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Chairman Shelby, Ranking Member Brown, and Members of the Committee, thank you for inviting me to be with you today.

I am the Chairman and Chief Executive Officer of Wells Fargo, where I have worked for nearly 35 years. It is my privilege to lead the company, which was founded 164 years ago and has played a vital role in the financial history and development of our country. Today, we are part of so many people's lives. We employ more than 268,000 team members, 95 percent of whom are in the United States. One in every 600 working adults is a member of the Wells Fargo team, and we have a presence in all 50 states.

I am deeply sorry that we failed to fulfill our responsibility to our customers, to our team members, and to the American public. I have been with Wells Fargo through many challenges, none that pains me more than the one we will discuss this morning. I am here to discuss how accounts were opened and products were provided to customers that they did not authorize or want. I am going to explain this morning what happened and what we have done about it. But first, I want to apologize to all Wells Fargo customers. I want to apologize for violating the trust our customers have invested in Wells Fargo. And I want to apologize for not doing more sooner to address the causes of this unacceptable activity.

I do want to make very clear that there was no orchestrated effort, or scheme as some have called it, by the company. We never directed nor wanted our employees, whom we refer to as team members, to provide products and services to customers they did not want or need. It is important to understand that when an employee provides a customer with a product or service that she did not request or authorize, that employee has done something flat wrong. It costs us satisfied customers, and we lose money on these accounts. Wrongful sales practice behavior goes entirely against our values, ethics, and culture and runs counter to our business strategy of helping our customers succeed financially and deepening our relationship with those customers.

That said, I accept full responsibility for all unethical sales practices in our retail banking business, and I am fully committed to doing everything possible to fix this issue, strengthen our culture, and take the necessary actions to restore our customers' trust.

Let me assure you and our customers that Wells Fargo takes allegations of sales practice violations extremely seriously and that we will not rest until the problem is fixed. As I will explain shortly, we are moving to demonstrate once again that Wells Fargo remains the dependable, principled partner that it has been throughout its 164-year history.

I will first provide some context around our business strategy of serving customers; discuss some of the changes we have made to address the problems we uncovered; discuss the terminations about which you have read; and describe further efforts to strengthen our controls and make things right for customers.

Cross Selling Means Deepening Relationships With Customers

A typical American household has multiple financial services and products, and our goal is to have as deep a relationship as we can with those households. Our cross sell strategy is simply another way of saying that we provide our customers a wide variety of products that can satisfy their financial needs. The more products a customer uses, the deeper the relationship of trust and value. Deep relationships with products that are wanted and used are what furthers our business strategy and truly helps our customers to succeed financially.

Retail Banking Has Made Progressive Changes To Detect And Deter Unethical Behavior

Our efforts to detect and deter unethical conduct have progressively evolved over the last five years. They were put in place out of concerns that some employees were not doing what was right for customers and were providing products to customers they did not want. For example, in 2011, we piloted our Quality-of-Sale Report Card in California, and it was implemented in 2012 across retail banking. The Quality-of-Sale Report Card was designed to, among other things, deter and detect misconduct through monitoring of sales patterns that may correlate with unethical behavior.

In 2011, a dedicated team (now called the Sales and Service Conduct Oversight Team) began to engage in proactive monitoring of data analytics, specifically for the purpose of rooting out sales practice violations.

In addition, during 2012, Wells Fargo began to reduce the number of sales that team members would need to meet to qualify for incentive compensation. Between 2012 and 2015, we steadily reduced sales goals by up to 30% for branch-based team members.

Along with the reduction in sales goals in 2013, we introduced an expanded set of training materials for our managers, which managers use to train bankers on ethical practices and prohibited conduct. Further, in the first quarter of 2013, we incorporated the Quality-of-Sale Report Card into the incentive compensation plan for our retail banking district managers.

Starting in 2013, we further strengthened our oversight of potential sales integrity issues and revised our performance evaluation system to put less emphasis on sales goals. These revisions were made to enable bankers to earn acceptable ratings on their performance evaluations, even if they did not meet their sales goals.

In 2013, the Sales and Service Conduct Oversight Team began its first proactive analysis of “simulated funding” across the retail banking business, reviewing employee-level data around account openings. Let me explain: “simulated funding” is a prohibited practice whereby an employee creates an account for a customer and then funds it in order to make it look as if the customer had funded the account. Based on the original proactive monitoring, our Internal Investigations team began an intensive investigation into simulated funding activity in the Los Angeles and Orange County markets. As a result of these investigations, we terminated team members for sales integrity issues.

Retail Banking, In Conjunction With Enterprise Risk, Expanded Oversight From 2013 To 2015

Further improvements in our sales practice oversight continued in 2013-2015, following the terminations in California that occurred and were reported by the media.

In 2013, we created a new cross-functional oversight team for retail banking sales integrity issues comprised of representatives from our Sales and Services Conduct Oversight Team, Corporate Investigations, Human Resources, Employee Relations, and the Law Department. The purpose of this team was to identify trends around sales integrity issues, and to identify any additional improvements in the process that would enhance our oversight of sales integrity issues, with a goal of preventing future violations.

In 2013 and 2014, we made several changes to our incentive compensation plans to better align incentive pay with ethical performance, and we further restructured how we went about setting goals in our bank branches.

In 2014, the Sales and Service Conduct Oversight Team expanded the simulated funding review to a national scope.

In 2015, we continued to enhance our training materials and practices, continued to make changes to incentive plans, and substantially lowered incentive compensation goals for new team members.

Sales-Related Terminations Took Place Over The Course Of 2011-2015

I want to pause for a moment to discuss the issue of terminations. We do not have tolerance for dishonest conduct or behavior inconsistent with our Code of Ethics. It has been reported in the media that Wells Fargo terminated approximately 5,300 individuals after the CFPB's enforcement investigation. Instead, individuals were terminated over time for sales-related misconduct as a result of investigations opened from January 1, 2011 through March 7, 2016. In any given year, approximately 100,000 individuals work in our retail bank branches, and we have terminated approximately 1% of that workforce annually for sales practice violations.

Wells Fargo Is Working To Make It Right For Our Customers

Despite all of these efforts, we did not get it right. We should have done more sooner to eliminate unethical conduct and unintended incentives for that conduct to occur. Even one unauthorized account is one too many. We should have addressed earlier the possibility that customers could be charged fees in connection with accounts opened without their authorization. Because deposit accounts that are not used are automatically closed, we assumed this could not happen. We were wrong.

In August 2015, we began working with a third-party consulting firm, PricewaterhouseCoopers ("PwC"), and asked them to evaluate deposit products, unsecured credit cards, and other services from 2011-2015 to determine whether customers may have incurred financial harm (specifically, fees, other bank charges, and interest) from having been provided an account or service they may not have requested. Our charge to PwC was clear—using our account records for our products and services, employ data analytics to determine who may have suffered financial harm as a result of an account that may not have been authorized, and to quantify what that financial harm might have been.

I want to highlight that our direction to PwC was to err on the side of the customer and to be over-inclusive in attempting to identify a population of customers that may have suffered financial harm. In other words, if it could not be ruled out that a deposit account or credit card was unauthorized, we designated those accounts for further analysis. We made available to PwC any records they needed. Beginning in September 2015 and continuing well into 2016, PwC conducted extensive large-scale data analysis of the more than 82 million deposit accounts and nearly 11 million credit card accounts that we opened during that time frame.

With respect to deposit accounts, PwC focused on identifying transaction patterns that might be consistent with improper conduct. Out of the 82 million deposit accounts, it identified approximately 1.5 million such accounts (or 1.9%) that could have been unauthorized. To be clear, PwC did not find that each of these accounts was unauthorized. Among these accounts, PwC calculated that approximately 100,000 incurred fees in the amount of about $2.2 million.

With respect to credit cards, PwC identified a population of credit cards that had never been activated by the customer nor had other customer transaction activity. By itself, the lack of activation and use by a customer does not mean that the customer had not authorized the card to begin with. We know that some customers will request a credit card for many reasons, including for emergencies and other reasons, but then they may not activate the card. However, because we could not confirm, based on account activity, that the customer authorized the account in the first place, we elected to consider these accounts for potential remediation. PwC calculated that approximately 565,000 consumer cards, or 5.8% of all credit cards opened, had not been activated nor had other customer transaction activity, and approximately 14,000 of these cards had incurred a fee. These fees totaled approximately $400,000. PwC did not find that these cards were unauthorized.

In February 2016, we began the process of remediating the deposit and credit card customers identified above. For existing customers, we credited their accounts. For former customers, we sent a check. All customers received a letter informing them that they were receiving a refund as a result of fees that may have arisen from an account they may not have authorized. We were transparent with our customers and provided them contact information to discuss the matter further with us.

<u>Wells Fargo Is Engaged In Multiple Efforts To Take Responsibility For, And Rectify, Our Mistakes</u>

We decided that product sales goals do not belong in our retail banking business. Specifically, as announced last week, we are eliminating all product sales goals for retail banking team members and leaders, including those in branches and retail banking call centers, effective January 1, 2017. We are doing this in order to better align with the additional training, controls, and oversight implemented since 2011 and focus on rewarding excellent customer service rather than product sales.

We have taken, and continue to take, other significant and meaningful steps to prevent unauthorized accounts from being created. These steps include:

- Working closely with our primary regulator, the Office of the Comptroller of the Currency ("OCC"), to strengthen our enterprise oversight of sales conduct risk. We have established an enterprise Sales Conduct Risk Oversight Office, reporting into the Chief Risk Officer, and have regularly responded to numerous inquiries and provided regular briefings to our regulators;

- Creating a new enhanced branch compliance program that will be dedicated to monitoring for sales practice violations by conducting data analytics and frequent branch visits. Results will be reported to the enterprise Sales Conduct Risk Oversight Office;

- Implementing a process whereby, within one hour of opening an account, a customer will receive an email that confirms the opening of the account;

- Revising procedures for credit cards, to require each applicant's documented consent before a credit report is pulled. Consent is manifested by a physical signature or, if the applicant is unable to sign on the PIN pad, by a dual attestation of the banker and the manager or branch designee; and

- To further address possible customer harm, we are contacting all customers with open, inactive credit cards to confirm whether the customer authorized the account. If the customer indicates they did not authorize the card, we will offer to close it (if it is still active) and suppress any bureau inquiry.

I will close by saying again how deeply sorry I am that we failed to live up to our expectations and yours. I also want to take this opportunity to thank our 268,000 team members who come to work every day to serve our customers. Today, I am making a personal commitment to rebuild our customers' and investors' trust, the faith of our team members, and the confidence of the American people.