Environmental and Social Risk Management Framework
Critical Industries and Activities

Energy and Power

Wells Fargo provides financial services throughout the energy industry value chain, primarily in North America. We seek to understand the sector holistically and consider common themes and trends to deliver enhanced business value while managing our exposure to risk.

The Paris Agreement on climate change, announced in December 2015, set the stage for a new wave of potential policies, regulations, and sector best practices in voluntary commitments to reduce GHG emissions in the power generation and transportation sectors. To manage risks, we perform sensitivity analyses on our customers and portfolios, and the analyses have intensified in the current environment. At the same time, we continue to increase our investments in solar and wind projects, and we support our electric utilities customers as they work to meet increasingly stringent environmental regulations or make investments in new technologies that make power more reliable, affordable, sustainable, and community centric.

With the ongoing industry transition to cleaner sources of energy, we will continue to support our customers in the energy and power industries as they work to embrace changing market dynamics. We are committed to doing our part to accelerate the transition to a low carbon economy and help reduce the impacts of climate change on our customers and communities.

We engage with external stakeholders who encourage us to finance more clean energy and power and less fossil-fuel-based energy and power. We are keenly aware of the respective risks and returns across different categories of energy and what this means for our portfolio in a changing energy landscape. As a result, we work to promote a dialogue on the real and perceived risks in these industries, encourage a deeper understanding of risks, and promote best practices for risk management.

Oil and Gas

Wells Fargo provides financing for oil and gas customers across North America and Europe. Consistent with our approach to doing business with customers in other environmentally sensitive industries, we seek to build and maintain relationships only with responsible oil and gas businesses.

As of 2017, the Wells Fargo ESRM policy applies to lending, project finance, investment banking, and capital market relationships with companies engaged in the upstream, midstream, and downstream sectors. The policy also stipulates clear thresholds where ESRM due diligence is required. Across all sub-sectors of oil and gas industry, we assess environmental and social capacity, commitment, and track record of our clients, including management systems, water risk, community support, impacts to indigenous peoples, stakeholder engagement, worker and contractor safety, governance, and other topics. Each ESRM review is tailored to the associated risks, size, activities, and location of the customer.

Because of the heightened environmental and social risk inherent in certain types of extraction methods, we have developed activity-specific due diligence processes for unconventional hydrocarbon extraction techniques. Together with external experts, we developed a special questionnaire to assess risk associated with customers involved in hydraulic fracturing, Alaska/Arctic, offshore, and oil sands. We evaluate a company’s commitment, capacity, and performance related to environmental, social, and safety issues and a company’s commitment to engaging with its stakeholders to address both the real and perceived community and environmental impacts of its operations. For transactions where the identified environmental and social risks are high, elevated credit approval is required.

Our environmental and social risk assessment is one factor in approving a transaction or a relationship. If an issue is identified during due diligence, we reach out to the client to understand mitigating measures and monitor implementation.

- **Hydraulic fracturing.** For customers involved in fracking, we seek a deeper understanding of material environmental and social issues including impacts on water, air, land, transportation, and community, including indigenous peoples.

- **Alaska/Arctic.** For clients that have operations in Alaska/Arctic, our diligence addresses stakeholder engagement, including indigenous peoples of Alaska, ecosystems and biodiversity as well as region-specific water risks.
Oil sands. For clients involved in oil sands, we seek to understand a customer’s approach to community engagement, including indigenous peoples, land reclamation, tailing ponds, and waste management specific to oil sands.

Offshore. For clients involved in offshore operations, our due diligence includes an assessment of exploration and production techniques, risk of spills, occupational health and safety practices, and impacts on sensitive marine habitats.

Midstream. For clients involved in midstream operations, our due diligence includes an assessment of risks of leaks or spills and other ecological impacts. In addition, our due diligence includes understanding the company’s approach to engaging affected communities and other stakeholders in areas of operations. For example, we seek to understand the company’s approach to engaging with local stakeholders such as land owners and indigenous people who live near the land where pipelines traverse.

Electricity Generation

Wells Fargo banks the economy, which is dependent on reliable, affordable, and diversified electricity supplies to fuel our economic growth and ensure community prosperity. We provide financial services to regulated utilities (electric, gas, and water) and unregulated power producers, including renewable energy developers. Most of these customers are based in the U.S. Our focus in this sector, as with all our customers, is long-term and relationship-oriented. From tracking renewable portfolio standards and other regulatory concerns to the impact of fuel prices, our bankers understand the risk landscape and engage with customers to understand their respective approaches to risk management and operating responsibly.

We follow a comprehensive due diligence process for our power and utilities transactions including alignment with the guidelines set forth in the Carbon Principles, which Wells Fargo adopted in 2008. Our analysis carefully assesses environmental, social, regulatory, financial, and reputational risks associated with the operations of existing and prospective customers alike. In addition, an annual carbon assessment is completed on our entire electric utility portfolio to understand the risk profile of our customers given current and future GHG regulations.

We expect our utility clients to be proactive on the issues of climate change and carbon emissions regulation. We expect them to have developed programs and processes to assist in managing uncertainty, anticipating regulatory action, and adapting to changing economic and regulatory forces.

With the ongoing industry transition to cleaner sources of energy, we will continue to support our customers in the power and utilities industries as they work to embrace changing market dynamics and regulatory requirements. We are aware that utility companies are focused on increasing investment in renewable generation through capital investments in owned generation and purchased power agreements. While conventional fuel sources remain an important part of U.S. economic development, our utility customers are focused on developing and investing in renewable fuel sources, including wind, solar, and hydro generation.

Wells Fargo will continue to grow our investment in renewable energy. Our research indicates that approximately 80 percent of all renewable generation in the U.S. is accounted for by U.S. investor-owned utilities. Wells Fargo has a long history of being a leading financial services provider to the industry, extending credit and facilitating access to the capital markets. We currently maintain robust relationships with 37 of the top 40 utilities in the U.S.

Wells Fargo makes equity investments in solar and wind projects in addition to our traditional customer lending. In 2017, projects owned in whole or in part by Wells Fargo in 33 states and Puerto Rico produced more than 9 percent of all U.S. solar photovoltaic and wind energy generated in that year. Our investment approach is relationship-based. We select leading, high-quality, trusted developers and work with them on multiple projects. Our Renewable Energy and Environmental Finance team invests in U.S.-based, renewable energy projects that comply with local and federal environmental regulations. This team also performs careful technical due diligence on the manufacturers of the solar panels we use in our projects, including an evaluation of any human rights and/or environmental impacts that may occur during the manufacturing of the components.
Carbon Asset Risk Project for Power & Utilities [New]. We strive to continually improve our environmental and social risk management tools, including those that help us assess carbon risk in our credit underwriting. In 2016, we began implementing an industry-leading modular carbon risk tool for all regulated corporate utility borrowers engaged in the production, generation, transmission, and distribution of electricity, and the transmission and distribution of natural gas. The robust carbon 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 permits us to customize our analysis for each customer and for their particular circumstances. We assist our customers in their respective shifts to less carbon intensive and more carbon-neutral technologies, understanding that the transition to a low carbon economy will not be completed overnight.

Mining

Wells Fargo provides financing for coal and metal mining customers around the world. Consistent with our approach to doing business with customers in other environmentally sensitive industries, we seek to maintain relationships only with responsible companies in the industry. Wells Fargo restricts the financing of mountain top removal (MTR) companies and is committed to limiting and decreasing the financing of coal mining specific companies.

Coal mining. Wells Fargo has limited and declining exposure to the coal mining industry. Since 2011, market and regulatory forces have led to a new paradigm for U.S. coal producers. The amount of electricity produced from coal declined from 50 percent in 2005 to 30 percent in 2017, and the Dow Jones U.S. Coal Index, which captures the largest listed coal companies, fell more than 90 percent from 2011 to 2017.

We engage with industry experts as well as community organizations to maintain a deep understanding of specific environmental and social risks associated with coal mining, which has influenced our credit and capital markets decisions. Wells Fargo will continue to limit and reduce our credit exposure to the coal mining industry. As a relationship-based bank, our clients place their trust in us. We will continue to support our existing coal mining customers with capital markets expertise and other products in some circumstances, to help them manage the changing economics.

We recognize the elevated community concerns associated with the practice of MTR coal mining techniques, and we have prohibited credit exposure to companies using these practices. According to the U.S. Energy Information Administration, coal production from mines with MTR permits has declined since 2008, more than the downward trend in total U.S. coal production. Total U.S. coal production decreased about 38 percent from 2008 to 2016, while MTR decreased more than 70 percent during this period. Wells Fargo does not directly finance MTR coal mining projects, nor do we extend credit or facilitate capital markets transactions to coal producers engaged primarily in MTR mining.

Industry-specific environmental and social risk due diligence is conducted by our customer relationship and investment teams in partnership with our ESRM team on all credit and capital markets transactions involving clients in any type of coal mining industry, and all coal mining credit transactions are escalated and require approval by Wells Fargo’s senior credit authorities. Together we assess a company’s commitment, capacity, and track record on issues including worker safety, GHG, water and air impacts, human rights, and stakeholder relations.

Metal mining. Mining of metals provides basic materials for our society. At the same time, metal mining can also have significant environmental, community, and health impacts. We recognize the significant environmental, legal, regulatory, community, and reputation risks facing the metal mining industry. In addition to our standard environmental and social risk due diligence evaluating a company’s commitment, capacity, and track record, our specific approach to assessing risks of metal mining customers covers issues such as stakeholder engagement, worker safety, contractor performance, tailings disposal, water impacts, and human rights.

Arms and Armaments

Wells Fargo provides banking services to a wide variety of customers, including thousands of nonprofit organizations, special interest groups, and advocacy organizations. Firearms manufacturers are among the hundreds of different industries Wells Fargo banks. With respect to gun manufacturers, we have a strict due diligence process to ensure that each adheres to all state and federal laws before accepting them as customers. We assess their history and capacity for maintaining regulatory compliance, most recent licensing, background check systems, and any relevant international legal compliance. We also consider geographical coverage, reputational concerns, and prior or open investigations.
We listen carefully to all voices and all points of view in the ongoing related firearms debate, and we take each of them seriously. We also evaluate our customer relationships from a risk management perspective on an ongoing basis.

The CFPB’s and other regulators’ strong focus on consumer finance issues necessitates that we identify, assess, and address consumer finance compliance risk issues that may impact the credit quality of the consumer finance business client base and/or expose Wells Fargo to incremental legal/reputational risk and potential liability as a result of a line of business’ activities with such businesses. Examples of consumer finance businesses are:

- Non-traditional lenders, which typically provide small dollar loans, charge higher finance costs, experience relatively high delinquency or default rates, and/or require active collection efforts to consumers that have weak or questionable credit histories or limited access to traditional sources of credit).
- Third-party servicers of consumer mortgages, loans, contracts, or accounts (including in connection with securitizations).
- Consumer debt collectors.
- Consumer credit repair or credit counselors (including negotiating modifications, settlements, short sales or foreclosure avoidance).
- Purchasers or sellers of distressed residential mortgages or other consumer debt.
- Providers of consumer report information or credit payment history for which the business reports, collects, analyzes, or maintains the information used in connection with a third party’s decision regarding the offering or provision of a consumer financial product or service.

To address the risks associated with providing commercial credit and certain support services to in-scope consumer finance businesses within Wholesale Banking, the Consumer Compliance Risk Assessment (CCRA) function was established. CCRA is housed within Wells Fargo Securities Asset Backed Finance. Each line of business is responsible for identifying consumer finance company clients and requesting that the CCRA conduct a review of the client or prospective client, in advance of providing commercial credit, to evaluate the risks associated with the client’s activities and assess the state of the client’s compliance management system. Additionally, each line of business should incorporate the findings of CCRA into its credit analysis and underwriting requirements.

Importantly, CCRA does not participate in the design, operation, maintenance, servicing, collection, or otherwise, of any consumer financial product or service offered by a client. Further, CCRA does not advise existing or prospective line of business clients on what the law requires, how the laws may be interpreted by federal or state regulators, including the CFPB, or what regulator guidance materials mean.

The strategies and tactics CCRA employs are client review programs, timely internal and external client communications, effective use of applicable technologies, and staying abreast of legislative issues affecting the industry.

Please e-mail esrm@wellsfargo.com with any questions or feedback.