative to the main indicators has been carried out, which is described in the following chapters.

<sup>6</sup> [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L\\_202302485](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L_202302485)

<sup>7</sup> Transport; manufacturing; disaster risk management; water supply, sewerage and waste management; information and communication; and professional, scientific and technical activities.

<sup>8</sup> Key performance indicator.

<sup>9</sup> [https://ec.europa.eu/finance/docs/law/231221-draft-commission-notice-eu-taxonomy-reporting-financials\\_en.pdf](https://ec.europa.eu/finance/docs/law/231221-draft-commission-notice-eu-taxonomy-reporting-financials_en.pdf)

<sup>10</sup> <https://ec.europa.eu/sustainable-finance-taxonomy/faq>

The report is based on the disclosures published by financial issuers obliged to report EU taxonomy information, without conducting a substantive review of its content. The result of the oversight carried out by the CNMV in relation to NFIS 2023 and, therefore, in relation to taxonomy information, will be included in the *Report on the CNMV's supervision of non-financial information and main enforcement priorities for the following financial year* for 2023, which will foreseeably be published in the first quarter of 2025.

Throughout this report, different terms are used to refer to aligned activities, such as those that conform to the taxonomy or sustainable environmental activities.



## II Scope

Article 8 of the Taxonomy Regulation establishes that companies subject to Directive 2013/34/EU,<sup>11</sup> relative to the disclosure of non-financial information, must disclose the degree to which their activity is eligible and aligned with taxonomy criteria.

This Regulation considers that financial undertakings (i.e. credit institutions, asset managers, investment firms and insurance and reinsurance undertakings) have an additional year over non-financial undertakings to publicly disclose their alignment.

In this regard, financial undertakings included, in the information relative to financial years 2021 and 2022, the eligibility ratios for the first two environmental objectives (climate change mitigation and adaptation), while in the information relative to 2023 they publicly disclosed, for the first time, the alignment indicators for the two climate objectives, in addition to their eligibility in relation to the other four environmental objectives. In addition, in 2023 they are obliged to disclose their exposure to economic activities related to fossil gas and nuclear energy, pursuant to Delegated Regulation (EU) 2022/1214.

The Taxonomy Regulation does not specify the key performance indicators for financial undertakings. It is Delegated Regulation 2021/2178 that supplements said Regulation, detailing these indicators, their calculation methodology and qualitative information that explains how they are determined. Annexes III to XI of the Regulation, subsequently amended by Delegated Regulation (EU) 2023/2486, provide information on the key performance indicators, templates and qualitative disclosures that financial undertakings must provide. These indicators are generally based on the activities of their counterparties, such as their borrowers or policyholders.

The main indicator for measuring the alignment of credit institutions is the Green Asset Ratio (GAR), which shows the proportion of exposures related to taxonomy-aligned activities compared to the total assets covered.

Insurance undertakings must disclose a KPI that shows the proportion of assets invested in taxonomy-aligned activities out of their total covered assets, together with a second indicator, which refers to the proportion of non-life insurance underwriting activities related to the adaptation to climate change and carried out in compliance with the Delegated Climate Act (Delegated Regulation 2021/2139), in relation to all non-life underwriting activities.

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11 <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013L0034>

Asset managers will provide the proportion of the investments made in taxonomy-aligned economic activities in the value of all the investments they manage and resulting from their portfolio management activities, both collective and individual.

Lastly, investment firms must offer a complete overview of the investments made in taxonomy-aligned activities and provide key performance indicators that encompass their negotiation, both on their own account and on customers' behalf.

Of the 12 financial issuers that submitted their NFIS for 2023,<sup>12</sup> this report focuses on the 11 that are obliged to report taxonomy information.<sup>13</sup> The non-obliged institution<sup>14</sup> has considered it good practice to conduct certain taxonomic alignment analyses of its loan portfolio.

Of the 11 aforementioned financial undertakings, seven are credit institutions,<sup>15</sup> three belong to the insurance sector<sup>16</sup> and the other is an investment and asset management services company.<sup>17</sup>

Lastly, it should be noted that taxonomy-aligned information must be subject to verification by an independent service provider, with limited security scope, as part of the NFIS verification framework as a whole. All financial issuers submitted the corresponding consolidated NFIS verification report for 2023 without presenting any exceptions. In all cases, the verifier was one of the "big four" in Spain: Deloitte, EY, KPMG and PwC.

All the verification reports included a taxonomy-aligned emphasis of matter paragraph, in which the verifier expressed the obligation to disclose, for the first time in 2023, the manner and extent to which the financial undertaking's investments are associated with the economic activities aligned with the climate objectives and are eligible in relation to the four non-climate environmental objectives, and with respect to certain new activities included in the climate objectives.

Emphasis of matter paragraphs highlight, in general, that comparative information on the aforementioned matters has not been provided and add that, insofar as the information relative to eligible activities in 2022 was not required with the same level of detail as in 2023, the information disclosed in the NFIS for 2023 is not strictly comparable. Lastly, these paragraphs include a reference to the section of the NFIS where the directors provide information on the criteria that, in their opinion, enable better compliance with the obligations.

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12 This number does not include Santander Consumer Finance, which states that, as a subsidiary of Banco Santander, its non-financial information is included in the consolidated management report for 2023 of said entity. In addition, three financial undertakings (Caixabank Notas Minoristas, Emisora Santander España and Unión Catalana de Valores) are not obliged to prepare NFIS due to having less than 500 employees.

13 The number of issuers obliged to prepare NFIS in 2023 differs from those obliged to provide taxonomy information, since the thresholds that determine each obligation are not the same (250 employees for the NFIS and 500 employees for the taxonomy).

14 Instituto de Crédito Oficial (ICO).

15 BBVA, Banco de Sabadell, Banco Santander, Bankinter, Caixabank, Renta 4 and Unicaja.

16 Grupo Catalana Occidente, Línea Directa Aseguradora and Mapfre.

17 Alantra Partners.

### III Disclosures of financial undertakings

This chapter summarises the EU taxonomy disclosure obligations of financial undertakings and how they have applied them. The most significant aspects are highlighted against a grey background, based on the statements included in the NFIS for 2023 of these institutions, in relation to said obligations.

First, worth noting is the significant increase in taxonomy-aligned disclosures compared to 2022, which required the inclusion of a considerable number of mandatory templates. Although the mandatory use of the templates has standardised reporting, their completion has given rise to certain interpretative queries or uncertainties.

In addition to the alignment indicators for the climate change mitigation and adaptation objectives, in 2023 financial undertakings are obliged to provide, for the first time, the eligibility ratio of the four environmental objectives, in addition to the new activities that expand the climate objectives.

In relation to the eligibility indicator, it should be noted that the four new environmental objectives do not entail, in general, significant increases in the eligibility ratios.

This is because most financial undertakings calculated many of their indicators based on the counterparty ratios published in 2022, date on which the new indicators\* had not yet been published. Therefore, they cannot be considered in the calculation of the ratios of the financial undertakings.

Since these ratios are not available, some issuers have estimated eligibility considering the statistical classification of economic activities of the European Community (NACE), in accordance with the counterparty's main activity. However, they highlight that, as they are approximations, the amounts were not included in the mandatory reporting tables.

Only two financial undertakings fulfilled their obligation of including eligibility ratios related to any of the four environmental objectives in the mandatory reporting templates. One of them, relative to the objective of transitioning to a circular economy and the other, relative to the objective of protecting water and marine resources. To this end, they are obliged to identify the specific financing for the new activities, as defined in these new objectives.

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\* Delegated Regulations 2023/2486 and 2023/2485, which establish the technical screening criteria for determining whether the activities of the four environmental objectives and new activities of the climate objectives do not cause significant harm.

Article 7 (Disclosure standards common to all financial undertakings) of Delegated Regulation 2021/2178 details the activities that financial undertakings must exclude from the calculation of the EU taxonomy indicators, pointing out that:

- i) Exposures to central governments, central banks and supranational issuers will be excluded from the calculation of the numerator and denominator of the key performance indicators of financial undertakings.
- ii) Derivatives will be excluded from the numerator of the key performance indicators of financial undertakings.
- iii) The exposures of companies not obliged to publish non-financial information pursuant to Article 19 bis or 29 bis of Directive 2014/95/EU on non-financial information and diversity<sup>18</sup> – or NFRD Directive<sup>19</sup> (non-NFRD companies) – will exclude the key performance indicators of financial undertakings from the numerator.

It should be noted that, notwithstanding the provisions of point i), investments in environmentally sustainable bonds or in representative debt securities, aimed at financing specific identified activities, will be included in the numerator of the indicators.

Most financial undertakings draw attention to the fact that the current methodology for calculating the indicator does not make it possible to include exposures to companies not subject to the NFRD in the numerator. Therefore, exposures to companies domiciled in a third country outside the EU and SMEs are excluded from the numerator, but form part of the denominator. This generates asymmetry that leads to the existence of differences in the indicator, depending on the business model of each financial undertaking, its customer base and geographical presence.

Financial issuers add that these requirements would have entailed not being able to include certain transactions in the indicator, such as the financing of wind farms or solar parks, on not having been granted to companies obliged to report under the NFRD due to their size, notwithstanding that this type of financing is one of the main objectives and lines of collaboration of the financial sector with a decarbonisation process of the economy.

Article 9 (Revision) adds that, by 30 June 2024 at the very latest, the EC will assess the need to make amendments regarding the inclusion of points i) and iii). However, on the date of preparation of this report, these amendments had not yet been made.

The specificities found for each type of financial undertaking are analysed below.

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18 <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0095>

19 Non-Financial Reporting Directive.



In the taxonomy information for 2023, credit institutions must provide, for the first time, the indicators required in Annexes V and VI of Delegated Regulation 2021/2178, whose compliance is embodied in the disclosure of various quantitative information templates,<sup>20</sup> which include information related to assets, with the GAR ratio and off-balance sheet information, in relation to the green ratio of managed assets and with the green ratio of the financial guarantees granted to financial and non-financial undertakings. This report focuses on information related to the GAR ratio.

In this regard, Section 1.2.4 (Other disclosures in the GAR: trading portfolio GAR), included in Annex V (Key performance indicators of credit institutions) highlights that, in addition to the assets mentioned in Article 7, the trading portfolio will be excluded from the denominator. Therefore, the **covered assets** or assets to be considered in the calculation of the **denominator** are as follows:

		Assets in the denominator (covered assets)
=		Total assets
Less:	Exposures to government agencies and central banks and supranational issuers	
Less:	Trading portfolio	

Both Section 1.1.2 (Total covered assets) and Template 1 (Assets for GAR calculation), included in Annexes V and VI, complete Article 7 with respect to determining the assets that compose the **numerator**. They correspond to the covered assets (the denominator), less the derivatives, exposures to non-NFRD companies, interbank demand loans, cash and cash-related assets, and other assets such as goodwill or raw materials:

		Assets in the numerator
=		Assets in the denominator
Less:	Exposures to derivatives	
Less:	Non-NFRD company	
Less:	Interbank demand loans, cash and cash-related assets and other assets	

20 These templates should have been published for the first time in 2024, with data at 31 December 2023, except for Templates 6 (Key performance indicator of income from service fees and commissions other than loan grants and asset management) and 7 (Key performance indicator of the trading portfolio results), which will not apply until 2026.

The eligibility analysis will be performed on these potentially eligible assets, which shows the proportion of balance sheet activities that are among the activities included in the European taxonomy, in order to subsequently verify that these activities are aligned due to substantially contributing to one or more environmental objectives, do not cause significant harm to the other environmental objectives (DNSH)<sup>21</sup> and fulfil the minimum safeguards (MS).<sup>22</sup>

Alignment assets				Aligned assets
Eligible assets	Technical screening criteria	Do no significant harm	Minimum safeguards	

The GAR indicator considers the assets associated with the main activities of credit institutions, which comprise, *inter alia*, loans and advances, representative debt securities and equity investments not held for trading, with the aim of reflecting the extent to which these institutions finance taxonomy-aligned activities.

$$\text{Eligibility ratios} = \frac{\text{Eligible assets}}{\text{Covered assets}} \quad \text{GAR} = \frac{\text{Aligned assets}}{\text{Covered assets}}$$

Annex V establishes that the GAR indicator will be based on the exposures and on the balance sheet in accordance with the **prudential**<sup>23</sup> consolidation group, which differs from the scope of consolidation of the consolidated financial statements. For prudential purposes, subsidiaries that carry out an activity different to that of the parent company subject to prudential regulation are consolidated using the equity method; however, for financial reporting purposes, subsidiaries over which the parent company has the capacity to exercise control are consolidated using the global integration method, irrespective of their activity.

Additionally, for taxonomy disclosures, financial assets, measured at amortised cost, must be presented at gross carrying amount, before adjusting for any impairment. However, total assets, reflected on the balance sheet of the prudential group, are presented net of adjustments for impairment.

The GAR ratio must be calculated in terms of: i) stock, calculated on the basis of the total gross carrying amount at a specific date equivalent to the reference date of the disclosure; and ii) flow, on the basis of the gross carrying amount of new exposures, during the year prior to the reference date of the disclosure.<sup>24</sup>

<sup>21</sup> Do no significant harm.

<sup>22</sup> Minimum safeguards.

<sup>23</sup> Determined according to Regulation (EU) No. 575/2013, Title II, Chapter 2, Section 2.

<sup>24</sup> That is, over a period of 12 months.

The seven credit institutions provided the GAR indicator in terms of stock; however, two of them did not provide it in terms of flow.\* One of them reported that, although the *Draft Commission Notice*, published in December 2023, indicates that the GAR indicator is expected to be published in terms of flow, in the information for 2023, however, taking into account time, information and data quality constraints, it was not possible to publish the information because it could not be guaranteed that it was accurate, truthful and compliant with the criteria and requirements of the regulation.

\* BBVA and Bankinter.

Annex V establishes certain considerations depending on the **counterparty**, distinguishing, mainly, between retail exposures, financial and non-financial undertakings.

Specifically, in relation to **retail exposures (households)**, the Annex distinguishes between:

- Loans related to residential real estate: mortgage loan and building or home renovation loan portfolio.
- Consumer loans for cars: loans granted to households for acquiring an automobile.

In both cases, they are loans with a specific purpose, which are considered eligible due to their nature. The determination of their alignment will be assessed based on the technical screening criteria described in Annex I of the Delegated Climate Act, which only apply in relation to the climate change mitigation objective.

Credit institutions report that they have not considered as aligned the loans for households for which there is currently no documentary evidence provided by counterparties.

In this regard, some institutions report that they included only the loans granted to households for the purchase of newly built, energy-efficient homes with a certificate of energy efficiency. Additionally, some issuers report that they are making progress in collecting updated information in relation to the certificates of energy efficiency of the mortgage portfolio.

When the counterparty is a **financial undertaking**, the numerator will be calculated weighing the proportion of taxonomy-aligned economic activities, based on the key performance indicators of the counterparties calculated in accordance with the Taxonomy Regulation.

Credit institutions reported that the alignment information of their counterparty financial undertakings was not yet available at the time of preparing the annual report, since 2023 is the first year in which they are obliged to publish it.

In relation to eligibility, in 2022 they were not obliged to break down the indicator by objective, but rather are required to include this information, broken down by mitigation or adaptation objective, in their disclosures for 2023. Some issuers reported that, in order to be able to include these data in the quantitative information tables without calculating them twice, they had been assigned in all cases to the climate change mitigation objective.

Question 5 of the *Draft Commission Notice* of the EC, of December 2023, states that when the KPIs of financial counterparties are not available, the exposure must be considered non-eligible or not aligned, assigning a value of zero to the numerator of the indicator, without further assessment.

In the case of exposures to **non-financial undertakings**, the purpose of the financing granted must be considered, i.e. if they intend to finance their general activity or if the financing is intended for a specific purpose, so that in the case of:

- Financing for a general purpose, in which the funds do not have a specific purpose other than the management of the company's liquidity, cash or business operations, must be included in the numerator weighted by the turnover indicator and by the CapEx indicator of the counterparty, without having to verify the fulfilment of the requirements relative to the following criteria: i) substantial contribution; ii) not causing significant harm; and iii) minimum safeguards.
- Specific financing, granted for a specific or known purpose, must be included in the numerator of the turnover KPI and CapEx KPI of the credit institution, provided that the financed activity meets the criteria established in the taxonomy. They are considered aligned when the financed activity meets the following criteria: i) substantial contribution; ii) does not cause significant harm; and iii) minimum safeguards. In this case, the inclusion in the numerator is made without weighting by the turnover KPI or CapEx KPI of the counterparty.

Issuers highlight that in order to calculate the indicators they need to gather a large amount of information from the counterparties, whose availability is limited. This has led some of them to hire external suppliers, in addition to using publicly available information.

They also point out that, although it is possible to assess the substantial contribution of specific financing, there is lack of solid evidence to verify the alignment of loans for specific purposes when validating DNSH and MS criteria. This means that, despite having met the technical screening criteria, financing for which no documentary evidence is provided by counterparties regarding the fulfilment of the other criteria has not been considered aligned.

This highlights the complexity and short timeframe for this analysis of the information relative to 2023, which has made it difficult to interpret and apply the taxonomy requirements, leading to a high use of professional judgement.

Article 8.4 of Delegated Regulation 2021/2178 establishes that financial undertakings must use the most recent data available and the indicators of their counterparties to calculate their own. In relation to the accessibility of the information, Question 5 of the *Draft Commission Notice* indicates that, when the most recent information on counterparties that are obliged to report taxonomy indicators as part of their sustainability report is not publicly available or accessible, financial undertakings – which depend on those indicators for their own report – are encouraged to contact said counterparties, provided that this information exchange complies with EU competition rules.

In case of lack of sufficient data and adequate evidence, the EC, in its *Draft Commission Notice*, recommends that financial undertakings provide, **voluntarily** and separately from the mandatory disclosures, the following:

- Any estimate of the alignment with the taxonomy of their exposures currently excluded from their indicators (for example, exposures to unlisted SMEs).
- Any estimate of the alignment with the taxonomy of their exposures covered by the indicators, of which they lack sufficient data and adequate evidence to demonstrate their alignment with the taxonomy.
- Any information related to a partial alignment of their exposures with the taxonomy (i.e. where only certain criteria of the taxonomy are met or are proven to be met).

Two institutions provided a **voluntary** breakdown of the GAR ratio. In one case only, portfolios in which it was possible to label the exposures as environmentally sustainable were considered in the denominator, such as financial and non-financial undertakings subject to NFRD, households and local governments, excluding companies not subject to the NFRD, cash and interbank loans, derivatives, goodwill, etc.

The other case includes positions for which there was insufficient justification, but which can be explained as aligned activities, considering the portfolio of: i) mortgages with estimated certificates that meet taxonomy criteria; ii) loans for financing investments in renewable energy projects in which the owner is obliged to report pursuant to the NFRD; and iii) loans to homeowners' associations aimed at financing energy efficiency improvements in buildings. In both cases, the indicators are higher than those detailed in the mandatory templates.

The indicators calculated by the credit institutions must be included in various quantitative information templates of Annex VI of Delegated Regulation 2021/2178, updated by Delegated Regulation 2023/2486.

A lack of uniformity in the completion of the templates by issuers has been detected, since some institutions did not provide all the required information in an adequate manner or made adaptations and modifications to the data requested. In particular, some issuers did not take into account the updates introduced by Delegated Regulation 2023/2486 and therefore did not include all the required information. In other cases, some data contained in the templates that should have been completed in the financial year appeared shaded in grey, without including any information or explanation justifying the omission. Additionally, it was observed that certain data contained in the templates had not been properly calculated.

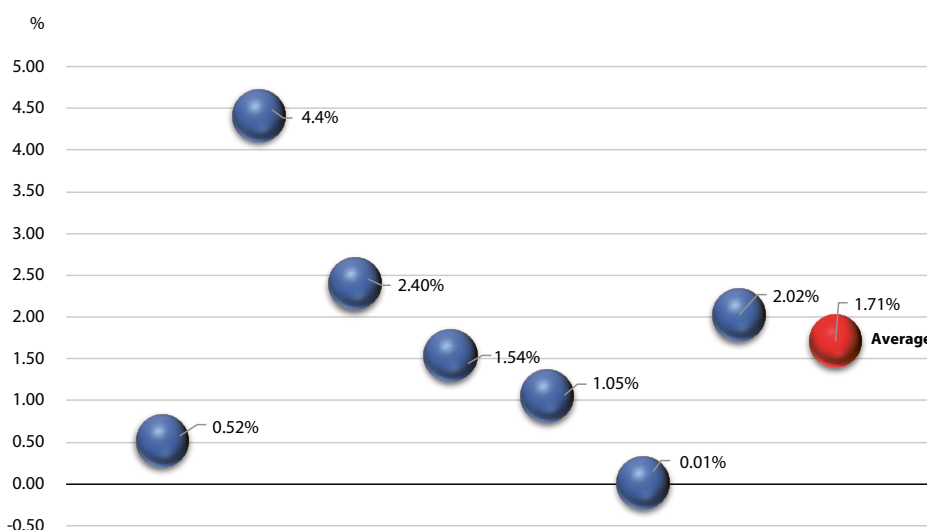
As regards the activities related to nuclear energy and fossil gas, the EC's *Draft Commission Notice* also indicates that all financial and non-financial undertakings, not only those that carry on activities related to nuclear energy and fossil gas, must complete Template 1 of Annex XII contained in Delegated Regulation (EU) 2021/2178, amended by Delegated Regulation (EU) 2022/1214, such that only those institutions that do not conduct, finance or have exposures to the activities mentioned in Template 1 and that answered "No" to all the related questions may omit the disclosure of Templates 2 to 5 of the aforementioned Annex.

All the credit institutions, except one, submitted the templates of Annex XII.

Based on the information contained in some of the aforementioned templates, information has been gathered that is reflected in the following figures. Specifically, the following figure shows the GAR ratio in terms of stock, based on the turnover KPI of the counterparty:

**GAR in terms of stock based on the turnover KPI**

FIGURE 1



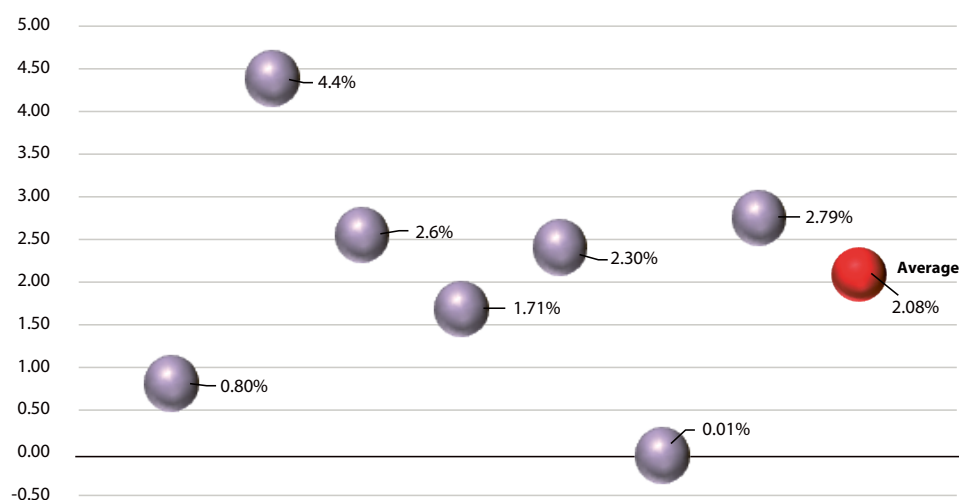
Source: CNMV.

The average GAR indicator in terms of stock is 1.71% and in all cases stood below 5%. The average GAR indicator in terms of flow, provided by five of the seven credit institutions, based on the turnover KPI, is slightly higher, standing at 2.13%. Almost 100% of the alignment refers to the mitigation objective.

The following figure shows the percentages corresponding to the GAR ratio in terms of stock, based on the CapEx KPI of the counterparty:

**GAR in terms of stock based on the CapEx KPI**

FIGURE 2



Source: CNMV.

The average GAR ratio in terms of stock, based on the CapEx KPI, is slightly higher than that shown in the previous figure, standing at 2.08%. Once again, all the percentages are below 5%.

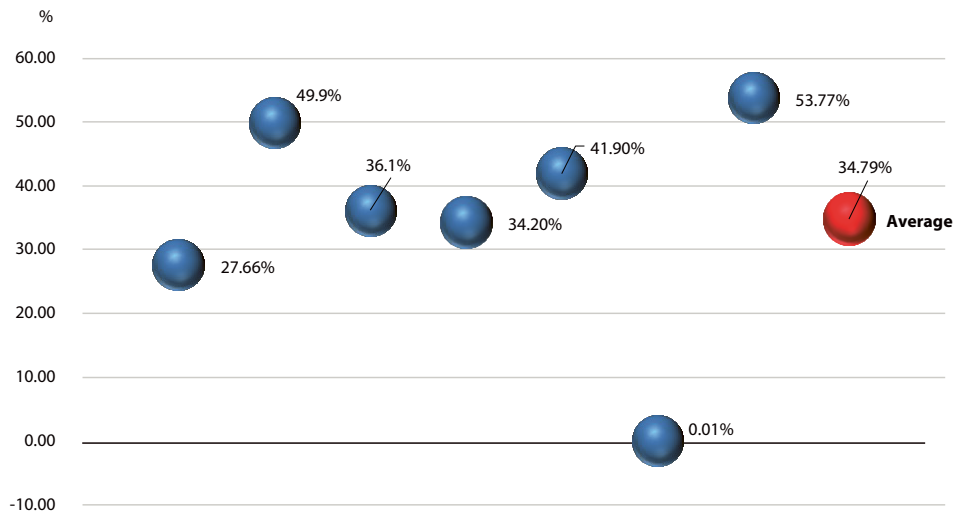
The average GAR ratio in terms of flow, based on the CapEx KPI, provided by five of the seven credit institutions, is slightly higher, standing at 2.69%.

As in the previous case, almost 100% of the alignment corresponds to the mitigation objective.

As regards eligibility, the following figure shows the ratio in terms of stock, based on the turnover KPI of the counterparty:

Eligibility in terms of stock based on the turnover KPI

FIGURE 3



Source: CNMV.

On average, the eligibility ratio in terms of stock based on the turnover KPI is 34.8%.

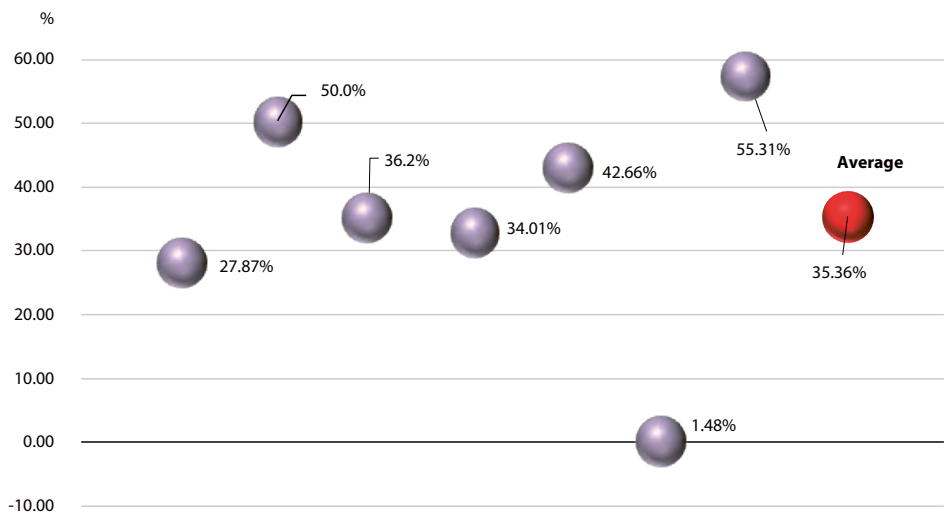
The average of this ratio, calculated in terms of flow and based on the turnover KPI, provided by five of the seven credit institutions, is reduced to 18.69%.

Once again, almost 100% of the eligibility indicator corresponds to the mitigation objective.

The following figure shows eligibility in terms of stock, based on the CapEx of the counterparty:

Eligibility in terms of stock based on the CapEx KPI

FIGURE 4



Source: CNMV.



On average, the eligibility ratio in terms of stock and based on the CapEx KPI is 35.36%.

The average of this same indicator, calculated in terms of flow and based on the CapEx KPI, provided by five of the seven credit institutions, is reduced to 20.74%.

Once again, almost 100% of the eligibility indicator corresponds to the mitigation objective.

The significant difference between the eligibility and alignment ratios can be observed in the previous figures. This is because most of the eligibility corresponds to households, specifically to mortgage loans and home improvement or automobile purchase loans, which, due to their nature, are considered eligible. However, the alignment corresponding to this type of exposures is low, as only loans for the purchase of newly constructed, energy-efficient homes with a certificate that endorses said energy efficiency are considered.

The aligned global amount is conceptually distributed, depending on the financial undertaking, among the aforementioned home purchase loans and loans granted to non-financial undertakings related to the mitigation objective.

The low alignment is due to the fact that companies highlight that it was not possible to ensure strict compliance with the DNSH and MS principles for specific financing, and that they were only able to include exposure to companies that reported eligibility and alignment in their 2022 report.

In this respect, it should be noted that, in order to determine that specific financing does not cause significant harm, evidence must be provided that the remaining environmental objectives are not harmed according to the guidelines established by the regulation.

The foregoing data show that the eligibility indicators are still significantly higher than the alignment indicators, which points to the existence of a certain margin and indicates the level of performance to which companies should aspire for their activities to be sustainable.

Lastly, in relation to qualitative disclosures, issuers must provide contextual information that endorses the quantitative indicators. This includes, *inter alia*, detailing the main assumptions used in preparing the information, the areas in which significant judgements have been made and the key elements that have changed with respect to the previously reported figures, explaining the reasons for said changes. Explanations on how compliance with substantial contribution, DNSH and MS criteria of the financing granted for a specific purpose has been assessed, or a description of the link between taxonomy compliance and the company's strategy, are also relevant.

In some cases, significant variations are observed in the eligibility ratio for 2023 with respect to the comparative percentage reported in 2022 without, for the most part, an explanation being provided to justify them. In those cases where said explanation has been provided, the difference in the percentage was due to the fact that in 2022 said ratio was not calculated considering all the required details.

It has been detected that there are few references from financial undertakings on compliance with DNSH criteria relative to the climate change adaptation objective for household financing.

In general, little information is observed on the main assumptions used in preparing the information and on the areas in which significant judgements have been made.

Some issuers point out that, in line with their strategy, they will take actions to achieve the objective of achieving a higher percentage of eligibility than is currently the case in activities fully aligned with the environmental taxonomy. To this end, specific products are developed, with considerations aligned with the taxonomy and activities for increasing customer and stakeholder engagement, and the financing of sustainable environmental activities.

## Insurance undertakings

In addition to the key performance indicator, which shows the proportion of investments aimed at financing taxonomy-aligned activities, insurance undertakings must disclose the proportion of the premiums underwritten for the non-life insurance and reinsurance business, corresponding to activities identified as environmentally sustainable activities in accordance with the taxonomy.

Annex IX of Delegated Regulation 2021/2178 provides information on the preparation of said indicators by insurance and reinsurance undertakings, while Annex X includes the templates to be completed.

The assets to be considered in the calculation of the **denominator** of the KPI relative to investments do not include exposures to central governments, central banks or supranational issuers, while the assets that compose the **numerator** do not include exposures to derivatives or to non-NFRD companies.

Insurance undertakings indicate that it is not always possible to access data relative to investment funds' underlying assets, in which case they have been considered non-eligible. In relation to sustainable environmental bonds, they report having used eligibility and alignment information provided by the issuing company when it was not possible to obtain specific information on the bond. They add that they requested information on alignment with real estate investment funds and that, in those cases where it was not available, they analysed their underlying assets, when said data were available.

As regards the ratio related to the underwriting activity, the denominator comprises the volume of gross non-life premiums underwritten, while the numerator is equivalent to the portion of the volume of gross premiums issued included in the denominator that complies with the eligibility or alignment criteria.

The EC's *Draft Commission Notice* clarifies that, in order to calculate alignment, insurance undertakings should only consider insurance premiums – or the corresponding proportion of the premiums in the case of multi-risk insurance policies – that make reference to the coverage of climate-related risks, using an adequate methodology to determine these amounts. In those cases where data on underwritten premiums cannot be obtained for a certain insurance policy, these premiums must be declared non-eligible, introducing a value of zero when calculating the numerator of the indicator. The EC's document does not explicitly specify how to calculate the eligibility levels for the underwriting activities, although the need to apply the same criteria that must be followed for alignment is inferred from the text.

The three companies indicate that the eligible premium was obtained by applying the percentage of weather cover to the total policy premium, selecting only the covered risks related to atmospheric phenomena. In those cases where it was not possible to break down the premium by covered risk, but it was possible to identify the presence of weather cover, an approximation was made. Two of the insurance undertakings state that they made said estimate based on a historical series of accidents, and one of them states that, in those cases where it was not possible to break down the premium or carry out a study on accident rate, but it is known that there are uncoded weather-related claims, the value of the eligible premium was obtained from market studies.

Insurance undertakings indicate that the non-life business was considered in the eligibility analysis identifying not only the products of this business, but also those that directly cover, at least, one climate risk related to the table of Appendix A of Delegated Regulation 2021/2139. That is, risks related to climatic phenomena such as temperature, wind, water, floods, storms, snow or other similar events, whether of a chronic or acute nature. Therefore, the eligible products include covers that help to adapt to the adverse effects that climate risks may have on policyholders and mitigate them.

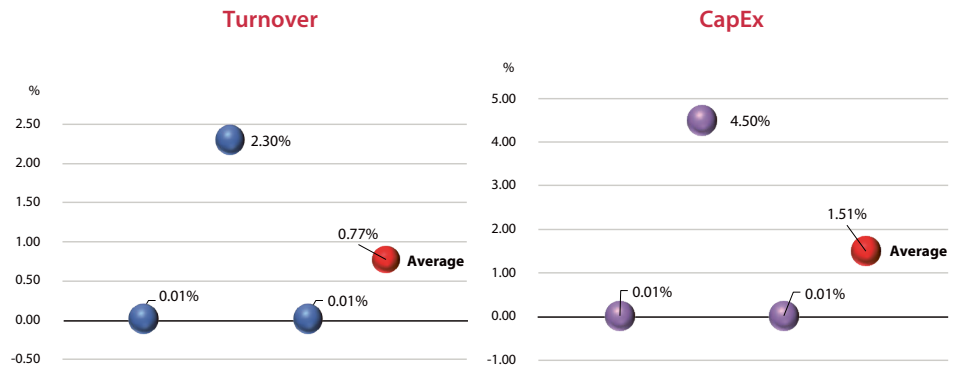
They add that to calculate the reported information they used data obtained from the different management systems which, at times, reaches a different level of granularity, due to which the premium linked

Some issuers reveal that, in order to report the eligibility indicator in 2023, they opted for following a conservative and prudential criterion with respect to the 2022 report, validating only criteria that can be objectively evidenced.

Based on the content of the templates, the information reflected on the figures shown below was gathered.

Aligned indicator based on turnover and CapEx

FIGURE 5



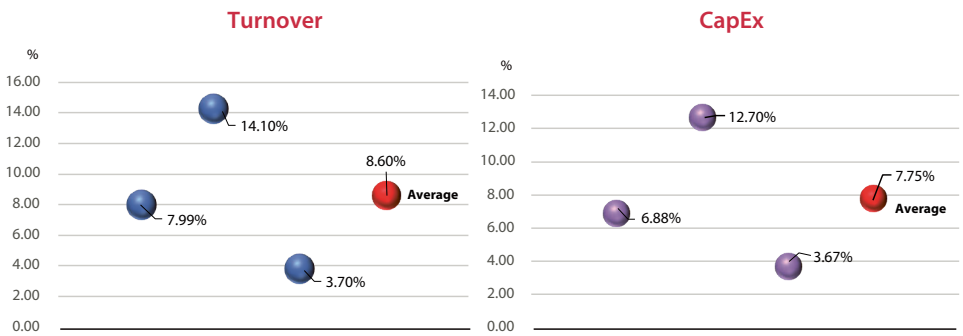
Source: CNMV.

Additionally, one credit institution provides the aligned indicators of its insurance business, being 2.7% based on turnover and 5.2% considering CapEx. Taking both figures into account, the average percentage of the insurance sector would reach 1.26% and 2.43%, respectively, showing slightly higher ratios based on CapEx.

It should be noted that, once again, almost 100% of the alignment corresponds to the mitigation objective.

Eligible indicator based on turnover and CapEx

FIGURE 6

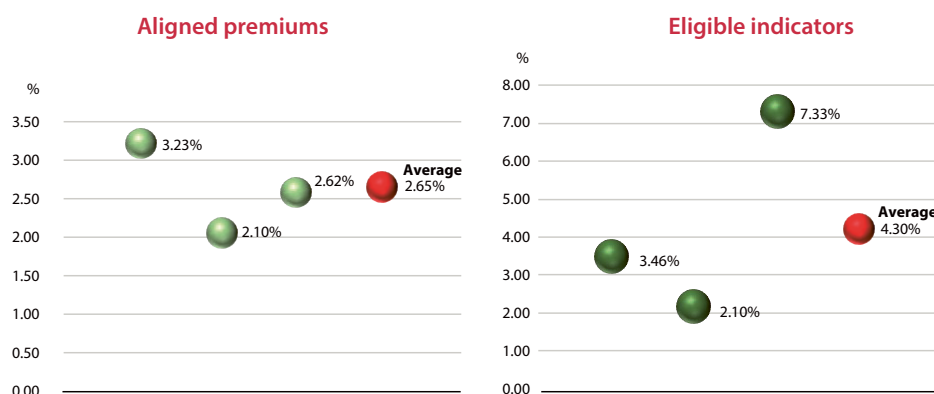


Source: CNMV.

Although the sample of insurance undertakings is smaller, the data indicate that the eligibility of the insurance sector is lower than that of credit institutions.

## Aligned and eligible non-life and reinsurance premiums

FIGURE 7



Source: CNMV.

Although in this first financial year the average alignment indicator relative to non-life premiums is higher than the average indicator associated with the investment portfolio, the potential contribution of the latter to the climate and environmental objectives is greater, due both to its larger volume in quantitative terms and to its nature. However, the essential role played by non-life premiums to mitigate the physical risks arising from climate change must be highlighted.

## Asset management and investment firms

Three issuers provided the templates corresponding to asset management and investment services. Specifically, one issuer provided the templates corresponding to asset management and investment services, another included the credit institution, insurance undertaking and asset management templates and, lastly, a third issuer included the credit institution and asset management templates in its taxonomy disclosures.

Only the issuer engaging in asset management and investment services also submitted the indicators consolidating both templates, being the proportion of assets associated with aligned economic activities of said issuer 0.27%,<sup>25</sup> whereas the proportion of assets associated with eligible economic activities is 1.28%.<sup>26</sup>

The other two issuers submitted alignment ratios between 2% and 3%, approximately, and eligibility ratios of 4% and 25%, respectively.

Only three of the financial undertakings included templates corresponding to more than one activity. Only one of them, which provided the templates corresponding to credit institutions and asset management, expressly indicated not having a material activity in relation to insurance and reinsurance undertakings or investment firms.

25 0.02 % in the asset management activity and 3.19 % in the investment services activity.

26 0.16 % in the asset management activity and 15.64 % in the investment services activity.

## Financial conglomerates

Question 7 included in the *Draft Commission Notice*, published by the EC in December 2023, indicates that the parent undertakings of large groups must consider all the subsidiaries of its group, including the consolidated disclosures of the taxonomy in its consolidated sustainability report. To this end, they must use a prudential scope of consolidation in the activities subject to this type of regulation and provide the consolidated group-level indicators of their respective business segments.

This question sets the example of parent companies of a financial conglomerate with business segments related to asset management, banking, investment firms or insurance activities carried on by their subsidiaries, which must report those activities at the consolidated level, providing the indicators described in each of the Annexes<sup>27</sup> of Delegated Regulation 2021/2178, consolidated for the subsidiaries that carry out each of the aforementioned activities. Additionally, they must calculate and publish a consolidated indicator that will be the weighted average of the indicators corresponding to each activity (asset management, banking, investment, and insurance and reinsurance), considering the proportion of turnover of each activity in the total consolidated turnover of the conglomerate.

Annex II of the document includes numerical examples of how to calculate the consolidated average indicator for financial conglomerates and mixed groups that carry on both financial and non-financial activities.

As discussed in the preceding section, only one company provided the consolidated average indicator, calculated in relation to its asset management and investment services activity.

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27 Annexes III and IV for the activities carried on by subsidiaries that are asset managers, Annexes V and VI for the banking activities carried on by subsidiaries that are credit institutions, Annexes VII and VIII for the activities carried on by subsidiaries that are investment firms and Annexes IX and X for the activities carried on by subsidiaries that are insurance or reinsurance undertakings.

## IV Conclusions

In general, the alignment indicators published by financial undertakings have been considerably low compared to the same eligibility indicators. Thus, the GAR in terms of stock has a 1.71% average, when based on the turnover KPI, and 2.08% when based on the CapEx KPI, while the eligibility ratios were 34.79% and 35.36%, respectively. However, these reported percentages do not allow financial undertakings to accurately reflect their aligned investments, due mainly to the disproportion between the assets included in the denominator and those considered in the numerator. The current methodology of alignment ratios with the taxonomy does not allow exposures to companies not subject to NFRD, such as SMEs and non-EU companies, to be included in the numerator, although they are included in the denominator. This may lead to disparities in the indicator, depending on the business model of each financial undertaking, its customer base and geographical presence.

The issuers point out that these restrictions have prevented the inclusion of certain transactions in these indicators, such as the financing of wind farms or renewable energy projects, on not being granted to companies obliged to report under the NFRD Directive.

This has also implied that the highest eligibility figures correspond to household portfolios.

It is important to highlight the considerably low percentages of alignment of the CapEx with the climate objective of adaptation, which would be partly due to underinvestment in climate resilience by non-financial undertakings to date, in addition to the limited offering of specialised financial products in its financing. The most notable exception is that of the insurance sector, where the average alignment indicator related to non-life premiums – a product that contributes exclusively to adaptation – even exceeds the percentage associated with the investment portfolios. This phenomenon highlights the key role of insurance undertakings in climate risk management, particularly their ability to mitigate the physical effects of climate change through their products. Furthermore, as indicated throughout this report, in this first year of publication of alignment indicators by financial undertakings, the issuers expressed a series of difficulties or limitations to properly reflect the investment and financing in the decarbonisation of the economy, highlighting the following aspects:

- The completion of the templates by financial undertakings gave rise to interpretative uncertainties.
- In those cases where the counterparty was a credit institution, alignment information was not available at the time of preparing the annual report for 2023, due to being the first year of mandatory disclosure.

- Credit institutions added that, although it seems feasible to assess the substantial contribution of the financing granted for a specific purpose, in many cases they lack documented evidence to ensure compliance with DNSH and MS principles. This implies that part of the specific financing granted, which would be substantially contributing to an environmental objective, was not included in the alignment metrics.
- Financial issuers highlight that, since the Delegated Regulation relative to the four environmental objectives was published in 2023, the available information on the eligibility associated with these objectives is limited, assuming in most cases an eligibility percentage equal to zero in relation to said objectives.
- To calculate the ratio, it was necessary to gather a large amount of information on counterparties, having had to resort to contracting external suppliers in most cases.

In this regard, as indicated in previous chapters, the EC will foreseeably modify the calculation of the indicator in 2025, reconsidering the exclusion from the numerator of the exposures of companies not obliged to disclose information pursuant to the NFRD Directive.

Additionally, it should be noted that, with the application of Directive (EU) 2022/2464, on corporate sustainability reporting (CSRD),<sup>28</sup> which replaces the NFRD Directive, companies subject to this new disclosure framework must include taxonomy information. This applies to unlisted large companies, listed small and medium-sized companies, and even non-EU companies with significant activity within the European Union.

In this regard, financial undertakings will gradually have access to alignment information of an increasingly larger number of counterparties, insofar as the new taxonomy disclosure requirements apply to them.

However, the CSRD Directive leaves unlisted SMEs outside its scope which, in the case of some financial undertakings, account for a significant portion of their financing portfolio, which could imply structurally low GAR indicators.

The EC's Platform on Sustainable Finance has announced the development of a simplified methodology based on the taxonomy, in response to an EC mandate. The aim of this initiative is to provide access to SMEs to sustainable loans and enable banks to properly recognise this type of financing. This simplified – and voluntary – approach seeks to adapt the complexity of the taxonomy to SME characteristics and needs.

Meanwhile, the *Draft Commission Notice*, published by the EC in December 2023, encourages financial undertakings to voluntarily disclose estimates of alignment indicators, considering exposures currently excluded from the calculation or those for which, although covered, there is insufficient evidence to justify the alignment.



This document shows that the EC expects the robustness and accuracy of the key performance indicators to gradually improve with the adoption of the EU Taxonomy by leading companies and by increasing data flow from non-financial undertakings to financial undertakings.

In this regard, it should be recalled that, when an issuer decides to provide additional voluntary disclosures in order for investors to better understand the company's taxonomy, it should be noted that this information does not form part of the mandatory disclosures. In addition, it should not contradict, inadequately represent or be more significant than the mandatory information. Furthermore, it is essential to justify the reasons for including said additional disclosures. In such cases, details must be provided on the basis of this disclosure, the methods used to prepare it and a clear explanation of how it differs from the mandatory disclosure. Additionally, companies must take the content of ESMA's guidelines on alternative performance measurements (APM) into account.

Other recommendations arising from the various issues highlighted throughout this report that the CNMV considers must be improved or considered in future financial years are as follows:

- Templates must be completed according to regulatory requirements, without adaptations or modifications. All companies, not only those that carry on activities related to nuclear energy and fossil gas, must complete Template 1 of Annex XII contained in Delegated Regulation (EU) 2021/2178, after being amended by Delegated Regulation (EU) 2022/1214, and only those companies that do not conduct, finance or have exposures to the activities mentioned in Template 1 may omit the disclosure of Templates 2 to 5 of the aforementioned Annex.

As regards insurance undertakings, it should be noted that Question 70 of the *Draft Commission Notice* indicates how the columns and DNSH and minimum safeguards should be completed in Annex X.<sup>29</sup>

- The importance of ensuring compliance with the DNSH and MS principles is recalled when determining the alignment of a certain activity, irrespective of whether the counterparty is a financial undertaking or not.
- As indicated in Question 7 included in the *Draft Commission Notice*, published by the EC in December 2023, groups with subsidiaries in different business segments related to asset management, banking, investment firms or insurance activities should report these activities at the consolidated level considering the subsidiaries that carry on each of the aforementioned activities and providing the indicators described in each of the Annexes of Delegated Regulation 2021/2178. Additionally, a consolidated indicator that will be the weighted average of the indicators corresponding to each activity must be calculated and published considering the proportion of turnover of each activity in the total consolidated figure of the conglomerate. If information relative to any activity carried on by the group is omitted, it must be adequately justified.

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<sup>29</sup> Template for the key performance indicators of insurance and reinsurance undertakings.

- In the case of insurance undertakings, they must indicate the approach followed to calculate the alignment and eligibility of the premiums, as stated in Question 67 of the EC's *Draft Commission Notice*, considering the proportion of premiums that cover climate-related risks to calculate both alignment and eligibility, using an appropriate methodology.
- It is important to indicate the baseline data used to calculate the taxonomic indicators, explaining the main differences with respect to the amounts included in the financial statements.
- The explanations accompanying taxonomy indicators should be clear, comprehensive and specific to the institution, avoiding generalities. The information, which should not be limited to qualitative aspects, must include the following:
  - i) The assumptions used in preparing the information.
  - ii) The areas in which significant judgements were made.
  - iii) The key elements that have changed with respect to the previously reported figures, in addition to an explanation of the reasons for the change.

In relation to the latter, an explanation of the significant variations found in the indicators with respect to previous financial years must be provided, considering, where applicable, the need to restate the comparative figure.

- Lastly, it should be recalled that Annex XI of Delegated Regulation 2021/2178 requires financial undertakings to make certain qualitative disclosures to support the explanations and understanding of the indicators, providing, *inter alia*, the following:
  - Contextual information supporting the quantitative indicators, including the assets and activities encompassed by the key performance indicators, in addition to details of the data sources and their limitations.
  - Explanations on the nature and objectives of taxonomy-aligned economic activities and their evolution over time.
  - Description of compliance with the Taxonomy Regulation in their strategy, product design processes and relationship with customers and counterparties.
  - Additional or supplementary information on their strategy and weight of the financing of taxonomy-aligned economic activities in their total activity.

