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Banco Santander, S.A. (Santander)

Meeting date: To be confirmed
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VOTE RECOMMENDATION: Re-election of directors.............. **AGAINST**

By diluting its fossil fuel policies, Santander has undermined the strength of its climate commitments and created a clear path for continued financing of a global fossil fuel economy. These reversals signal a governance failure at board level, where directors have a responsibility to diligently exercise oversight of climate risks in order to safeguard long-term shareholder value. On this basis, a vote against directors put forward for re-election at this year's annual general meeting is warranted.

KEY TAKEAWAYS

Santander's recent policy changes reflect an increased appetite from the bank to finance fossil fuels since 2022

Despite mounting climate risks, Santander has been ramping up its fossil fuel financing from $7.5bn in 2022, $13.9bn in 2023, to $17.3bn in 2024.[i] Of the $17.3bn, $7.0bn went to GCEL- and GOGEL-listed companies[ii]—firms actively expanding fossil-fuel operations—making Santander the third-largest European financer of such companies.

Santander has significantly weakened its position on oil & gas in its updated Environmental and Social Risk Management policy (July 2025)

The bank no longer rules out general corporate purpose financing for new upstream oil clients. This leaves it with no generally applicable restrictions on oil & gas companies (as opposed to oil & gas projects). All that remains to limit general corporate purpose financing are restrictions for specific segments of unconventional and high-risk oil & gas. The removal of the policy for new upstream oil clients also creates an opening for the bank to finance new ultra-deepwater oil & gas clients, since these are not addressed specifically anywhere else in the bank's policy.

Santander has reduced the ambition of its position on coal in its updated Environmental and Social Risk Management policy (July 2025)

Thermal coal mining: The bank has removed requirements for clients to have credible plans and targets to phase out coal by 2030. Previously, the bank had also committed to end all exposure to thermal coal mining in 2030, but has now introduced an exception allowing ringfenced sustainable financing beyond this date without adequate safeguards to ensure the bank is not indirectly contributing to coal expansion.

Thermal coal power: Santander has removed requirements for coal power clients to have credible plans to reduce coal revenue to 10% or less by 2030. Financing for clients with more than 10% of coal-related revenues can even continue beyond 2030 if it is earmarked for sustainable finance and related projects without adequate safeguards to ensure the bank is not indirectly contributing to coal expansion.

⟩⟩ PART 1 – BACKGROUND

Banks face a myriad of risks and opportunities from climate change and the energy transition. Despite political turbulence, 89% of people around the world still support climate action.[iii] Meanwhile, the economics of a just and orderly transition remain undimmed. Investment in renewables continues to break records[iv], with renewables capacity projected to grow faster between 2025 and 2030 than during the first half of this decade.[v] These long-run economic trends, coupled with resilient public support, suggest the transition to a cleaner economy is not going away. This creates a significant risk of stranded assets, exposing lenders to potential losses, particularly from the fossil fuel sector. The European Central Bank has warned of a "non-negligible increase in credit risk impairments" in a disorderly transition[vi], while the Bank of England warns impairment rates for fossil fuels could be twice as high as for other corporate portfolios.[vii]

At the same time, banks need to be increasingly aware of the physical risks from a changing climate, and how these may impact broader economic conditions. Acute risks can emerge from extreme weather conditions. Notably, climate-related extremes across Europe caused more than twice as much damage during the period 2022-23 as in the entire preceding decade.[viii] Global losses from floods, cyclones, heatwaves, and droughts would double by 2050 compared to current levels were temperatures to rise by an average of 3C.[ix] At the same time, climate change presents chronic risks to profitability and prosperity. A 3C increase in temperatures would reduce global labour productivity by 10% and chronic physical risks would impose a 15% hit to GDP around the world.[x]

This myriad of physical and transition risks not only raises the prospect of credit impairment, but will also result in economic conditions that are less predictable and less conducive to value creation. Banks need a plan to both manage and minimise these risks by adapting their business models and leveraging their position to advance the energy transition.

At the same time, the growing demand for sustainable financing presents considerable opportunities for banks. Already, the world's largest banks are generating more from green syndication fees than fossil transactions.[xi] To compete for these opportunities in a crowded landscape, banks need plans now to invest in new products, develop expertise, initiative partnerships, and coordinate resources across the institution.

Policies restricting financing to fossil fuels and reducing financed emissions signal banks' strategic alignment with the energy transition and demonstrate a concrete commitment to halt support for the expansion of fossil-based activities. Backtracking on these public commitments severely undermines the credibility of a bank's climate strategy and increases its exposure to reputational, regulatory, and transition risks.

Effective oversight of climate- and transition-related risks is a well-established element of directors' duties. In Spain, these duties include the need for directors to "fulfil their tasks [...] with the diligence of an orderly business person" and "adopt the necessary measures for good management and control of the company".[xii] As the Commonwealth Climate and Law Initiative and Climate Governance Initiative note, "around the world, it is increasingly accepted that to discharge their duties of care and loyalty, directors must consider and integrate climate risks and opportunities into their corporate governance".[xiii] Indeed, 89% of board directors surveyed by the Climate Governance Initiative in 2025 acknowledged that it is part of their role to influence their board on climate action.[xiv] This responsibility is also reflected in established supervisory guidance for banks. Since 2020, the European Central Bank has had clear expectations that banks' management bodies "consider climate-related and environmental risks when developing the institution's overall business strategy, business objectives and risk management framework, and [...] exercise effective oversight of climate-related and environmental risks".[xv]

By allowing their bank to dilute fossil fuel policies or decarbonisation targets, directors compromise their duty to protect shareholder value and manage long-term climate-related risks. It therefore falls on shareholders to hold the board accountable and ensure effective oversight of the bank's climate strategy is restored.

⟩⟩ PART 2 – SUPPORTING ANALYSIS

2.1 Oil & gas

Why this pillar matters

Further oil & gas development breaches planetary boundaries, risks creating a glut of fossil fuels, and undermines long-term financial stability. The IEA has said "no new long lead time conventional oil & gas projects are approved for development" under its 1.5C-compatible Net Zero Emissions by 2050 scenario (NZE).[xvi] In the latest 2025 WEO, the IEA again notes that "[a]s in previous editions of the NZE Scenario, upstream investment is directed towards maintaining the output of existing fields."[xvii] Based on current expansion plans, the NZE would see significant numbers of oil & gas projects closing before the end of their technical lifetimes by the time we reach 2040, implying significant financial risks from stranded assets. Current trajectories for oil & gas supply greatly outstrip what is required in a 1.5C-compatible transition—a mismatch that would hit the profitability and valuation of oil & gas companies, as well as leading to large volumes of wasted investment. This financial risk could transfer to the banking sector either directly through impaired credit, or through more general macroeconomic and financial instability. Banks that are overly dependent on fees from oil & gas companies for capital markets services could also suffer from a disorderly loss of revenues, and should instead be planning a smooth transition to clients compatible with the emerging decarbonised economy.

Criteria

After the update to Santander's policy in July 2025, the bank no longer meets the following criteria: 'corporate finance expansion upstream' (OG.c) and 'corporate finance threshold ultra-deepwater' (UOG-U.b).

Criteria	Santander (old)	Santander (new)	CaixaBank Group	BNP Paribas
OG.a - Dedicated finance (upstream)	Y**	Y**	Y**	Y*
OG.b - Dedicated finance (midstream)	N	N	Y*	Y**
OG.c - Corporate finance expansion (upstream)	No new upstream oil clients**	↓**N**	No clients with >50% revenue linked to upstream oil & gas**	No independent oil & gas producers / conventional oil & gas bonds**
OG.d - Products and services	Y	Y	Y	Y
UOG.A.a - Dedicated finance (Arctic)	Y	Y	Y**	Y
UOG.A.b - Corporate finance threshold (Arctic)	30% activity / significant reserves / no new upstream oil clients*	30% activity / significant reserves / no new upstream oil clients*	10% of revenues**	10% of reserves / 10% ratio of non-conventional reserves to upstream revenues
UOG.A.c - Products and services	Y	Y	Y	Y
UOG.F.a - Dedicated finance (fracking)	Y**	Y**	Y**	Y
UOG.F.b - Corporate finance threshold (fracking)	30% activity / significant reserves / no new upstream oil clients**	30% activity / significant reserves / no new upstream oil clients**	50% of revenues**	10% of reserves / 10% ratio of non-conventional reserves to upstream revenues
UOG.F.c - Products and services	Y	Y	Y	Y

UOG.O.a - Dedicated finance (oil sands)	Y	Y	Y**	Y
UOG.O.b - Corporate finance threshold (oil sands)	30% activity / significant reserves / no new upstream oil clients*	30% activity / significant reserves / no new upstream oil clients*	10% of revenues**	10% of reserves / 10% ratio of non-conventional reserves to upstream revenues
UOG.O.c - Products and services	Y	Y	Y	Y
UOG.U.a- Dedicated finance (ultra-deepwater)	Y**	Y**	Y**	Y
UOG.U.b - Corporate finance threshold (ultra-deepwater)	No new upstream oil clients**	↓**N**	50% of revenues**	N
UOG.U.c - Products and services	Y	Y	Y	Y

Y = Meets criteria	**Y* = Meets criteria, with technical exceptions**	**Y** = Meets criteria, with material exceptions**	**N = Does not meet criteria**

OG.a - Dedicated finance (upstream)	Does the bank exclude dedicated finance for new oil & gas projects?
OG.b - Dedicated finance (midstream)	Does the bank exclude dedicated finance for new infrastructure enabling the transport, liquefaction, or regasification of oil & gas?
OG.c - Corporate finance expansion (upstream)	Does the bank exclude general corporate purpose finance for companies engaged in new oil & gas projects?
OG.d - Products and services	Does the policy apply to all relevant products and services, and at a minimum to the bank's lending and capital markets facilitation activities?
UOG.A/F/O/U.a - Dedicated finance (unconventional)	Does the bank exclude dedicated finance for new Arctic oil & gas / fracking / oil sands / ultra-deepwater oil & gas projects or the expansion of existing projects?
UOG.A/F/O/U.b - Corporate finance threshold (unconventional)	Does the bank restrict general corporate purpose finance for companies that are exposed to Arctic oil & gas / fracking / oil sands / ultra-deepwater oil & gas based on a relative threshold, such as the percentage of oil & gas production or revenues derived from these segments?

UOG.A/F/O/U.c - Products and services	Does the policy apply to all relevant products and services, and at a minimum to the bank's lending and capital markets facilitation activities?

Changes to policy position

A key provision for new clients is removed in the bank's updated Environmental and Social Risk Management policy. Previously Santander ruled out general corporate purpose financing for new upstream oil clients, unless the financing was ringfenced for new renewable energy facilities. This previous policy was weak: it only applied to new clients and did not cover either gas or midstream activities. However, it sent a signal that Santander's financing appetite for new oil might be diminishing. There is now no mention of the restriction. Aside for some restrictions applied to companies in high-risk or unconventional segments, the bank is left with no blanket restrictions on the general corporate purpose finance it provides to companies engaged in oil & gas expansion.

The bank's decision also impacts its approach to unconventional and high-risk oil & gas segments. Since Santander's old policy had not set specific thresholds for its clients' exposure to ultra-deepwater oil & gas, the bank's restrictions for this high-risk segment were wholly dependent on its approach to new upstream oil clients. With this restriction now dropped, the bank has no limit on the general corporate purpose financing it can provide to companies with ultra-deepwater oil & gas exposure.

Previous policy	New policy
OG.c • The bank had a commitment to not finance: "[n]ew oil upstream clients, except for transactions for the specific financing for new renewable energy facilities." [p5] • **Material exceptions:** the policy applies only to new clients, covers only oil, and allows financing for renewable energy.	**OG.c** • Santander removed this restriction.
UOG-U.b • The bank did not specifically restrict finance to oil & gas clients with ultra-deepwater exposure. However, the bank's restriction on new upstream oil clients meant at least some ultra-deepwater oil & gas producers were de facto excluded from financing. • **Material exceptions:** the policy applies only to new clients, covers only oil, and allows financing for renewable energy.	**UOG-U.b** • No commitment. The removal of the policy for new upstream oil clients (OG.c) also creates an opening for the bank to finance new ultra-deepwater oil & gas clients, since these are not addressed specifically anywhere else in the bank's policy.

Analysis

Santander's position on restricting general corporate purpose financing for companies involved in the exploration and development of new oil & gas projects was already weaker than some European peers. Crédit Mutuel, Danske Bank, DZ Bank, and La Banque Postale all rule out financing to clients expanding oil & gas on a general basis. BNP Paribas and Crédit Agricole have said they will no longer participate in conventional oil & gas bonds. Even Barclays, the largest financer of oil & gas among European banks, restricts financing for non-diversified oil & gas groups directing 10% of their capex to long-lead expansion and new clients directing 10% of their capex to expansion. The latest changes to Santander's policy put it even further behind peers.

The decision to lift restrictions on new upstream oil clients will enable a greater number of companies to access financing from the bank, signalling a retreat from decarbonisation and a renewed backing for the fossil fuel economy. This is troubling considering Santander's fossil fuel financing was already trending sharply upward from $7.5bn in 2022 to $13.9bn in 2023, and then to $17.3bn in 2024.[xviii] Of the $17.3bn, $7.0bn went to GCEL- and GOGEL-listed companies[xix]—firms actively expanding fossil-fuel operations—making Santander the third-largest European financer of such companies.

Along with increased reputational risk, engagement with new clients expanding operations in the oil & gas sectors elevates the bank's exposure to asset stranding. Various studies put the potential value of stranded oil & gas assets at $3-16 trillion, with an impact on fossil fuel profits of well over $1 trillion over the next 15 years.[xx] In the nearer term, Carbon Tracker has warned oil & gas companies could waste almost half a trillion of capex if they fail to curb planned overinvestment between 2023 and 2029.[xxi] There are also broad implications for the financial sector. The ECB finds that transition risk would cause a "non-negligible increase in credit risk impairments" in a short-term disorderly scenario, driven by the most carbon-emitting sectors including fossil fuels.[xxii] Similarly, the Bank of England notes that impairment rates for fossil fuels would be twice as high on average compared to other corporate portfolios in an early and late action scenario.[xxiii]

The fact that the bank may again be able to finance new ultra-deepwater oil clients is especially concerning, given the bank's exposure to this segment, the significant impact of this activity on sensitive marine ecosystems, the effects on coastal communities, and the additional costs in areas such as decommissioning.[xxiv] As the United Nations Human Rights Council has noted, there are more than 32,000 abandoned wells releasing toxins and emissions in the Gulf of Mexico alone, while the lack of regulation and monitoring of companies operating on the ocean can lead to large-scale environmental harm and human rights abuses.[xxv] Managing the risk of uncontrolled influxes of gas, known as gas kicks, which can lead to blowouts, is a particularly complicated process during ultra-deepwater drilling. While improvements have been made over time, systems for flagging these kicks still face detection delays.[xxvi] As BP found, the costs of major incidents in a deepwater environment can be severe.[xxvii] Even without these major events, ultra-deepwater oil & gas has a record of poor transparency, obscuring a potential build-up of risk. Methane leakage has historically been underreported[xxviii], while the release of oil pollution into the ocean via intentional discharges known as produced water have traditionally been underestimated.[xxix] As Oceana notes from its study of UK operations, almost a third of reports for the release of produced water failed to detail the volume of oil discharged.[xxx]

Despite the risks, Santander has already shown a willingness to finance clients with ultra-deepwater operations, and its updated policy creates the potential for adding new clients in this sector. Since 2021, Santander has been a major financer of Eni ($1.0bn), Petrobras ($0.8bn), Equinor ($0.6bn), and TotalEnergies ($0.5bn)[xxxi]— all companies with high-risk ultra-deepwater oil & gas operations. These firms are also driving the discovery and expansion of new ultra-deepwater, including new developments in Brazil (Petrobras[xxxii] and Equinor[xxxiii]) and Indonesia (Eni[xxxiv]). Petrobras' drilling in the Equatorial Margin in Brazil is taking place in the highly biodiverse Amazonas Mouth and overlaps with both protected and Indigenous territories, creating considerable socio-environmental and legal challenges.[xxxv]

The change in Santander's Environmental and Social Risk Management policy marks a step backward from an already weak baseline. Instead of using its influence and resources to steward down its exposure to oil & gas producers, Santander is giving itself the option to take on more clients in the sector. This appears in tension with the bank's stated long-term strategy of reducing financed emissions connected with oil & gas by 29% between 2019 and 2030. Instead, the policy changes imply more resources may be invested in building relationships with new oil clients. At a time when the energy transition calls for a strategic reallocation of capital, Santander's renewed potential to finance previously restricted clients runs counter to this direction and increases both reputational and long-term financial risk.

2.2 Coal

Why this pillar matters

Coal is the most carbon intensive fossil fuel and phasing out its use in the energy system is key to achieving the 1.5C warming limit of the Paris Agreement. Restricting finance to coal should ensure companies that are not transitioning away from coal-related activities find it increasingly challenging to find capital for their business. Rising capital costs for coal will make coal projects less attractive for companies and for investors in the sector—a shift compounded by the rapidly falling cost of alternative energy sources.

Criteria

Following the update to Santander's policy July 2025, the bank has significantly weakened its approach on 'corporate finance threshold – mining' (CM.b) and 'phase-out – mining' (CM.d). Similarly, for 'corporate finance threshold – power' (CP.b), Santander has removed key conditions that clients previously had to meet to access funding.

Criteria	Santander (old)	Santander (new)	CaixaBank Group	BNP Paribas
CM.a - Dedicated finance (mining)	Y	Y	Y	Y
CM.b - Corporate finance threshold (mining)	New clients: No tolerance**	↓**New clients: No tolerance****	5% of revenues**	20% of revenue*
CM.c - Corporate finance expansion (mining)	N	↑Y**	Y**	Y
CM.d - Phase-out (mining)	2030 EU/OECD; 2040 RoW	↓**2030 EU/OECD; 2040 RoW****	2030	2030 EU/OECD; 2040 RoW
CM.e - Products and services	Y	**Y**	Y	Y
CP.a - Dedicated finance (power)	Y	Y	Y	Y
CP.b - Corporate finance threshold (power)	New clients: 25% of revenues**	↓ **New clients: 25% of revenues****	5% of revenues**	New clients: 25% of revenues**
CP.c - Corporate finance expansion (power)	Y**	Y**	Y**	Y
CP.d - Phase-out (power)	N	N	2030	2030 EU/OECD; 2040 RoW
CP.e - Products and services	Y	Y	Y	Y

Y = Meets criteria	**Y* = Meets criteria, with technical exceptions**	**Y** = Meets criteria, with material exceptions**	**N = Does not meet criteria**

CM/P.a - Dedicated finance	Does the bank exclude dedicated finance for new thermal coal mining / power projects or the expansion of existing projects?

CM/P.b - Corporate finance threshold	Does the bank restrict general corporate purpose finance for companies that are exposed to the thermal coal mining / power sector based on a relative threshold, such as the percentage of mining revenues / power generation derived from coal?
CM/P.c - Corporate finance expansion	Does the bank exclude general corporate purpose finance for clients developing new thermal coal mining / power projects or extending the lifespan and/or capacity of existing projects?
CM/P.d - Phase-out	Has the bank committed to a phase out of thermal coal mining / power by 2030 in OECD countries and 2040 globally?
CM/P.e - Products and services	Does the policy apply to all relevant products and services, and at a minimum to the bank's lending and capital markets facilitation activities?

Changes to policy position

The bank's changes to policies on thermal coal mining significantly dilute its phase-out commitment. Previously, it ruled out financing to clients that own thermal coal mines worldwide by 2030. It has now introduced an exception allowing financing beyond 2030 if proceeds are used for sustainable finance and related products. It is also able to provide financing to the parent companies of these businesses, provided the capital does not directly support thermal coal. This expands a material exception in the previous policy, which allowed the bank to finance multi-industry conglomerates with independent business entities even if some of these subsidiaries were contravening the bank's restrictions. The bank would only need to be sure funds were not directly supporting these subsidiaries. However, even if the use of proceeds will not to be directed to coal, the financing can still bolster clients' overall financial health, enabling expansionary activities by subsidiaries of the parent company.

Previously, the bank would only finance new thermal coal mining clients if the funds were used for renewable energy and the client had a credible plan to completely exit coal by 2030. Its updated Environmental and Social Risk Management policy expands the scope of the exception, which now allows all forms of sustainable and transition finance. These new mining clients are required to demonstrate they are not expanding coal capacity but are no longer required to demonstrate they are phasing out coal by 2030.

Santander has also weakened its position on thermal coal power. The bank previously sorted prospective clients with coal power exposure into three groups. Prospective clients that derived more than 25% of revenue from coal could only access financing for renewable energy, had to cease coal expansion, and had to have a credible plan to reduce coal exposure to 10% of revenues by 2030. Prospective clients deriving less than 25% of revenue from coal could access all types of funding but had to meet the same conditions on expansion and exposure. Finally, those with less than 10% of revenues linked to coal power faced no restrictions. Under Santander's new policy, new clients with more than 25% of revenues linked to coal power can access finance for a broader set of activities—sustainable and transition finance—and no longer need to show they have a plan to phase down coal exposure to 10% of revenues. Meanwhile, there are no restrictions on the bank initiating business with new clients deriving less than 25% of revenues from coal power. Santander had previously committed to cease engaging with any clients that earn more than 10% of revenues from coal power by 2030. In its new policy, the bank has now included a loophole to allow it to continue financing these clients if the proceeds are used for sustainable and transition finance purposes (the latter of which is not formally defined publicly by Santander). We outline the reasons why ringfenced financing is problematic in the analysis below.

Effectively, Santander has weakened its coal policy. It allows companies to receive financing without a clear expectation that they are phasing out coal and even permits continued ringfenced financing well beyond 2030.

Previous policy	New policy
CM.b • "Prohibited activities […] New clients that own thermal coal mining operations and projects worldwide, except for transactions for the specific financing for renewable energy. In these exceptions, the client must have a robust, credible plan, with verifiable targets, which show the client will have no thermal coal by 2030." [p.7] • "Defining clients as corporate entities (last parent company) hence not including funds. In the case of multi-industry conglomerates with independent business entities across different industries, the Policy will apply at subsidiary level. Should a subsidiary be prohibited, Santander might still provide products and services to the parent company (if they are unrelated to the prohibited entity) and/or to other subsidiaries within the conglomerate." [p.3] • **Material exceptions:** the policy applies only to new clients, only applies at the subsidiary level, and excludes renewables financing.	**CM.b** • "Prohibited activities […] New legal entities of Groups with which Santander has no relationship that own thermal coal mining operations and projects worldwide, except for non-recourse and/or ECA transactions if sustainable finance and/or products to finance the transition. In these exceptions, the group must not be organically developing additional thermal coal capacity." [p.7] • "Defining clients as corporate entities (last parent company) hence not including funds. In the case of multi-industry conglomerates with independent business entities across different industries, the Policy will apply at subsidiary level. Should a subsidiary be prohibited, Santander might still provide products and services to the parent company (if they are unrelated to the restricted entity) and/or to other subsidiaries within the conglomerate." [p.3] • **Material exceptions:** the policy applies only to new clients, only applies at the subsidiary level, and excludes sustainable or transition finance.
CM.c No commitment in place.	**CM.c** • "Prohibited activities […] New legal entities of Groups with which Santander has no relationship that own thermal coal mining operations and projects worldwide, except for non-recourse and/or ECA transactions if sustainable finance and/or products to finance the transition. In these exceptions, the group must not be organically developing additional thermal coal capacity." [p.7] • "Defining clients as corporate entities (last parent company) hence not including funds. In the case of multi-industry conglomerates with independent business entities across different industries, the Policy will apply at subsidiary level. Should a subsidiary be prohibited, Santander might still provide products and services to the parent company (if they are unrelated to the restricted entity) and/or to other subsidiaries within the conglomerate." [p.3] • **Material exceptions:** the policy applies only to new clients, only applies at the subsidiary level, and excludes sustainable or transition finance.
CM.d • "Prohibited activities: […] No exposure to thermal coal mining worldwide by 2030." [p.3] • **Material exceptions:** N/A	**CM.d** • "Prohibited activities: […] By 2030 legal entities that own thermal coal mines worldwide, except for sustainable finance and products to finance the transition. Financing at parent level is still possible if the funds are not used to finance thermal coal assets and/or

to any subsidiary that directly engages with thermal coal activities." [p.7]

- **Material exceptions**: the policy allows sustainable and transition finance beyond 2030 and only applies at a subsidiary level.

CP.b

- "Prohibited activities: [...] By 2030, any client with more than 10% of revenues, on a consolidated basis, directly derived from coal fired power generation." [p.5]
- "Prohibited activities: [...] New clients with more than 25% of revenues, on a consolidated basis, directly derived from coal fired power generation, except for transactions for the specific financing for new renewable energy facilities. In these exceptions, the client must not be developing new coal power plants and/or expanding existing ones, have a robust, credible plan, with verifiable targets, which show the client will reduce its revenues coming from coal power generation to 10% or below by 2030. Onboarding new clients with less than 25% of their revenues, on a consolidated basis, derived from coal-fired power generation is allowed, if they have a credible plan to reduce its revenues coming from coal power generation to 10% or below by 2030; and if they are not developing new coal power plants and/or expanding existing ones." [p.6]
- "Defining clients as corporate entities (last parent company) hence not including funds. In the case of multi-industry conglomerates with independent business entities across different industries, the Policy will apply at subsidiary level. Should a subsidiary be prohibited, Santander might still provide products and services to the parent company (if they are unrelated to the prohibited entity) and/or to other subsidiaries within the conglomerate." [p3]
- **Material exceptions**: The policy applies only to new clients, only applies at the subsidiary level, and excludes renewables financing.

CP.b

- "Prohibited activities: [...] By 2030, any client with more than 10% of revenues, on a consolidated basis, directly derived from coal fired power generation, except for sustainable finance and products to finance the transition." [p.5]
- "Prohibited activities: [...] New clients with more than 25% of revenues, on a consolidated basis, directly derived from coal fired power generation, except for non-recourse and/or ECA transactions if sustainable and/or finance the transition. In these exceptions, the client must not be developing new coal power plants and/or expanding existing ones." [p.5]
- "Defining clients as corporate entities (last parent company) hence not including funds. In the case of multi-industry conglomerates with independent business entities across different industries, the Policy will apply at subsidiary level. Should a subsidiary be prohibited, Santander might still provide products and services to the parent company (if they are unrelated to the restricted entity) and/or to other subsidiaries within the conglomerate." [p.3]
- **Material exceptions:** The policy applies only to new clients, only applies at the subsidiary level, and excludes sustainable or transition finance.

Analysis

Santander's position on restricting general purpose financing for companies involved in the coal sector was already well behind leading practice in the sector, with no phase-out commitment for coal power. Major peers such as BNP Paribas have announced they will exit from the thermal coal value chain by 2030 in the European Union and OECD countries, and by 2040 in the rest of the world. Other banks such as Crédit Mutuel have gone further, committing to achieve zero coal exposure worldwide by 2030 and requiring clients have plans in place to close all coal assets by that date. The set of changes Santander has made to its coal policies puts it even further behind peers.

Some of the changes Santander has made in its new policy see the bank abdicating its responsibility to engage coal clients. When the bank announced its commitment to phase out thermal coal in 2021, it said "[w]orking together with customers to support them in their transition to reduce carbon emissions will be key to achieving the net zero ambition." [xxxvi] Removing financing conditions that required coal clients to have credible plans to phase down coal runs counter to this ambition, as the bank is relinquishing a key element of influence over these clients. The decision to drop this transition plan requirement from new clients that derive less than 25% of their revenues from coal power is particularly significant because many of the world's 50 largest coal miners and power producers fall below this 25% threshold.[xxxvii] Shareholders should interrogate Santander further on whether it is truly using its leverage to drive the shift away from coal, rather than continuing to finance clients that clearly intend to keep perpetuating coal-related emissions.

Under its new policy, the bank can continue financing coal clients beyond 2030 under the label of "sustainable" or "transition" finance. This exception for sustainable and transition financing in banks' policies is not inherently problematic; however, in this case, it needs to be coupled with safeguards which ensure the bank is not indirectly contributing to thermal coal expansion. Whether the funding is ringfenced for a specific use-of-proceeds or not, Santander should only consider providing sustainable or transition finance to companies that have committed to cease coal expansion and set out a timebound plan to phase out exposure. Without such safeguards, Santander's financing could help clients free up other resources to use for coal expansion, undermining the aim of the bank's restrictions. A similar issue emerges from Santander's decision to apply restrictions only on subsidiaries, not their parent groups or related businesses. Unfortunately, capital can easily flow across the corporate entity. Sustainable finance only has credibility when it supports a genuine shift away from fossil fuels, not when it enables companies that are failing to transition.

Santander's decision to broaden its exception from renewable energy deals to sustainable and transition finance further dilutes the bank's policy. Under the previous policy, investors could easily understand the use-of-proceeds the bank was aiming to support. Now, a swathe of activities could make a coal company eligible for financing. Neither sustainable nor transition finance are precisely defined in the updated Environmental and Social Risk Management document. Although for defining sustainable finance we may look to rely on the Santander's Green, Social & Sustainability Funding Global Framework, the bank does not make this document's relationship to the Environmental & Social Risk Policy clear. [xxxviii] Notably, not all activities in this framework are indisputably sustainable: bioenergy projects being one example. Meanwhile, the most significant issue is the bank's failure to define in any formal documents what it means by transition financing. This gives the bank broad discretion to support companies engaged in coal mining or power generation without investors being able to judge the merits of the activities they are helping advance.

Relying on the commitments of clients to ringfence funds comes with significant financial, environmental, and reputation risks. This is illustrated most clearly in the case of Adani Green, the renewable energy subsidiary of the world's largest private developer of coal, Adani Group. Investigations showed it had been redirecting financing meant for renewable energy into coal expansion,[xxxix] including funds for the controversial Carmichael coal mine in Australia. While Santander is not a financer of Adani, the case demonstrates how ringfenced financing can provide financers a false sense of security, with harmful consequences for local communities, ecosystems, and the climate.

The overall effect of the changes Santander has made to its Environmental and Social Risk Management policy is to obscure what the bank will and will not finance. Previously, investors knew that the bank's most coal-exposed clients would either transition away from coal or face being dropped. Now the outcome is uncertain. Clients are not being incentivised to reduce coal exposure, and may even be able to access support from Santander beyond the bank's stated phase-out dates. All this uncertainty makes it harder for investors to assess whether the bank is effectively mitigating both the reputational risks of being associated with coal expansion and the financial risks posed by stranded coal assets.

⟩⟩ PART 3 - CONCLUSION

Santander is increasing its support for fossil fuels, moving away from prior pledges

In 2021, Santander announced its ambition to achieve net zero carbon emissions across the group by 2050, alongside commitments to stop financing power clients generating >10% revenues from thermal coal and to eliminate all exposure to thermal coal mining.[xl] However, the bank's increased financing of fossil fuels over the last few years casts doubt on the credibility of its commitment to the climate. The recent backtracking decisions by Santander fundamentally undermine the credibility of this climate strategy, putting the bank's fiduciary and stewardship duties at risk. When banks set clear expectations and support clients through a managed transition, they can reduce financial risk, protect long-term asset value, and accelerate decarbonisation. By rolling back policies and requirements to phase down fossil fuel exposure, Santander is doing the opposite.

Instead of guiding clients away from coal and oil & gas, Santander is now signalling that continued reliance on fossil fuels remains acceptable, undermining its climate commitments and exposing it to significant risks. Whether these risks manifest in reputational damage to the bank, increased impairment from stranded assets, or a more challenging lending environment beset by the physical effects of climate change, the costs will impact investors. The board is ultimately responsible for ensuring the bank effectively manages long-term risks in a comprehensive and coherent manner. Its failure to prevent the leadership of Santander from diluting the bank's well-evidenced policies for managing climate risk calls into question the efficacy of this oversight function. It has been argued that failing to address climate-related risks is in breach of directors' duties to act in the best interests of shareholders. Given the serious nature of backtracking permitted by the board and the increased risks to which this potentially exposes investors, we judge a sufficient threshold has been met to justify a vote against the directors proposed for re-election this year.

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