Environmental and Social Risk Management Framework
Our Approach to ESRM

Our business model

Our approach to Environmental and Social Risk Management is based on our business model.

Wells Fargo is organized for management reporting purposes into three operating segments: Community Banking and Consumer Lending, including thousands of retail banking branches; Wealth and Investment Management, providing a full range of wealth management, investment, and retirement products; and Wholesale Banking, providing financial services to businesses and organizations. For more information on our business structure, see our 2017 Wells Fargo Annual Report. The principles of ESRM are particularly applicable in our Wholesale business, where we provide commercial and corporate lending as well as investment banking and capital market services across a wide variety of industries.

With a view to make better credit and business decisions, our ESRM due diligence evaluates our customers’ commitment, capacity, and track record in managing environmental and social risks and impacts. We believe that by identifying and addressing the environmental and social impacts of our customers, we get a better understanding of their operations and long-term strengths. At the same time, our objective is to ensure that the financial services we provide do not facilitate unacceptable impacts on communities, especially the more vulnerable ones, or the environment. Our process also helps protect Wells Fargo’s reputation and provides our team members the clarity and tools they need to make informed decisions when growing relationships in sensitive industries.

We work to integrate ESRM into other business processes, too. For example, our updated product-approval process requires a thorough assessment of product impacts as well as an opportunity for the ESRM team to credibly challenge the assessment before product approval. In addition, since 2015 we have been incorporating environmental and human rights factors into our company-wide country risk rating index. The index is used to assess risks associated with a country prior to establishing a business presence, new customer relationship, or product.

We seek to participate in industry and NGO efforts to enhance understanding and management of ESRM topics. Through the Wells Fargo Environmental Grant program, we provide financial and business resources to community, academic, and nonprofit organizations working to solve challenging environmental problems.

To ensure we address evolving best practices to support the success of our customers, we conduct ongoing reviews and updates of our ESRM practices and policies.

International industry standards and ESRM best practices alignment

Our approach is aligned with international ESRM standards.

We’re committed to following industry best practices for managing environmental and social risk. Our ESRM policy is aligned with global industry standards, and we are constantly evaluating which international practices are most relevant for Wells Fargo in the future.

Our primary ESRM commitment is aligned with the Equator Principles standard. Despite our limited history in project finance, Wells Fargo adopted the Equator Principles in 2005 to support best practices in the financial services industry. The Equator Principles are a framework established by the industry to determine, assess, and manage social and environmental risks and impacts associated with large scale projects globally. As a signatory, we will provide loans and advisory services only to those projects whose borrowers can demonstrate their ability and willingness to comply with the Equator Principles requirements for categorizing, assessing, and managing environmental and social risks. Our internal ESRM policy requires customer relationship and investment teams to engage the ESRM team when a transaction is subject to the Equator Principles. Wells Fargo leverages the structure of the Equator Principles throughout our policy. In 2015, we participated in our first Equator Principles transaction, and in 2016 we closed four EP deals.
Corporate ESRM Policy [New]

The Corporate Environmental and Social Risk Management Policy establishes Wells Fargo’s expectations and requirements for identifying and assessing environmental and social risks and impacts associated with our customers’ activities. Wells Fargo is committed to understanding and assessing environmental and social risks and impacts associated with the clients we serve and doing our part to help protect the environment and communities.

ESRM performs environmental and social due diligence on all relationships in the following sensitive industries and makes recommendations as to whether the environmental, social and/or reputational risks of participation in the transaction are acceptable to Wells Fargo, to the environment, and to communities:

- **Oil and gas operations.** Those engaged in oil and gas operations.
- **Coal and metal mining.** Those owning or operating coal or metal mines.
- **Arms and armaments.** Those making, selling, or distributing arms or armaments that require licensing.
- **Consumer finance businesses.** Those classified as consumer finance businesses under the ESRM policy.
- **Project finance or project-related transactions.** Those involved in project finance, project finance advisory services, project-related corporate loans, or project-related bridge loan transactions (as defined by Equator Principles, PDF).

ESRM Due Diligence Process

Through stakeholder engagement and industry expertise, we identify transaction types, customer activities, and cross-cutting issues with heightened risks that could present significant environmental and/or social impacts. In circumstances where we believe risks and impacts are material to the long-term success of companies or could have adverse impacts on the environment or communities, we perform client-, industry-, issue-, or transaction-specific environmental and social risk due diligence to evaluate a customer’s commitment, capacity, and track record as they relate to ESRM. We seek relationships with responsible businesses in every industry we finance.

Environmental and social risks exist across every industry, to some degree. We use our ESRM Rapid Risk Screen to help identify risks for customers in industries for which we do not have detailed policies. The screen identifies whether a customer or transaction has potential environmental or social risks that should be further evaluated. We use a sector-tailored ESRM Due Diligence Questionnaire to evaluate a company’s relevant commitment, capacity, and track record. If potential human-rights risks are identified, or if human-rights impacts are known or reasonably expected, we additionally apply the Wells Fargo Human Rights Due Diligence Questionnaire (see Human Rights, page 4).

Additional Due Diligence, Environmental and Social Risk Rating and Escalation [New]

In 2017, Wells Fargo expanded the scope of our ESRM policy and the depth of our ESRM review, and we recalibrated the triggers for elevated levels of due diligence. Wells Fargo’s ESRM team created a new, proprietary ESRM due diligence grid to provide a framework for consideration of enhanced quantitative analysis involving environmental, social, and reputation risk. Each ESRM review is also tailored to the activities and location of the customer.

The new ESRM grid includes standard ESRM due diligence that is detailed and thorough, assessing all relevant environmental and social issues specific to an industry, such as water risk, community support, indigenous peoples impacts, stakeholder engagement, worker safety, governance, and other topics. The grid also includes new triggers that require additional, or deeper, due diligence. This “additional due diligence” — defined as deeper research and analysis required in addition to standard ESRM due diligence — almost always requires follow-up questions or an in-depth conversation with the customer. Common triggers for additional due diligence include, but are not limited to, lack of clarity on community engagement by the company or potential impacts on and mitigations for indigenous communities.

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 automatically escalated to a dedicated Reputation Risk Committee, and clients with an overall “Medium-High” ESRR may be escalated at the ESRM director’s discretion. Approximately 5 percent of companies reviewed by ESRM receive “High” ESRR.
Due Diligence for Equator Principles Transactions [New]

Equator Principles (EP) are a set of voluntary guidelines for the financial industry to help set common standards for financial institutions, globally, in managing environmental and social risks and impacts in projects. They refer to and are based on the major policies and principles set by International Finance Corporation (part of the World Bank Group). EP apply to all qualifying transactions within a set threshold in all geographies. For practical examples of which industries were triggered by Wells Fargo’s completed projects, see the Wells Fargo page on the EP website.

Wells Fargo has historically had very limited number of transactions falling within the scope of EP (see International Industry Standards and ESRM Best Practices Alignment, page 8). Despite that, we apply EP requirements to all transactions falling within the EP scope. ESRM-related due diligence requirements are documented in our Corporate ESRM policy, and they involve rigorous analysis. Specifically, for all in-scope transactions in designated countries (such as the U.S. and Canada), we require full compliance with local and national environmental and social laws and regulations, including those regarding impact assessment, internal management systems, construction practices, stakeholder engagement and public consultation processes, biodiversity management, and permitting conditions. For transactions within EP scope and in a non-designated country, Wells Fargo requires full adherence to the applicable IFC Performance Standards and its 63 sector-specific EHS Guidelines. We require compliance with these standards along with our own standard ESRM due diligence, and we encourage our clients to go “beyond compliance” by adopting and advancing best ESRM practices in their respective sectors.

For any project in North America where we can identify that the use of proceeds may potentially impact Indigenous Peoples, Wells Fargo requires compliance with the concept of Free, Prior and Informed Consent as set forth in International Finance Corporation (IFC) Performance Standard 7 on Indigenous Peoples. This principle is captured in our Indigenous Peoples Statement and in our Corporate ESRM policy.

Our internal ESRM policy requires customer relationship and investment teams to engage the ESRM team when a transaction is subject to the Equator Principles, and Wells Fargo will only support those projects whose borrowers can demonstrate their ability and willingness to comply with all EP requirements for categorizing, assessing, and managing environmental and social risks.

Reporting and Disclosure [New]

Wells Fargo believes that transparency and accountability are important parts of our journey to rebuild trust and fundamental to success in today’s economy. In 2017, we improved our ESRM portfolio tracking and reporting processes, making it easier for client risk due diligence to be cross-referenced with the Wells Fargo client portfolio and across different industries. This helps ensure that clients under the ESRM policy are being properly vetted for potential environmental and social risk. The improved portfolio reporting also allows greater flexibility in reporting significant due diligence metrics to senior management and stakeholders seeking to better understand our ESRM Due Diligence progress.

We support and participate in a number of transparency initiatives that encourage responsible reporting practices and investment among private sector entities, such as the Principles for Responsible Investment and the Global Reporting Initiative. Our ESRM reporting is also aligned with internationally recognized standards, drawing on the Financial Services Sector Disclosures under the Global Reporting Initiative G4 Sustainability Reporting Guidelines, which have helped shape the scope of this framework and the specific key performance metrics presented in our separate ESRM Report, which contains detailed key performance data metrics for further insights into the implementation of our ESRM policy in a given year.

Our ESRM reporting will continue to evolve as we seek to enhance the quality of our disclosure and provide more detailed information in response to increasing stakeholder interest and expectations.

We understand our external stakeholders’ desire for financial institutions to disclose the carbon risks related to their commercial portfolios. In 2013, Wells Fargo joined the global multi-stakeholder organization, the Advisory Group for the World Resources Institute/United Nations Environment Program for Financial Institutions Greenhouse Gas Sector Guidance. Based on the success of other sectors reporting emissions that an organization influences, but does not control, the group attempted to develop an accounting methodology for financial institutions to report “financed emissions” from lending and investing activities. The multi-stakeholder process revealed several challenges with this concept, including establishing a connection between financed emissions accounting and risk management in banking. In 2015, the group was renamed the Portfolio Carbon Initiative and shifted its focus to providing guidance on the Carbon Asset Risk initiative (the non-physical risks of climate change) and the Climate Strategies and Metrics project. We continue to participate in the Portfolio Carbon Initiative workstreams.
The Wells Fargo ESRM Team is in the process of developing an implementation plan to embed recommendations of the Financial Stability Board’s Taskforce on Climate-related Financial Disclosure (TCFD). In June 2017, TCFD published its recommendations for “disclosing clear, comparable and consistent information about the risks and opportunities presented by climate change” — a voluntary global standard for more robust and meaningful climate-related disclosure. It recommends disclosures covering four elements: governance, strategy and planning, risk management processes, and metrics. It also recommends targets to assess and manage climate risks and opportunities. Wells Fargo is currently working on addressing these recommendations, including climate-related scenario analysis (where applicable), and building them into our regular reporting.

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Training and Awareness Raising

Education and awareness-building is critically important to environmentally and socially responsible banking. We provide ESRM training and implement programs for team members supporting industries covered by our ESRM policy. Our programs are tailored to the needs of course participants, and they include time for discussion. In addition, through our Wholesale Banking Credit Management Training, we address environmental and social issues, including respect for human rights and importance of climate change. The credit management training program has been offered at Wells Fargo for more than 30 consecutive years, and its graduates include some of our highest-ranking credit officers. During 2016 and 2017, ESRM took a more active role in serving our customers, working hand-in-hand with relationship managers to share knowledge about Wells Fargo ESRM principles and examples of the best ESRM global practices.

Corporate ESRM Team [New]

The ESRM team at Wells Fargo helps identify and manage sectors and transactions with elevated reputation and business risk due to environmental or social factors. Internally, the team ensures that environmental and social performance of customers in sensitive industries is understood, and it provides lines of business unique intelligence and consultation that help managers responsibly grow relationships in sensitive business industries. Externally, the ESRM team works with customers to consult on ESRM best practices and help them understand our requirements and commitment to responsible lending and current and emerging best practices for managing the risks in their industry. The ESRM team also engages with a wide variety of external stakeholders to represent Wells Fargo’s perspectives and progress on managing environmental and social risk.

The ESRM team is comprised of experts in various fields relating to environmental science, governance, policy, and international standards and protocols involving environmental and social risks and impacts, human rights, corporate responsibility, and transparency. Due to the increasing importance of environmental and social risk considerations in the credit approval process, the ESRM team is routinely consulted for its insights and perspectives on activities and customers across Wells Fargo’s entire portfolio.

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