

# Climate Change



*Wells Fargo believes that climate change is one of the most urgent environmental and social issues of our time. Numerous scientific assessments including from the UN Intergovernmental Panel on Climate Change have consistently found that large reductions in greenhouse gas (GHG) emissions are needed to prevent the worst climate-related impacts, including risk to human life, livelihood, and long-term viability of communities.*

*We support the principles of the Paris Agreement, including its goal to keep warming well below two degrees Celsius. As one of the largest financial institutions and employers in the U.S., we are committed to doing our part to embed sustainability across the enterprise, to leverage our expertise and market position to accelerate sustainable technology innovation, and to deploy capital and collaborate with a range of stakeholders to advance a low-carbon future and climate-resilient development. Beyond our own actions, we believe that policy action is essential to make meaningful progress against the Agreement's goals.*

## **Our Approach**

Our sustainability efforts and prioritization of environmental, social, and governance (ESG) performance align with our view of corporate purpose and a responsibility to all of our stakeholders, including customers, employees, suppliers, investors, communities, and the environment. We are building a robust approach to addressing climate-related risks and opportunities that we believe will generate long-term value for the company and our stakeholders.

Our efforts are integrated and managed companywide. They include:

- deploying capital to support a responsible transition to a low-carbon economy;
- strong environmental and social risk management (ESRM) practices;
- transparency and disclosure of our progress, including working to measure the carbon footprint of our credit and investment portfolios;
- enhancing efficiency and resiliency in our physical assets; and
- collaborating with leading organizations, our peers, and other thought leaders to drive innovation and accelerate solutions to the climate crisis.

Leaders and team members within lines of business and enterprise functions have accountability for advancing and meeting established sustainability-related commitments — including [2020 goals](#) related to operational sustainability, culture and community engagement, and our [2030 sustainable finance commitment](#). The [Corporate Responsibility Committee](#) of the Board of Directors provides oversight for this work.

### **Deploying capital to accelerate the transition to a low-carbon economy**

Across our lines of business and other enterprise functions, we are deploying and unlocking capital to advance a low-carbon economy and help address the impacts of climate change on our customers and communities. In 2018, Wells Fargo announced a commitment to lend or invest \$200 billion to environmentally sustainable businesses and projects by 2030, with 50% focused on transactions that directly support the transition to a low-carbon economy, including renewables, energy-efficiency technologies, green buildings, green bonds, and low-emission vehicles. The remainder will support companies and projects focused on sustainable agriculture, conservation, recycling, resource management, and other environmentally beneficial

initiatives. Our [sustainable finance reporting methodology](#) is publicly available and provides significant detail as to how Wells Fargo defines sustainable finance and accounts for progress with respect to our commitment.

Beyond unlocking capital, we believe we have an important role to play in advancing sustainable finance innovation and opportunities. We are increasing engagement with research and nonprofit organizations at the forefront of climate finance. As an example, the Wells Fargo Innovation Incubator, a \$30 million collaboration with the National Renewable Energy Laboratory, has become a renowned brand in clean technology and sustainable agriculture. This initiative involves engagement with universities and other incubator programs to accelerate the commercialization of clean technologies and sustainable agriculture.

A signatory to the UN Principles for Responsible Investment, Wells Fargo Asset Management (WFAM)<sup>1</sup> embeds climate analysis into its investment process across asset classes and sectors. WFAM's Climate Change Working Group researches and integrates climate risk analysis into facets of the investment process to help understand and assess the emerging risks and opportunities presented by climate change and adaptation.

<sup>1</sup> Wells Fargo Asset Management (WFAM) is a trade name used by the asset management businesses of Wells Fargo & Company. WFAM includes Wells Capital Management and Galliard Capital Management, both registered investment advisers that are PRI signatories in their own right.

## Strong environmental and social risk management practices

A responsible transition to a low-carbon economy requires that certain industries diversify their business models to adapt to a low-carbon future and retrain workers to transition to jobs in new and emerging industries. We take a risk-based approach with our customers across the energy industry and other sectors that are or may be impacted by climate risk – physical, transition, or other types of risk. We conduct additional due diligence in these industries to evaluate our customers’ history with and approach to stakeholder engagement, and their commitment to protecting community health, safety, and security, and the environment. After ESRM due diligence is completed — and additional due diligence, if required — an overall Environmental and Social Risk Rating (ESRR) of “Low,” “Medium-Low,” “Medium,” “Medium-High,” or “High” is assigned by ESRM to each client under review. Clients with an overall ESRR of “High” are escalated for decision, and clients with an overall “Medium-High” ESRR may be escalated. Approximately 5% of companies reviewed by ESRM receive “High” ESRR.

The global economy currently relies on a diverse mix of energy sources. Through our enhanced due diligence efforts and evolving understanding of best practices, we actively engage with our customers across the energy sector – seeking to understand their climate strategies, efforts to adapt in a carbon-constrained economy, and management of GHG emissions, and supporting their efforts to transition to a low-carbon future. We also participate in a number of utility and energy industry associations, including the [Edison Electric Institute](#), to encourage consistent disclosure and sharing of best practices with respect to climate issues.

Across the conventional energy value chain, we seek to make informed credit and business decisions by conducting

sensitivity analyses on our customers and portfolios to understand the respective environmental and social risks associated with their businesses. Wells Fargo’s [ESRM policies and framework](#) specify our approach to managing those risks and engaging customers.

As an example, for transactions involving regulated corporate utility borrowers engaged in the production, generation, transmission, or distribution of electricity, and/or the transmission and distribution of natural gas, Wells Fargo ESRM applies a robust carbon risk tool to help us assess carbon risk in our credit underwriting for those customers. The tool accounts for general portfolio emissions, percentage of coal generation, and risk factors such as state-level demand risk, social cost of carbon, governance, and multi-level regulatory risks. Given the numerous variables to consider case-by-case, the modularity of the tool allows for customizable analyses for each customer and for their particular circumstances.

In addition to setting forth our assessment and engagement approach with customers in carbon intensive sectors and those with elevated climate risk, the ESRM Framework outlines our risk-based financing restrictions. Specifically,

- We do not directly finance mountaintop removal (MTR) coal mining projects, nor do we extend credit or facilitate capital-markets transactions to coal producers engaged primarily in MTR mining.
- Wells Fargo will continue to limit and reduce our credit exposure to the coal mining industry.
- We will not finance Equator Principles in-scope transactions<sup>2</sup> in the Alaskan Arctic region.

<sup>2</sup> <https://equator-principles.com/about/>

## Climate Change Working Group

Managing climate risk requires that we begin to identify the short- and long-term impacts on individual components of our business, as well as on a regional and enterprise level. In 2019, Wells Fargo established a cross-functional Climate Change Working Group, which leverages internal expertise, leading climate science and assumptions, and external resources to enhance understanding of the implications of climate change on our business and to make recommendations to company and line-of-business leaders with regard to policies and procedures that advance climate-risk management across the enterprise in a coordinated and strategic manner.

### *Climate scenario analysis modeling pilot initiative*

It is critical to understand how various potential and predicted climate scenarios may impact different industries, geographies, and portfolios. In 2018, Wells Fargo collaborated with peer firms and a global management consultancy to pilot a climate scenario analysis. The purpose of the project was to evaluate how climate risk scenarios could impact the credit quality of oil and gas companies and to understand sensitivities of borrowers' creditworthiness in the context of a climate transition. Such projects help us build capabilities around climate scenario analysis, which help inform our strategies, decision-making, and risk management.

### **Transparency and disclosure**

We recognize that our stakeholders, including investors, want more information about how we are managing climate-related risks and opportunities. In addition to the ongoing disclosure of our [energy usage and greenhouse gas emissions](#), we have endorsed the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) — a framework for companies and other organizations to develop more effective climate-related financial disclosures — and are actively working to report using the TCFD framework.

To support best practices in transparency and disclosure, in 2018, we began to implement our commitment to measure the carbon intensity of our credit portfolio. We are engaging with a number of standards bodies to explore existing and evolving measuring and reporting methodologies such as Partnership for Carbon Accounting Financials (PCAF) and Paris Agreement Capital Transition Assessment (PACTA) to fulfill our commitment to measure and report our financed emissions. The ongoing work will enable us to better evaluate risks and opportunities associated with our Scope 3 financed emissions<sup>3</sup>, run additional scenario analyses, and inform our efforts to evaluate and support customers in carbon intensive industries as they make the transition to a low-carbon economy.

Wells Fargo believes that measuring the carbon intensity of our credit portfolio will allow us to provide a more holistic view of the indirect impact we are having through our

lending. While data availability presents challenges in this work, we hope to be able to identify concentrations of high-carbon financing that may not be currently recognized, or otherwise validate our increased attention to customers in industries commonly recognized as carbon intensive (see our [ESRM Framework](#)). Ultimately, we aim to quantify our financed emissions with the intent to use this knowledge to inform our efforts to set a science-based target.

### **Enhancing efficiency and resiliency in our physical assets**

We continuously seek to prioritize efficient operations to minimize our impact on the environment, reduce costs, enhance our team member experience, and set a positive example for the business community. In 2016, Wells Fargo announced a set of [2020 commitments](#) associated with the [operational efficiency](#) of our assets, many of which we have already achieved or are well positioned to do so by the close of 2020.

Of particular note is our progress against our 2020 renewable energy goal. In 2017, we began meeting 100% of our global electricity consumption with renewable energy, primarily through renewable energy certificates. We are currently in the process of transitioning to long-term contracts that help to fund net-new sources of renewable energy located near our largest load centers through a variety of transaction types including structured retail, utility bi-lateral, and community solar. We made our [largest renewable energy purchase](#) to date in 2019, and our near-term renewable energy implementation plan includes executing additional contracts for purchases of renewable energy in markets where we have a business presence, and adding solar to more than 100 corporate properties.

In an effort to assess the resiliency of our physical footprint, we commissioned a third party to help us identify the physical risks of climate change on a number of our most critical properties, including data centers, operations centers, and facilities with high concentrations of team members. The results of the study will help us further integrate a climate lens into our practices, including how we locate and approach construction for new corporate properties.

<sup>3</sup> <https://ghgprotocol.org/>

## 2018 Highlights

### *In our business*

- We provided approximately \$23 billion in sustainable finance, supporting projects like solar and wind energy, green buildings, alternative transportation, and more
- Wells Fargo tax equity projects represented 9.5% of total wind and solar generation capacity in the U.S.
- As a result of our comprehensive risk management practices, Wells Fargo determined it would not finance Equator Principles in-scope transactions in the Alaskan Arctic region
- More than 1,800 team members received training on climate risk, Environmental and Social Risk Management policies, and enhanced due diligence procedures
- CDP recognized Wells Fargo as a leader in climate change disclosure and performance, scoring us an A-

### *In our operations*

- Between 2008 and 2018, we increased the energy efficiency of our operations by 36%, water efficiency by 59%, and earned Leadership in Energy and Environmental Design (LEED®) certification for 28% of our square footage in leased and owned buildings
- We have exceeded our 2020 goal of reducing greenhouse gas emissions associated with Scope 1, Scope 2, and Scope 3 business air travel by 45%, reaching 48% reduction from 2008-2018

### *In our communities*

- We allocated \$30.1 million to support critical environmental needs, including \$6.7 million toward advancing clean technology and innovation; \$3.4 million to support environmental education; and \$20 million to foster resilient communities
- Team members logged more than 78,000 volunteer hours focused on improving the environment

### Collaborating with leading institutions and thought leaders to drive climate solutions

Collaboration across sectors and with many stakeholders is critical to making the progress necessary to slow or prevent global temperature increases. To this end, we are working with academia, industry, investors, customers, nongovernmental organizations, nonprofits, and suppliers to understand how we can work together to accelerate the transition to a low-carbon economy.

SELECT CLIMATE-RELATED ENGAGEMENTS INCLUDE	DESCRIPTION
<u>University of Cambridge Institute for Sustainability Leadership Bank 2030 Project</u>	The project will showcase innovative thinking and strategic leadership as well as highlight future opportunities to allocate more capital to economic activities that would reduce greenhouse gas emissions.
<u>CDP</u>	<p>CDP's <b>Supplier Engagement</b> disclosure platform helps us engage our top-tier suppliers to better understand the risks and opportunities they may face related to climate change. We're in the process of developing customized education support for our suppliers who received a score of B- or less from CDP.</p> <p>Through philanthropy and engagement, we are supporting <b>CDP Matchmaker</b> which seeks to match municipal green infrastructure finance projects in need of financing with financiers including impact investors.</p> <p>Wells Fargo makes climate-related disclosures and reports on performance through CDP's annual questionnaire, and was awarded a score of A- by the organization for our most recent response.</p>
<u>The Climate Service</u>	Wells Fargo's Startup Accelerator invested in The Climate Service, a company that enables corporations and financial services firms to measure, monitor, and manage their financial risks and opportunities related to climate change.
<u>RE100</u>	As a member of RE100, we are working to increase corporate demand for renewable energy and sharing our substantial progress against our multi-phased renewable energy goal.
<u>Ceres</u>	We are members of Ceres' Company and Investor Networks, working collaboratively to integrate corporate sustainability into our business practices. With Ceres' guidance, Wells Fargo developed a core external stakeholder group comprised of representatives from business, nonprofits, and civil society to serve as a sounding board for sustainability strategy development, materiality, and disclosure.
<u>World Resources Institute (WRI)</u>	Wells Fargo commissioned WRI to help evaluate processes for measuring Scope 3 financed emissions in preparation for reporting against the TCFD Framework (see below).
<u>Taskforce on Climate-related Financial Disclosure (TCFD)</u>	Wells Fargo has endorsed the recommendations of the TCFD, and we are actively working to report using the TCFD framework.
<u>Rocky Mountain Institute (RMI)</u>	We are working with RMI to accelerate financial sector climate engagement, with a particular focus on decarbonizing financial portfolios, and broadening energy innovation capability by engaging more deeply with corporate and startup partners.

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<b><u>U.S. Department of Energy’s National Renewable Energy Laboratory (NREL)</u></b>	We partner with NREL on our philanthropy program the Wells Fargo Innovation Incubator, a \$30 million technology incubator that speeds the path to commercialization for startups focused on energy efficiency in the built environment – commercial and residential – and sustainable agriculture. We are also funding research on the feasibility of utility-scale renewables development on Tribal lands.
<b><u>Equator Principles</u></b>	As an Equator Principles (EPs) Financial Institution, Wells Fargo is committed to implementing the EPs risk management framework for determining, assessing, and managing environmental and social risk in project finance. The head of Wells Fargo ESRM sits on the Steering Committee of the Equator Principles Association.
<b><u>U.S. Green Building Council (USGBC)</u></b>	Wells Fargo consults with USGBC in our ongoing efforts to design, build, and operate our corporate properties in a manner that is environmentally and socially responsible, deliver a safe and healthy workplace for our team members, and improve quality of life at work.
<b><u>Climate Action 100+</u></b>	As a member of this investor initiative, which aims to ensure the world’s largest corporate greenhouse gas emitters take necessary action on climate change, Wells Fargo Asset Management engages “systemically important emitting” companies on improving governance, curbing emissions, and strengthening climate-related financial disclosures.

**Additional resources**

- [Climate Change 2019 CDP response](#)
- [2020 goals and progress](#)
- [Environmental footprint of our operations](#)
- [Environmental and Social Risk Management Framework](#)