Wells Fargo Environmental and Social Risk Management Report

2018 Progress and Metrics

As a provider of financial services for customers in nearly every economic sector worldwide, Wells Fargo believes that we must consider the environmental and social (E&S) impacts of our lending and investments along with financial risks – particularly for customers in industries with elevated E&S risk. Our Environmental and Social Risk Management (ESRM) framework and policies build on our traditional due diligence requirements and have been fully incorporated into Wells Fargo’s credit, project finance, investment banking, securities, and consumer finance risk policies and procedures.

Our ESRM system applies a consistent methodology that helps us evaluate our customers’ commitment, capacity, and track record in managing E&S risks and impacts, and whether the risks and potential impacts of participation in the transaction are acceptable to Wells Fargo. The ESRM Framework details our approach, policy restrictions and exclusions, and considerations for sensitive industries and activities.
2018 ESRM highlights

- 464 ESRM reviews were conducted – a 104% increase since 2017
- 181 transactions underwent enhanced ESRM due diligence\(^1\), with 12 escalated for senior review
- 23 enhanced due diligence reviews resulted in direct client engagement
- 4 project finance transactions that required application of Equator Principles were reviewed
- 87% decrease in lending to coal mining industry since 2012
- 1,800+ team members received training on climate risk, ESRM policy, and enhanced due diligence procedures
- 482 external stakeholders engaged in ESRM presentations

2018 ESRM updates

Wells Fargo policy requires all proposed transactions with customers in the oil and gas, coal and metal mining, arms and armaments, and certain consumer finance sectors to undergo ESRM due diligence. We update our ESRM framework and policies as our understanding of the complex issues in these sectors evolves. In 2018, we made the following noteworthy updates to our ESRM framework and processes:

- A new, proprietary ESRM due diligence grid was developed to quantitatively analyze environmental, social, and reputation risk. The grid includes new triggers for enhanced due diligence, which frequently require follow-up questions or an in-depth conversation with the customer.
- As a result of our comprehensive risk management practices, in 2018, Wells Fargo determined it would not finance Equator Principles in-scope transactions in the Alaska Arctic region.
- We made public our past risk-based decision to exit banking relationships with private prison and detention center companies when our contracts with those companies expire, that we would not provide any additional financing for existing customers in the sector, and that we would not take on any other private prison and detention center customers.
- 2018 enhancements to the arms and armaments due diligence process require additional criteria to be assessed, and social risk ratings to be assigned to all customers in the sector. (See graphic page 3)
- We hired another E&S risk analyst and an international human rights expert to lead our social risk activities.

\(^1\)Deeper research and analysis required in addition to standard ESRM due diligence. ESRM thoroughly analyzes a company’s commitment, capacity, and track record with regards to E&S risk.
Our arms and armaments due diligence considers a number of factors

- License requirements and regulatory compliance
- Company involvement in the manufacture or sale of high-risk armaments (cluster munitions and nuclear weapons)
- Reputation risk incidents (negative news, violations, lawsuits)

New in 2018

- Company policies/procedures for mitigation of social/reputational risk
- Human rights conditions of countries where customers export
- Company involvement in the manufacture, distribution, or selling of high-risk firearms and accessories (e.g., assault-style rifles, high-capacity magazines)
- The company’s capacity for implementing risk mitigation practices that are applicable to their operations

Collaboration

Wells Fargo participates in a number of projects, working groups, and multi-stakeholder initiatives to help advance global best practices in managing environmental and social risk, including:

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<thead>
<tr>
<th>Project / Initiative</th>
<th>Description</th>
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<tr>
<td>Bank 2030 Project</td>
<td>To build a roadmap for the Banking Industry to 2030 that will increase levels of low-carbon financing in line with the climate challenge</td>
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<tr>
<td>Bloomberg US Alliance for Sustainable Finance (USASF)</td>
<td>To encourage more climate-friendly and sustainable finance innovation across U.S. capital markets. Wells Fargo is a founding member</td>
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<tr>
<td>BSR’s Human Rights Working Group</td>
<td>To collaborate with a network of practitioners implementing human rights due diligence for global financial institutions</td>
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<td>Columbia University</td>
<td>To benchmark the International Finance Corporation’s Environmental and Social Performance Standards to specific U.S. laws and regulations governing oil pipeline projects</td>
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<td>Equator Principles Steering Committee</td>
<td>To help reshape the scope and applicability of the Equator Principles Framework</td>
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<td>Shift’s Business Learning Program</td>
<td>To help Wells Fargo look holistically throughout our value chain to identify salient human rights issues relevant to our business and operations</td>
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<td>Thun Group of Banks</td>
<td>An informal group of bank representatives collaborating on the implementation of the United Nations (U.N.) Guiding Principles for the implementation of the U.N. ‘Protect, Respect and Remedy’ Framework</td>
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Additional resources

- ESRM Framework
- Human Rights Statement
- Climate Change Statement
- Indigenous Peoples Statement