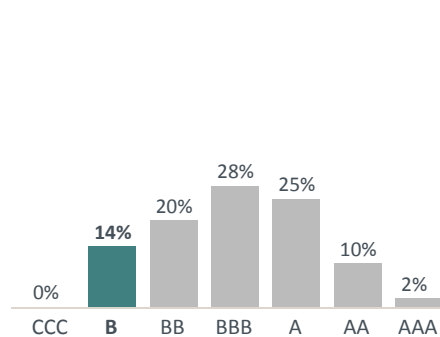


## Overboarding and entrenchment in board drive downgrade

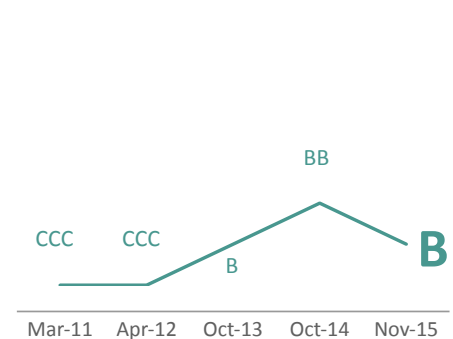
### GOVERNANCE SNAPSHOT

Board Independence %	81.3%
Significant Votes Against Management	NO
Entrenched Board	NO
Pay Performance Gap	NO
Executive Pay Non-Disclosure	NO
Multiple Share Classes with Different Voting Rights	NO

### INDUSTRY RATING DISTRIBUTION



### ESG RATING HISTORY



### ESG SCORE CARD

	WEIGHT	SCORE	QUARTILE
<b>Environment</b>	<b>8.0%</b>	<b>5.0</b>	
Financing Environmental Impact	8.0%	5.0	●●●
Carbon Emissions	0.0%	10.0	●●●
Toxic Emissions & Waste	0.0%	10.0	●●●
Water Stress	0.0%	10.0	●●●●
<b>Social</b>	<b>60.0%</b>	<b>3.7</b>	
Access to Finance	15.0%	4.6	●●●
Financial Product Safety	15.0%	0.8	●
Human Capital Development	15.0%	6.1	●●●●
Privacy & Data Security	15.0%	3.2	●●●
Health & Safety	0.0%	8.8	●●●
Labor Management	0.0%	5.9	●●
<b>Governance</b>	<b>32.0%</b>	<b>2.3</b>	
Corporate Governance	17.0%	2.8	●
Financial System Instability	15.0%	1.8	●
Anticompetitive Practices	0.0%	3.7	N/A
Business Ethics & Fraud	0.0%	2.5	N/A

[View Corporate Governance Details Section →](#)

### RATING COMMENT

RATING DATE: November 26, 2015

Wells Fargo has been downgraded to 'B' from 'BB'. Wells Fargo has largely avoided the glare of regulators in contrast to US major peers, but governance concerns, including overboarding, entrenchment, and key committee independence drive the downgrade.

While governance issues may take center stage for Wells Fargo's downgrade, progress remains slow in other areas. The company did not provide key metrics for 2014 leaving unclear how it may perform given recent layoffs and certain product risks, namely the growth in subprime auto loans. Amongst major US peers, Wells Fargo had the highest level of complaints per USD billion in assets (as reported to the CFPB), a potential leading sign of issues in product design or customer engagement.

Analyst: Matt Moscardi

### MOST SIGNIFICANT RISKS



**Financial Product Safety** - Score 0.8

November 26, 2015

Using Consumer Financial Protection Bureau data, Wells Fargo ranked as the worst for complaints per USD billion in assets among major US banks, and in the bottom half of all US banks for which we had coverage. We did note a steady downward trend in complaints, though complaint levels may correlate here to a number of product and borrower types the bank has targeted, particularly subprime auto loans. We estimated that 151% of Wells Fargo's tangible book value was comprised of loans to high-risk and sensitive borrowers or in high-risk product types, down from 173% YoY. While legacy assets have largely been sold off or foreclosed, the bank's credit card loans to borrowers with FICO scores below 660 and subprime auto loans were actually substantially up YoY by 17%. Further, the CFPB itself began investigating Wells Fargo for student loan servicing practices, and settlements in the recent past have ranged across foreclosure practice, fee charging, unauthorized product enrollment, and even credit defamation. The efficacy of Wells Fargo's product committees, complaints handling, and internal controls are clearly in question given trends, though without updated strategic disclosure, it is unclear how the bank is position to limit potential future liabilities.

Key Issues ● Bottom Quartile ●●●● Top Quartile

Issues that we determine do not present material risks or opportunities to companies in a given industry receive 0% weight and do not impact the overall ESG rating.



**Financial System Instability** - Score 1.8

November 26, 2015

Wells Fargo remains a regulator-labelled SIFI with higher capital requirements, regulatory scrutiny, and potential moral hazard attached. From a systemic risk perspective, Wells Fargo continues to grow bigger, more complex, and more interconnected, though falls short of other US major competitors. Intrafinancial assets (notional repurchase agreements and interbank loans) grew fastest YoY, up 67% to 6.8% of total assets. Wholesale funding was also up nearly 9% YoY. From a regulatory risk standpoint, we ranked Wells Fargo as the fourth most visible bank to regulators in our global peer group of 215 companies, 47x more likely to be scrutinized than the average bank (such as BBVA or SunTrust). Regulatory visibility rankings are calculated using a combination of total equity and total controversial activity in rolling three year periods, and we found that higher levels of visibility have a strong relational correlation to future settlements, redress, and legal payouts. To that point, we estimated Wells Fargo to face at least USD 200m in payouts over the next three years, but more likely between 0.1% and 0.5% of total equity. In contrast, we estimated that Wells Fargo returned 13.9% of its total capitalization in the form of benefits, compensation, and taxes to customers, staff, and governments, net of legal costs, the highest of major global peers. High social returns (and more vanilla business models) have historically correlated to lower levels of sociopolitical scrutiny. However, conflicts of interest may be a serious issue at the board level for Wells Fargo. We found only 14% of the group's risk committee (1 in 7) had financial expertise, and only as a regulator rather than a practitioner. The Chair of the risk committee is also long-tenured (12 years) and overboarded (on 4 other company boards and 11 committees, including on the board of Chevron with Wells Fargo's CEO). Given this, there is room to question the ability of the risk committee as a whole to be uncompromised in making decisions.



**Corporate Governance** - Score 2.8

November 26, 2015

Key governance issues at Wells Fargo include overboarded directors, long-tenured directors that control most of the board's key leadership positions, and discretionary pay practices that suggest independent directors may not be serving as an effective counterbalance to management. Ownership at Wells Fargo is widely dispersed with no shareholder owning more than 10% of the shares. Warren Buffett controls 9.3% of the company's total voting power, having added about 50 million shares annually.

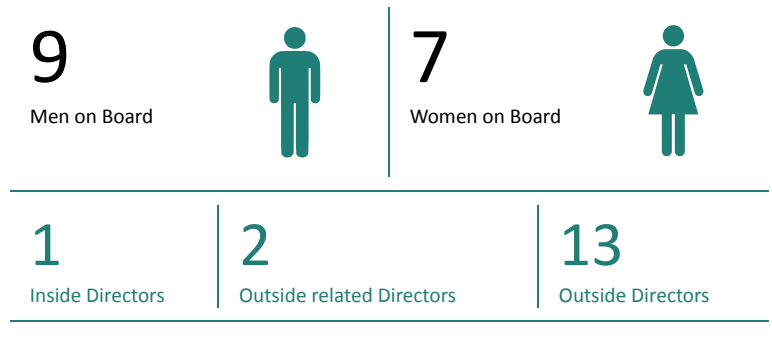
**MOST RECENT CONTROVERSIES**

HEADLINE	ASSESSMENT	TYPE	DATE
USD500,000 Penalty and USD241,974 Restitution over Alleged Failure to Make Suitable Recommendations about Structured Repackaged Asset-Backed Trust Securities	Moderate	Bribery & Fraud	November 2015
Oakland: Lawsuit over Alleged Discriminatory Predatory Lending Practices of Minority Borrowers	Moderate	Customer Relations	October 2015
Preliminary Investigation over Alleged Illegal Student Loan Servicing Practices	Moderate	Customer Relations	October 2015
Missouri: USD 17.8 Million Penalty in a Civil Lawsuit over Alleged Breach of Fiduciary Duty and Mismanagement of Trusts	Minor	Customer Relations	October 2015
Montana: USD750 Penalty by the Department of Environmental Quality over Alleged Underground Storage Tank Compliance Violations	Minor	Bribery & Fraud	September 2015

**CEO**

Name	John G. Stumpf
Tenure	8 Years
Total Realized Pay	USD 75,993,658
Total Summary Pay	USD 21,426,391

**BOARD OF DIRECTORS**



**SHAREHOLDERS**

Majority Shareholder Control (%)	N/A
Insider Holdings (%)	0.0%
5% Holdings	20.3%
% Held by Largest Shareholder	N/A

**LARGEST 10 INDUSTRY PEERS (BANKS)**

	FINANCING ENVIRONMENTAL IMPACT	ACCESS TO FINANCE	FINANCIAL PRODUCT SAFETY	HUMAN CAPITAL DEVELOPMENT	PRIVACY & DATA SECURITY	CORPORATE GOVERNANCE	FINANCIAL SYSTEM INSTABILITY	RATING AND TREND
ING Groep N.V.	●●●●	●●●	●	●●	N/A	●●●●	●	BBB ↔
INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED	●●●	●●●	●●	●●●	N/A	●●●	●	BB ↑
China Construction Bank Corp (Wuxi Branch)	●●●●	●●●●	●	●	N/A	●●●	●	BB ↔
Agricultural Bank of China Limited	●●●	●●●●	●	●●	N/A	●●●	●	BB ↔
Bank of China Limited	●●●	●●●	●	●●●	N/A	●●●	●	B ↔
BANK OF AMERICA CORPORATION	●●●●	●●●●	●●	●●●●	●●	●	●	B ↔
CITIGROUP INC.	●●●●	●●●	●	●●●●	●●●●	●	●	B ↓
HSBC HOLDINGS PLC	●●●●	●●●	●	●	N/A	●●	●	B ↔
JPMORGAN CHASE & CO.	●●●●	●●●	●	●●●	●●	●	●	B ↔
WELLS FARGO & COMPANY	●●●	●●●	●	●●●●	●●●	●	●	B ↓

**QUARTILE KEY:** ● Bottom Quartile ●●●● Top Quartile

**RATING TREND KEY:** ↔ maintain ↑ upgrade ↑↑ two or more notch upgrade ↓ downgrade ↓↓ two or more notch downgrade