

# 2010 Environmentally Responsible Lending

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We want to help our customers and nation transition to a cleaner, more sustainable, lower-carbon economy. We do so through relationship banking, lending practices, team member education and environmental finance.

## Relationship Banking

Building and maintaining long-term relationships is a fundamental part of our approach to doing business, and the cornerstone of our ongoing efforts towards environmentally responsible lending. For many years, our credit policies and practices have stressed 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 risks, 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.

## Lending Practices

We have strengthened our lending practices and due diligence of middle-market and large corporate customers in environmentally sensitive industries to help ensure that our customers do business in an environmentally responsible way. We aim to do business with the best-in-class of each industry, *i.e.* customers with positive environmental and social track records who proactively work to address industry challenges and risks.

### *Extractive Industries*

Wells Fargo is concerned with the significant environmental and community impacts associated with extractive industries. We seek relationships in these industries with companies who are managing their business in a responsible manner with respect to environmental protection, community engagement, and safety. We will continue to develop and refine our due diligence practices in response to changing environments and expectations affecting our customers, these industries, and society.

#### Coal and Metal Mining

Coal is the largest fuel source for electric power generation in the U.S. today, providing roughly half of the electricity consumed by our nation. There is considerable focus on renewable energy development, but currently solar, wind and other renewable resources account for only 3% of annual electricity generation (excluding large hydro generation). Increased energy efficiency is also a major focus for many U.S. businesses and households, but like renewables, energy efficiency will require some time to make a substantial impact on our nation’s energy usage. For these reasons, coal is anticipated to be a significant contributor to our nation’s energy needs for the foreseeable future.

Mining of both coal and metals can generate significant economic benefits to local communities by providing jobs in rural areas in the U.S. or in developing countries where few other employment or economic development opportunities are available. However, the mining and combustion of coal to produce energy present significant concerns and impacts. In particular, the surface mining practice known as mountaintop removal (MTR) mining has drawn considerable attention and controversy. From industry’s perspective, MTR is an efficient and relatively safe method of coal extraction. Others

have a different view of MTR, due to the large scale and irreversible nature of MTR mining and the associated environmental impacts. Additionally, coal-fired power generation produces greenhouse gas emissions and is a major contributor to climate change, widely viewed as one of the most serious issues facing our society. Due to these concerns, there is increasing regulatory and legal focus on the permitting of MTR mines, as well as the construction and permitting of new coal-fired power plants.

## Our Response

Wells Fargo is concerned about the impacts of climate change, and has set a goal to reduce the greenhouse gas emissions of our own operations by 20% below 2008 levels by 2018. In addition, we are supporting our customers with innovative new financial products and services as our nation transitions to less carbon intensive forms of energy and greater energy efficiency.

As one of the largest commercial lenders in the U.S., Wells Fargo is committed to the energy industries, including our relationships with our coal mining customers. Consistent with our company-wide credit philosophy, our approach to this business is relationship oriented. We seek to build long-term relationships with “best-in-class” companies in every industry we finance. Our experience has proven the value of this approach, in the way our customers manage environmental risks (especially those associated with environmentally sensitive industries) and as evidenced more broadly in the credit quality of our loan portfolio.

Wells Fargo recognizes the significant environmental, legal, regulatory, financial, and reputational risks facing the mining industry. To manage these risks we have established a credit policy and published related internal guidance for coal and metal mining lending transactions. It includes:

- A credit approval process that requires input from Environmental Affairs, and approval by Wells Fargo’s most senior levels of credit approval authority.
- An enhanced due diligence process, including evaluation of a company’s track record regarding litigation, regulatory compliance, worker safety and environmental compliance; and the degree of organizational capacity and commitment the company dedicates to these concerns. The enhanced diligence process generally includes direct conversations with our customers on these issues.
- Careful consideration of companies engaged in MTR mining. We recognize the significant concerns associated with this practice, as well as the heightened risks related to companies engaged in MTR mining. At the same time, it is important to acknowledge the significant investments made by our coal customers in their mine operations, which were entered into in good faith and in accordance with applicable regulations. As a result of our deliberate approach, and the broader movement of the industry toward other mining methods, our involvement with the practice of MTR is limited and declining.
- Ongoing review. In 2009, we completed enhanced due diligence and a full portfolio review of our coal company relationships. Enhanced due diligence is also performed on an ongoing basis in connection with new credit approvals and renewals for our coal and metal mining customers and prospective customers.

We also encourage our clients to use Wells Fargo Insurance Services, a leading provider of insurance brokerage and risk management services to the energy and mining industry. Services provided by Wells Fargo Insurance Services reduce the potential for accidents, thereby limiting the potential for workplace injuries or adverse environmental impacts. Products provided by this group

provide protection and indemnity to customers, their employees and the communities in which they operate.

### *Financial Industry Environmental & Risk Management Principles*

In addition to setting our own credit standards, we have also adopted the [Carbon Principles](#) and the [Equator Principles](#) (the “Principles”). Both represent industry best practices for managing environmental and social risks associated with financing of electric power projects and for project finance, respectively. Both also mirror, in spirit, our own general credit philosophies. The Principles have facilitated discussion with senior lending and credit managers on best practice in our financing of environmentally sensitive industries.

Only one transaction to date has called for the application of the Carbon Principles. None has required application of the Equator Principles, which apply to a specific type of financing known as “project finance.” In 2010 Wells Fargo became an Associate of the Equator Principles, reflecting the fact that we do not engage in project finance transactions that would require application of the Equator Principles. We adopted them to support industry best practices.

| Number of Wells Fargo-financed projects that were subject to Equator or Carbon Principles | 2005 | 2006 | 2007 | 2008 | 2009 | 1Q 2010 |
|---|------|------|------|------|------|---------|
| <b>Equator Principles</b>   |      |      |      |      |      |         |
|   | 0    | 0    | 0    | 0    | 0    | 0       |
| <b>Carbon Principles</b>  |      |      |      |      |      |         |
|   | n/a* | n/a* | n/a* | 0    | 0    | 1       |

\*Wells Fargo adopted the Carbon Principles in 2008.

### **Team Member Education**

Our Team Member educational efforts are an integral part of environmentally responsible lending at Wells Fargo.

Our approach to environmentally responsible lending is regularly communicated to trainees in our Wholesale Banking Credit Training Program, the only loan officer credit training program in the financial industry that has been offered for more than 30 consecutive years, graduates of which include some of Wells Fargo’s highest ranking credit officers.

We also work toward the continuing education of our team members in a variety of ways as we seek an informed, balanced and careful approach to our customers in environmentally sensitive industries.

### **Environmental Finance**

Our commitment to the environment and our relationship lending approach have generated notable successes in meeting the financial needs of customers in the rapidly evolving renewable energy, clean tech and green building industries.

We have invested nearly \$2 billion in 230 renewable energy projects that account for more than 3,600 megawatts of new renewable energy capacity across 24 states. Combined, these projects generate more than 12 billion kilowatt-hours per year, which is enough clean renewable energy to power about 1.1 million households.

We are also a leading lender for Leadership in Energy and Environmental Design (LEED®) buildings, having provided more than \$3.25 billion for LEED buildings since 2004.

We aim to expand on these results through ongoing additions to our organizational capacity and infrastructure to help customers take advantage of clean technologies and renewable energy. Since 2006, we have established these new business groups and services:

- Environmental Finance – offers expertise in the financing of renewable energy projects
- National Cleantech Commercial Banking Group – provides financial expertise, products and services to clean technology companies
- Clean Technology Investment Banking Group – provides investment banking services to clean technology companies that seek more than \$40 million in capital
- Sustainable Public Infrastructure Group – provides public finance products and services to help municipalities nationwide achieve their sustainability goals

Additionally, Wells Fargo Investment's stock analysts have expanded their coverage to include analyses of clean energy companies.

Through all of these actions we are helping our customers and our nation transition to a more sustainable economy. Together, we are achieving results that are positive from both an economic and an environmental perspective.

For inquiries please write to [environmental.affairs@wellsfargo.com](mailto:environmental.affairs@wellsfargo.com).