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WELLS FARGO

Environmental and Social Risk Management Framework

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Wells Fargo Environmental and Social Risk Management (ESRM) Framework

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Environmental and Social Risk Management Framework

Introduction

As a provider of financial services for clients in nearly every sector of the economy and around the world since 1852, Wells Fargo recognizes that our business decisions and those of our customers have the potential to impact communities and the environment. We believe that for certain industries and activities, we must consider the environmental, social, and human rights impacts of our lending and investments along with the traditional financial risk. Our commitment to strong environmental and social risk management supports our companywide goal to be a leader in corporate citizenship and continue to build trust with our many stakeholders.

Our Environmental and Social Risk Management (ESRM) framework and policies build on our due diligence requirements, and they help us identify, evaluate, and manage the environmental and social risks associated with our lending and investments. We update our ESRM requirements as our understanding of these complex issues evolves, and we seek to adhere to global best practices with regard to managing environmental and social risk.

Wells Fargo's Environmental and Social Risk Management system involves a methodological approach to managing environmental and social risks and impacts in a structured way. The approach is formalized through a companywide ESRM policy that applies a consistent methodology to understanding, assessing, and considering environmental and social risks in our decision-making. The companywide policy has been fully incorporated into Wells Fargo's credit, project-finance, investment banking, securities, and consumer finance risk policies and procedures.

The ESRM corporate policy follows Wells Fargo's risk management approach. It is aligned with our statement of risk appetite, which defines the nature and level of risk that Wells Fargo is willing to take in pursuit of its strategic and business objectives. Lines of business have primary accountability for managing risk. As part of the standard due diligence process, relationship managers (RM) in Wells Fargo's lines of business consult with ESRM to assist in identifying environmental, social/human-rights, or reputational risk in a proposed transaction, and assessing the capacity of the customer to manage it. If elevated risk is identified, the transaction goes through a formal ESRM review. The ESRM team works with the RM and the customer to share industry best practices and Wells Fargo expectations and to understand the customer's approach to and capacity for managing the identified environmental and/or social risk. We openly discuss identified risk with experts throughout the organization, and we escalate decision-making to the highest levels of the company when environmental, social, or reputation risk is identified as high.

Our relationship managers are also trained to identify and evaluate potential environmental and social risks associated with certain transactions involving corporate lending, investment banking and capital markets, and project finance deals.

The Wells Fargo Board of Directors' Corporate Responsibility Committee (CRC) has primary oversight for the ESRM policy, as it does for all the company's policies, programs, and strategies regarding corporate responsibility matters, as outlined in the committee charter.

Wells Fargo invests in customer relationships that endure. Understanding customer and industry issues is a cornerstone of Wells Fargo's approach. It improves our credit decisions and helps us build stronger and more durable relationships over time.

Overarching Issues and Focus Areas

Climate Change

We recognize the growing concerns related to climate change. We agree that climate change represents one of the greatest challenges of our time, and we are committed to doing our part as outlined in our Climate Change Statement. Wells Fargo has strategies and goals in place throughout our business and operations that help us deliver on our public commitment to accelerate the transition to a low carbon economy. We also map out additional opportunities to address climate risk and support our customers as they transition to a low carbon economy. Moreover, we put mechanisms in place to minimize the impacts of climate change on our communities.

When financing customers, we integrate climate-change-related risks into our decision-making when those risks may potentially impact a customer's long-term success. Risks and opportunities associated with the impacts of climate change, typically related to their activities and/or physical locations, vary by customer, so we evaluate climate risk on a case-by-case basis. Risk categories we consider include, but are not limited to:

- **Physical risk.** Physical risks are location-specific. Examples include exposure to shifting precipitation patterns, large scale weather disasters, rising temperatures, and rising sea levels. We consider the location of a customer's operations when evaluating its business risks.
- **Regulatory risk.** Policy actions involving climate change continue to evolve. Their objectives generally fall into two categories: policy actions that attempt to constrain actions that contribute to the adverse effects of climate change, and policy actions that seek to promote adaptation to climate change. Examples include implementing carbon-pricing mechanisms to reduce greenhouse gas (GHG) emissions, encouraging shifts toward lower carbon emission sources, and encouraging the adoption of energy-efficient solutions. The risk associated with and financial impact of policy changes depend on the nature and timing of the policy change.
- **Transition risk.** As we transition to a low carbon economy, various financial risks are emerging. Changes in consumer demand or commodity prices, for example, may influence the value of a broad range of goods and services as costs and opportunities become evident. Other changes entail extensive policy, legal, and technology changes to address mitigation and adaptation requirements related to climate change. Depending on the nature, speed, and focus of these changes, transition risks may pose varying levels of financial and reputational risk to organizations, including financial institutions.

We use an industry-leading modular carbon risk tool for evaluating all regulated corporate utility borrowers engaged in the production, generation, transmission, and distribution of electricity, and/or the transmission and distribution of natural gas. The robust carbon tool accounts for general portfolio emissions, percentage of coal generation, as well as such risk factors as state-level demand risk, social cost of carbon, governance, and multi-level regulatory risks. The tool's modularity permits us to customize our analysis for each customer (See "Carbon Asset Risk Project for Power and Utilities").

Assessing and managing carbon risk in our lending is one way Wells Fargo supports the transition to a low carbon economy. We also leverage our businesses and our physical footprint to invest in and advance environmentally beneficial businesses, reduce environmental impacts of our operations, and support nonprofit organizations focused on innovation, education, and capacity building to address the impacts of climate change. A few examples of our progress in those areas:

- In 2018, we announced a $200 billion sustainable finance goal, which includes commitments to sector-leading transparency and disclosure.
- Wells Fargo has invested nearly $83 billion in environmentally sustainable businesses since 2012, including more than $12 billion in 2017 alone.
- Wells Fargo is a member of RE100, a collaborative, global initiative made up of companies committed to powering their organizations with 100 percent renewable electricity. In 2017, Wells Fargo achieved a significant milestone by meeting 100 percent of its global electricity needs with renewable energy via Renewable Energy Certificates. To meet the remainder of our renewable energy goal, our plan is to expand our on-site renewable generation and engage in long-term contracts that fund new sources of green power by 2020.

- Wells Fargo demonstrates support for greater transparency and disclosure of risks and opportunities associated with climate change as a signatory, responder, and participant in the CDP Supply Chain Program — a program of the CDP (formerly the Carbon Disclosure Project).
    - As a signatory with an interest in driving climate solutions, we encourage other companies to participate in annual CDP questionnaires.
    - As a responder, we are leading by example. We've provided responses to CDP's climate change questionnaire for more than a decade achieving top scores. Most recently we were recognized with a climate leadership score of A–.
    - In 2018 we joined CDP's Supply Chain Program to more deeply engage our suppliers on risks and opportunities associated with climate change. Our disclosures since 2010 are archived at www.cdp.net; our most recent response is also available within our Environmental, Social, and Governance Guide.
- We have been participating in the Task Force on Climate-related Financing Disclosures (TCFD) project since its inception in December 2015, and we are currently developing a methodology to implement TCFD's recommendations for more efficient and effective climate-related disclosures.
- Through our philanthropic investments, Wells Fargo supports nonprofits, universities, and community organizations focused on environmental sustainability and education, the development and commercialization of clean technologies, and strengthening community resilience. Our goal is to provide $65 million in support to such organizations between 2016 and 2020.

Human Rights

Wells Fargo recognizes that governments have the duty to protect human rights, and our company has a responsibility to respect human rights. Respecting human rights is an ongoing effort, and we regularly assess our practices and approaches in light of changing global policies, business practices, and expectations. Expectations for companies to proactively manage and mitigate human rights-related risks are increasing as external stakeholders — from regulators to nongovernment organizations (NGOs), customers to team members — expect transparency in how companies address these issues throughout their value chain. In anticipation of increased scrutiny and higher potential risk, our focus is now on moving from policy development to committed implementation.

Wells Fargo's human rights commitment is explicitly approved at the senior-most level of the business as documented in the Wells Fargo & Company Board of Directors Corporate Responsibility Committee (CRC) charter: "The CRC shall oversee the company's policies and programs related to environmental sustainability, human rights, and other social and public matters of significance to the company, including the company's supplier diversity initiatives."

Our responsibility to respect human rights is acknowledged publicly in the Statement on Human Rights that guides our efforts in this area with all stakeholders. We have been leveraging existing resources to make incremental progress on our human rights risk management approach in these focus areas: employment, supplier engagement, communities, customers and investments, and related international disclosure requirements.

- **Employment.** Wells Fargo is committed to safe, inclusive, and respectful workplace practices. We have increased our enterprise focus on issues associated with potential human rights risk and have recently implemented enhancements such as our Speak-Up and Non-Retaliation policies.
- **Supplier engagement.** Wells Fargo published a Supplier Code of Conduct clarifying the expectations of our vendors, and we strive to engage only with suppliers whose values and business principles demonstrate a respect for communities and individual human rights in all areas of their businesses. Several processes are now in place to monitor contract compliance and capture opportunities specific to human rights.
- **Communities.** We invest our financial and human capital with community and nonprofit organizations to enhance quality of life in the communities where we have a business presence and preserve the natural environment.

- **Customers and investments.** We are dedicated to fair and responsible lending and servicing principles to foster best practices and ensure consumers are treated with respect. In 2017 we expanded the scope of our ESRM policy coverage and enhanced our due diligence in certain sectors to include more focused analysis involving human rights impacts, specifically to assess whether vulnerable and indigenous communities are impacted and properly consulted. In our investments, we seek to work with companies focused on understanding and tackling the difficult social and human rights issues they face in their operations, and a stewardship focus guides our engagement with company managements and voting proxies, as we leverage our ownership rights to affect improvement on Environmental, Social and Governance (ESG) issues.
- **International disclosure requirements**. New laws and regulations focused on ending human trafficking, modern slavery, and other practices require compliance from a variety of companies and sectors, including financial services firms. In 2017 Wells Fargo published a statement in compliance with the United Kingdom's Modern Slavery Act, reflecting the efforts the company has made to ensure that its operations and supply chain are free from modern slavery and human trafficking. We will continue to be transparent about our commitments and implementation as global legislation in the area evolves.

The Wells Fargo ESRM process includes performing our own human rights due diligence and analyzing third-party environmental, social, and governance research. We take allegations of human rights abuses seriously. When our research uncovers such allegations or they are brought to our attention, we engage with our customers to understand their risk management approach and actively monitor developments over time. When there are different viewpoints on an allegation, we document the views and their sources, and we use expert judgment to assess the situation. In cases where we become uncomfortable with a relationship — for financial, ethical, or other reasons — we seek opportunities to exit.

We have continued our commitment to respecting human rights in our operations by joining the Shift Project's Business Learning program in 2016. Through this program we are deepening our understanding of potential human rights impacts by engaging with experts, academics, and companies implementing the United Nations Guiding Principles on Business and Human Rights. We also formed three working groups to identify opportunities for strengthening our approach to managing human rights impacts across our focus areas.

Wells Fargo clients represent nearly every sector of the economy, and we understand that human rights risks exist in many areas of business. Throughout this Framework, we include discussion of how we assess the human rights risks associated with certain sectors and clients, and we are committed to continuing and improving upon these practices. We expect all of our business to operate in a manner that respects human rights. Respecting human rights is a continuing effort, and in the spirit of continuous improvement, we too are working to improve our efforts to manage any actual or potential adverse human-rights impacts throughout our value chain.

Indigenous Peoples [New]

Wells Fargo has been serving American Indian, Alaska Native, and Native Hawaiian communities in the U.S. for more than 50 years. We have dedicated team members focused on serving these communities with products, services, and financial education programs tailored to help tribal governments, tribal enterprises, and tribal members succeed financially. In March 2017, we developed an Indigenous Peoples (IP) Statement in partnership with tribal leaders, indigenous stakeholders, and their representatives. It articulates our commitment to indigenous communities and helps guide our decision-making for transactions where indigenous communities can be impacted. The statement also stipulates our approach to responsible finance, specifically:

- We recognize that governments have the central role to play in the approval of polices or projects that impact Indigenous Peoples, and we encourage our customers to collaborate in meaningful ways to manage the impacts and risks of their activities on these communities.
- We conduct due diligence in sensitive industries covered by this framework to ensure that our customers engage meaningfully and effectively with critical stakeholders and demonstrate a commitment to protecting community health, safety, and security; the environment; cultural identity; and the sacred lands and heritage of affected Indigenous Peoples. We have supplemented this due diligence with a heightened focus on potentially impacted Indigenous communities and whether or not they have been afforded the opportunity for informed consultation and participation. For certain transactions, escalated approval from senior leaders is required.
- If we do not believe a company can effectively manage elevated environmental and social risks in their operations, we will decline participation in the transaction.

- For projects where we can identify that the use of proceeds may potentially impact Indigenous Peoples, specifically for project financing, project bridge loans, and corporate project financing transactions, we expect our customers to demonstrate alignment with the objectives and requirements of International Finance Corporation (IFC) Performance Standard 7 on Indigenous Peoples, including with respect to circumstances requiring Free, Prior and Informed Consent.

In general, Wells Fargo respects Indigenous Peoples' rights to determine their own way of life on their own lands, according to their time-honored cultures, traditions, and beliefs. We recognize the rights of these communities to meaningful and appropriate consultation regarding issues affecting their sacred lands and natural resources —traditionally owned or otherwise occupied and used — today and for future generations.

Stakeholder Engagement [New]

We actively engage with our stakeholders.

Connecting with communities and stakeholders is one of Wells Fargo's strategic priorities. We understand the important role we play in the success of our communities, and we strive to listen to their concerns and understand their expectations.

Stakeholder engagement is also important from a governance perspective, and it supports our ESRM approach. Our stakeholder engagement helps us understand changing societal expectations on environmental and social topics that can create risk in our business. We apply the knowledge we build through engagement to our ESRM policies and practices.

We encourage stakeholder engagement commitments and practices among our customers, because we believe that it is the basis for building strong, constructive, and responsive relationships that are essential for our customers' success. According to current best practices in stakeholder engagement (see IFC Performance Standard 1), stakeholder engagement is an ongoing process that may involve, in varying degrees, the following elements: stakeholder analysis and planning, disclosure and dissemination of information, consultation and participation, handling grievances, and ongoing reporting to the affected communities. All of these elements are examined in the ESRM due diligence process described in this framework, but the level stakeholder engagement may vary considerably depending on the sector and the level of associated impacts.

Reputation Risk [New]

Reputation risk is inherent in all of our activities, and managing that risk is critical to Wells Fargo's success. A loss of stakeholder trust in Wells Fargo's competence or integrity could affect Wells Fargo's ability to establish new relationships or services or to continue servicing existing relationships. Wells Fargo is committed to improving its reputation by rebuilding trust with stakeholders, satisfying our customers' financial needs, and helping them succeed financially.

In the course of doing business and executing its strategy, stakeholders (including team members, customers, potential customers, noncustomers, shareholders, regulators, elected officials, advocacy groups, and the media) expect Wells Fargo to manage reputation risk, including:

- Aligning business practices, products and services, and team member behavior with Wells Fargo's Vision, Values & Goals.
- Where possible, proactively identifying, assessing, mitigating, or managing reputation risk before events materialize.
- Proactively managing and monitoring materialized reputation events and Wells Fargo's reputation efficiently and effectively

Emerging Risk [New]

Effective management of various types of risk is rooted in a companywide culture at Wells Fargo driven by our Vision, Values & Goals. We are fully committed to establishing, maintaining, and continually updating a sound risk management program governing our activities. Apart from the industries that currently fall under the ESRM Policy as indicated in this framework, if, based on our research, we believe a particular issue or risk requires due diligence for the matter and potentially in future transactions, the ESRM team will develop tools to ensure due diligence for that industry is conducted in a consistent, effective, and efficient manner. The ESRM team is responsible for identifying, assessing and escalating emerging environmental and social risks, and our lines of business also are responsible for developing processes to identify and escalate, where appropriate, emerging environmental, social, and reputation risks.

Companywide Policy Restrictions and Prohibitions [New]

Wells Fargo has internal policies that stipulate companywide and line-of-business-specific prohibited and restricted activities as well as activities that require additional or elevated approvals (for instance, at the level of Chief Credit Officer). We also have companywide and line-of-business-specific policies that prohibit credit and other services to certain industries. Consistent with the ESRM policy, and in alignment with ESRM best practices, Wells Fargo does not directly or indirectly finance the following activities or customers involved in these activities.

- **Illegal activities.** These include any activities that are Illegal under local laws and regulations or under the conventions and agreements to which Wells Fargo is a legal party.
- **Modern slavery and harmful child labor.** These include any clients or activities in which we become aware of evidence indicating forced labor, child labor, human trafficking, or any other type of modern slavery.
- **Mountain top removal (MTR).** We do not directly finance mountaintop removal coal mining projects, nor do we extend credit or facilitate capital-markets transactions to coal producers engaged primarily in MTR mining.
- **Internet gambling.** We prohibit certain types of transactions as stipulated under "The Unlawful Internet Gambling Enforcement Act of 2006 and Regulation GG of the Federal Reserve Board" that prohibit gambling businesses from knowingly accepting payments in connection with the participation of another person in a bet or wager that involves the use of the Internet and that is unlawful under any federal or state law.
- **Marijuana.** Because Wells Fargo is a federally regulated financial institution, we are bound by federal laws, including federal criminal laws. That means that we will continue to follow our current financial crimes policy, which prohibits directly banking marijuana-related businesses and credit policies prohibiting lending on commercial properties leased by marijuana-related businesses. As of the issuance of this framework, federal law still prohibited the manufacture, distribution, and use of marijuana.
- **Hate groups.** Businesses that sell products and services that promote hate, violence, harassment, or abuse are not qualified to receive processing services from Wells Fargo Merchant Services. This has been a long-standing policy for Wells Fargo Merchant Services, and this policy also applies to any entities we sponsor into the payment networks. If we discover a merchant is in violation of our policy, we take immediate action to ensure the merchant is removed. The entities we sponsor into the payment networks must act immediately to terminate merchants in violation as well.
- **"Card-not-present" arms sales:** Because of the elevated risks and difficulty in ensuring required licensing, merchants engaging in the sale of weapons, ammunition, and firearms products in a "card not present" environment (such as ecommerce, mail-order, telephone-order) are not qualified to receive processing services from Wells Fargo Merchant Services.

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.

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.

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 (see Additional Due Diligence, E&S Risk Rating and Escalation, page 10). 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 (see Additional Due Diligence, E&S Risk Rating and Escalation, page 9).

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/Artic.** 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.

Agriculture, Forestry and Fisheries

Wells Fargo has been the leading agricultural lender in the U.S. among commercial banks for more than 20 consecutive years. Our dedicated agriculture industry team is unique in the industry. It includes more than 15 agriculture consultants, analysts, and an agriculture economist responsible for assessing and managing risks specific to agriculture, forestry, and fisheries. The consultant team works in conjunction with our agriculture lenders to serve Wells Fargo's portfolio of customers including livestock farmers; fisheries; vegetable, fruit, and nut growers; grain merchandisers; food processors; greenhouse nurseries; and timber growers and processors.

One social risk unique to this sector is food safety. Producers are proactively implementing food safety protocols, and governments are adopting more stringent food safety regulations, which is shifting the focus from responding to contamination to preventing it. Companies must manage this risk well, as foodborne illnesses are a risk to people and public health, can damage consumer trust in the industry, and can quickly become a reputation risk to our customers. Another social factor our agriculture consultants work to understand is the customer's labor practices, including its approach to selecting contractors and suppliers.

Our agriculture consultants also assess a wide variety of environmental risks. We need to understand how our customers meet wastewater and other environmental regulations where they operate. We conduct water assessments to ensure our customers have sufficient water supply to grow their crops, feed their animals, or operate their business. During periods of drought, we conduct portfolio-wide analyses to understand the impacts on our customers and our portfolio.

Our consultants' analysis is tailored to the specific risks associated with particular activities and regions. Drought and extreme weather events impact agriculture customers in different ways depending on their location and operations. We may conduct a deeper analysis into water availability for customers operating in an arid region, whereas we may need to understand a customer's flood mitigation strategy if they are operating in a flood prone area.

In addition to environmental and social risks associated with their operations, understanding our customers' unique supply chain issues are critical to risk assessment. We stay abreast of industry trends and engage with our clients to understand how they will meet evolving customer and stakeholder expectations.

Increasingly, grocers, food and beverage companies, and restaurants are requiring their suppliers to adhere to elevated standards for animal welfare, water risk, sustainable fisheries, or other sustainability-related matters such as overall pollution reduction and efficiency increase. They are increasingly requiring certifications, scores, and sustainability improvement plans from their suppliers. Additionally, consumers are increasingly calling for greater transparency from businesses in the agriculture, forestry, and fisheries sectors.

We engage with our customers to share stakeholder viewpoints and market trends, and we include our assessment of their approach to these types of issues in our risk documentation. For fish or food importers, for example, our customers should know and be able to trace the provenance of their products. In the forestry sector, risk consultants discuss forest management policies and practices with our clients, along with any efforts to engage third-party organizations that certify businesses for responsible practices in forest management, protection of water resources, biodiversity, and community engagement. And for customers who import lumber, we screen for compliance with the Lacey Act, legislation that bans trade in illegally sourced wood products.

Consumer Finance [New]

Within Wells Fargo, various lines of business provide commercial credit and certain support services to consumer finance and related activity businesses. Under the provisions of the Wall Street Reform and Consumer Protection Act of 2010, many consumer finance businesses served by Wells Fargo through commercial credit and other bank product services have become subject to direct regulatory control of the Consumer Financial Protection Bureau (CFPB), which was created by Dodd-Frank, or regulation by other parties at the federal or state levels. 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.

Environmental, Social and Governance Risks in Asset Management [New]

Wells Fargo Asset Management (WFAM) manages more than over $500 billion on behalf of institutional clients and intermediaries worldwide. WFAM understands that Environmental, Social and Governance (ESG) issues are important considerations among many that should be incorporated by our investment teams within their evaluation and decision-making processes. We believe that ESG issues can have an impact on financial performance and that a better understanding of ESG factors can help protect against downside risk and contribute to long term risk-adjusted returns.

Recognizing that we are investing in a rapidly changing world, we integrate material ESG considerations across (WFAM) to gain additional insight and drive better investment outcomes. With 29 independent investment teams and more than 500 investment professionals, we have a strong foundation in active management and deep research expertise, an advantage we leverage to identify and analyze material ESG issues. For example, changing consumer preferences for companies with strong corporate responsibility, increasing costs from externalities (such as resource use or climate change), and evolving regulations present ESG-related challenges and opportunities within all of our investment strategies.

We also understand that incorporating ESG can help align investment strategies with client values. Ultimately, our focus is on delivering investment outcomes that meet our clients' needs, including alignment with the priorities and values that matter most to them. Our specific approach to ESG is determined by the unique requirements of each client; we believe in providing holistic solutions and our primary objective is to generate positive investment.

Private Bank Social Impact Investing [New]

The Wells Fargo Private Bank Social Impact Investing team takes a responsible investment approach to all of its investment strategies. The team believes that companies that demonstrate skillful management of important economic counterparts such as employees, suppliers, customers, shareholders and debt holders, will build longer-lasting, less volatile businesses, and that conversely, those with poor stakeholder management may see negative impacts to firm value. We also consider that companies looking to compete globally must adhere to global norms for corporate behavior.

Our responsible investment research process is three-fold:

1. **ESG analysis.** We focus on material ESG issues that are most likely to impact a company's financial situation, as well as areas where a company's impact on society and the environment are significant. These issues can be systemic, marketwide concerns, as well as specific to a company's adherence to global international norms.
2. **Exclusions.** We align with our clients' values through exclusions. These range from coal and tobacco companies to those with significant revenue from alcohol, gambling, adult entertainment, activities harmful to animals, activities inadmissible in most interpretations of Islamic finance, and companies deemed to have life ethics issues.
3. **Engagement.** We advocate for change at portfolio companies to achieve impact on issues of concern. It is a key component of our research process; the insights we derive from conversations with company representatives and management inform our investment decisions. We participate in both collaborative and individual engagement campaigns, and engage with companies on foundational ESG issues, as well as on emerging risks.

Conclusion

To demonstrate leadership in Corporate Citizenship and Corporate Social Responsibility, Wells Fargo is committed to assessing and understanding the environmental and social risks associated with the clients we serve and our global operations. We strive to go "beyond compliance" in many cases to ensure that environmental and/or social risks are appropriately managed and mitigated.

This Environmental and Social Risk Management Framework is a living document. We regularly assess our ESRM policies to determine if we are adequately managing environmental and social risks in our lending in light of emerging and evolving issues. We are committed to employing best ESRM practices as part of our efforts to rebuild trust with our many stakeholders.

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