WELLS FARGO

Environmental and Social Risk Management

Together we'll go far

Responsible in all we do

Our responsibility as a corporation goes far beyond protecting our customers' assets and helping them succeed financially. We're responsible for promoting the long-term economic prosperity and quality of life for everyone in our communities. If they prosper, so do we. There's never been a thriving bank in a struggling community.

— John Stumpf
Wells Fargo Chairman, President, and CEO

We are in the risk management business

For more than 160 years, Wells Fargo has been in the risk management business. Although we have seen a lot of change over the years, the fundamentals of our risk management remain the same. Our success depends on healthy, sustainable communities, and we're committed to responsible environmental stewardship in our business decisions.

Understanding a customer's environmental and social impact is integral to the overall risk management approach at Wells Fargo. Activities such as lending, raising capital, advising, or investing with clients with poor environmental or social risk management practices could lead to credit, operational, reputational, or financial risk to Wells Fargo.

Our approach to Environmental and Social Risk Management (ESRM) at Wells Fargo aligns with Wells Fargo's **statement of risk appetite**, the philosophical underpinnings that guide Wells Fargo businesses and risk professionals as they manage risk on a day-to-day basis. For example, at Wells Fargo, we will not engage in activities or business practices that could cause permanent or irreparable damage to our reputation. We also have a significant bias for conservatism.

We want to grow the company, and only will do so in a way that supports our long-term goals and does not compromise our ability to manage our risk. In addition, our risk appetite articulates our "dual control" approach to managing risk. That is, our lines of business have primary accountability for risk. They own the risk, have their own risk personnel, and are the first line of defense. Our Corporate Risk group is the second line of defense and provides oversight at the enterprise level to ensure our corporate functions and businesses soundly manage risk, comply with applicable laws and regulations, and offer products and services that help our customers meet their financial needs. Corporate Risk also provides "credible challenge" to the business lines when appropriate. We believe this dual control approach is a competitive advantage. In addition, we have a third line of risk defense with our internal audit team. Our ESRM team works together with Wells Fargo's lines of business to implement our ESRM policies and practices and to ensure an understanding of our customers' environmental and social risks and opportunities are integrated into our decision-making process.

Our **statement on climate change** expresses our views on climate change and how we work to do our part in addressing the challenge.

We engage with our stakeholders

One of our company's **strategic priorities** is connecting with communities and stakeholders. We're here to serve all of our customers, to help them succeed financially, to invest in our communities and to help our nation grow stronger. We maintain an open dialogue with external stakeholders who have an interest in our activities, and we believe their input is valuable. In 2012, Wells Fargo became a member of Ceres in part to create a more formal process for external stakeholder feedback on environmental and social issues. We will continue to engage in conversations about important issues with our customers, local communities and team members.

We value long-term customer relationships

Building and maintaining long-term relationships is a fundamental part of our approach to helping our customers succeed financially, and the cornerstone of our ongoing efforts towards environmentally and socially responsible lending, advising and investing. Our credit policies and practices stress the importance of "knowing your customer."

Our experience has shown that a deeper understanding of the issues facing our customers and their industries — including environmental and social risks such as resource scarcity, water use and quality, occupational health and safety, energy consumption and others — improves our credit decisions, allows us to better satisfy our customers' financial needs, and builds stronger, more durable relationships. Our goal is to be there for our customers over the long haul, supporting them through the challenges of changing markets and economic cycles.

Our years of experience have proven the value of this approach and can be evidenced more broadly in the performance of our company.

We aim to do business with the best-in-class of each industry, and we consider a customer's commitment, capacity and track record related to environmental and social risks as important factors in their long-term financial success.

About our Environmental and Social Risk Management Approach

Our enterprise-wide Environmental and Social Risk Management Policy is aligned with our statement of risk appetite, which emphasizes understanding risk and protecting our reputation. The policy outlines a consistent approach to environmental and social risk management, using qualified team members, staff, or consultants, for evaluating and managing environmental and social risks associated with customers, investments, and some transactions in identified sectors.

It is important for Wells Fargo to understand how our customers in certain industries manage their environmental and social risks, and we factor identified risks into our approval and monitoring processes. Our approach requires collaboration among our deal teams, our risk managers, and our environmental and social risk specialists.

Our policy requires we conduct an environmental and social review of customers in identified industries for transactions over threshold amounts. Through our due diligence process we aim to understand:

- Commitment: Is the organization committed to achieving good environmental and social performance?
- Capacity: Does the organization have the ability to achieve good environmental and social performance?
- Track record: Has the organization demonstrated good environmental and social performance in the past?

Environmental and social risk reviews are conducted in tandem with traditional due diligence, and they are updated as appropriate. For example, for new credit approvals, renewals or material increases in exposure, risks identified in the review are incorporated into the approval process. For some transactions, senior credit officer approval is required.

We recognize that customers in sectors falling outside our policy may also have environmental and social risk impact, so our ESRM policy provides additional tools — a rapid risk screen, a general environmental and social risk due diligence questionnaire, and a human rights due diligence questionnaire — as resources for our teams to focus on the types of matters to be considered when seeking a deeper understanding of a customer's environmental and social risk management commitment, capacity, and track record.

Coal and Metal Mining

Mining of coal and metals can generate significant economic benefits while also having significant environmental, community, and health impacts. Metal mining provides the basic materials needed for our economy and society and a significant portion of U.S. electricity generation comes from coal.

In the U.S., increased energy efficiency, regulatory changes, environmental factors, and price competition from other fuels have meaningfully impacted the coal mining industry. Current proposed environmental regulations and potential future regulatory schemes to address climate change are projected to significantly impact the economics of coal-fired power generation. For example, according to the U.S. Energy Information Administration, the Clean Power Plan will lead to the shuttering of about 90 GW of coal-fired production, more than twice the amount expected by 2040 without the new regulations. The amount of electricity produced from coal declined from 50% in 2005 to 36% in 2015, and the Dow Jones U.S. Coal Index, which captures the largest listed coal companies, fell over 85% from 2010 to 2015.

Our understanding of the risk factors existing in this industry has influenced our credit and capital markets decisions. Due to these significant industry changes, Wells Fargo has and 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, and under limited circumstances we may provide continued capital markets expertise to help our coal mining customers manage through changing economic cycles. In tandem, we have and will continue to support wind and solar energy. In 2014, Wells Fargo-funded renewables projects represented more than 11% of wind and solar energy in the U.S.

In addition, as a result of our environmental and social risk due diligence and the broader movement of the industry toward other mining methods, our involvement with the practice of Mountaintop Removal (MTR) is limited and declining. Wells Fargo will not extend credit or facilitate capital markets transactions to individual MTR mining projects or to a coal producer that receives a majority of its production from MTR mining.

Our environmental and social risk due diligence for coal and metal mining evaluates issues including, but not limited to, industry trends, worker safety, tailings disposal, environmental regulatory risks, water impacts, environmental impacts, human rights and community impacts. In addition, the credit approval process requires approval by Wells Fargo's senior credit authorities.

Unconventional Oil and Gas Production

The rapid increase of unconventional oil and gas production throughout the U.S. has created significant economic and energy benefits. At the same time, this energy production has generated controversy because of its real and perceived environmental and social impacts — particularly in regions without a recent history of contact with the industry. The economic, environmental and community impacts of unconventional oil and gas drilling can be challenging and complex. At Wells Fargo, we recognize the topics can be polarizing, but we do not believe the issues are black or white. Consistent with our approach to doing business with customers in other environmentally-sensitive industries, we seek relationships with responsible businesses in this industry.

We require environmental and social risk due diligence for relationships with customers engaged in hydraulic fracturing in all geographic areas, as well as Canadian oil sands, the Arctic and Alaska, and offshore. Our environmental and social risk due diligence questionnaires are specific to each industry, and cover issues including worker safety, governance and transparency, environmental and community impacts.

We recognize stakeholder and investor concerns regarding the potential impacts of regulatory policy, market, economic, social and environmental risks on the long-term success of our customers engaged in hydrocarbon exploration and production. Some of our shareholders have engaged with us on the topic of "stranded assets" related to our relationships in the fossil fuel sector. We believe we substantially mitigate this risk through our environmental and social risk due diligence process and our relationship-based banking model that emphasizes a deep understanding of our customers and the risks and opportunities they face including issues surrounding environmental and social risk. We also regularly perform sensitivity performance analyses on our customers and portfolios in these sectors to protect our shareholders.

We seek opportunities to support industry and community organizations working to define responsible practices to manage environmental and social risks specific to this sector.

Power and Utilities

Our economy is dependent on reliable and secure electricity supplies to fuel our economic growth and community prosperity. In 2014, around 67% of the electricity generated in the United States was from fossil fuels, with 39% attributed to coal, 27% to natural gas, and 1% to petroleum.

Wells Fargo has relationships with investor- and publicly-owned electric utilities, as well as generation and transmission companies. Our customers are primarily based in the United States. Our focus in this sector, as with all our customers, is long-term oriented and relationship based.

In 2008, we adopted the Carbon Principles, which address financing of new electric power projects in the U.S. Only one transaction to date has called for the application of the Carbon Principles. Furthermore, we have no history of power plant project finance in developing countries.

We follow a comprehensive due diligence process for our power and utilities industry transactions, carefully assessing environmental, social, regulatory, financial and reputation risks associated with customers' and prospective customers' operations. Our due diligence in this sector includes an assessment of carbon risk as part of the underwriting process, and our credit policy specifically references carbon and environmental risk. In addition, the credit approval process requires approval by Wells Fargo's senior credit authorities.

Lastly, as the usage of cleaner sources of energy increases, we will continue to support our customers in the power and utilities industry to meet new regulations. In addition, we recognize renewable energy is a major growth sector and are committed to providing capital and tax structure guidance for renewables projects and operations, and renewables represent a material portion of Wells Fargo's energy investment. Wells Fargo funded renewables projects represent more than 11% of wind and solar energy in the U.S. in 2014.

Agriculture, Forestry and Fisheries

Agricultural products, including crops, dairy, livestock, wineries, fisheries, and forestry, provide communities with food, fiber, fuel and raw materials, which contribute to the growth of our economy and society. Agriculture can also have a significant environmental impact.

Wells Fargo has a deep understanding of the agriculture sector. Recognizing the unique nature of financing producers, processors and marketers of agricultural products in many subsectors, we maintain an internal consulting team with specialists who assist in understanding and monitoring our agriculture clients. This team is unique in the financial community. Our due diligence in this sector is tailored to reflect environmental and social risks unique to specific subsectors. We track and consider various stakeholder viewpoints and market trends related to issues including animal welfare and fisheries. Our risk assessment process covers many aspects of a business, including environmental controls and regulations, community impacts, removal and management of waste, a deep understanding of downstream buyers, and producer reputation, experience and past performance. In addition, we engage in a dialogue with our customers regarding their business risks and opportunities.

Human Rights

Businesses can profoundly impact the human rights of employees, consumers, and communities wherever they operate. These impacts may be positive, such as increasing access to employment or improving public services. Impacts may also be negative, such as underpaying workers, forcibly evicting communities or indirectly impacting communities by damaging ecosystems on which communities depend.

Wells Fargo published a **Human Rights Statement** in 2013, where we stated our intent to respect human rights throughout the company's operations, products, and services including consistent treatment among people, team member well-being and security, economic and social freedom, and environmental stewardship. Wells Fargo seeks tangible ways to apply these principles through its actions and relationships with team members, customers, suppliers, and communities in which the company does business.

We strive to engage with business customers that respect human rights. We believe organizations in such industries should operate in a responsible manner, complying with applicable legal requirements and with respect for human rights, local communities and the environment. Wells Fargo developed an additional due diligence questionnaire specific to human rights. It helps us assess customer commitment, capacity and track record and current performance related to human rights.

Equator Principles

Wells Fargo adopted the **Equator Principles** in 2005 to support best practices in the financial services industry. The Equator Principles apply to project finance and related transactions for large projects like power plants and dams. As a signatory, Wells Fargo agrees to 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.

Due to our business model, Wells Fargo has conducted minimal project finance in the past and has not participated in EP transactions.

There were no project finance, project-related corporate loans, bridge loans or advisory services (as defined in the Equator Principles) that closed during the reporting period from January 1, 2014 through December 31, 2014.

Equator Principles requirements are codified in our enterprise-wide Environmental and Social Risk Management Policy and supporting credit policy. The Policy requires relationship teams to engage the Environmental and Social Risk Management team when a transaction is subject to the Equator Principles. Our Environmental and Social Management team, consisting of three full-time professionals, is equipped to review and advise our relationship teams regarding Equator Principles requirements.

Commitment to Best Practices

We value the work of organizations and companies working to manage or solve environmental and social issues. Through the Wells Fargo Environmental Grant program, we support external organizations working to solve challenging environmental problems. For example, we sponsored the Colorado State Natural Gas Symposium from 2012 through 2014. This symposium brings together stakeholders representing industry, academia, government, and environmental and community organizations.

Many of our relationship teams belong to industry groups specific to the customers they support.

This work helps us understand the complex challenges and opportunities facing industries today.

Internal Training and Engagement

Team member training is an integral part of environmentally and socially responsible banking. We expect our team members to be well-trained, knowledgeable, up-to-date, and to use common sense and conservative assumptions. We regularly communicate our approach to trainees in our Wholesale Banking Credit Management Training Program, our loan officer credit training program. These programs have been taught for more than 30 consecutive years; graduates include some of Wells Fargo's highest ranking credit officers. In addition, we provide awareness and training to any team member upon request.

Continuous Improvement

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

For inquiries please write to **esrm@wellsfargo.com**.