Memo

SUBJECT: Grounds for a Yes vote on the **SunTrust Banks, Inc.** shareholder resolution requesting a sustainability report including strategies to address climate change

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RESOLVED: *Shareholders request that the Board of Directors issue a sustainability report describing the company's short- and long-term responses to ESG- [environmental, social and governance]related issues, including strategies to address climate change. The report, prepared at reasonable cost and omitting proprietary information, should be published within six months of SunTrust's 2011 annual meeting.*

SUPPORTING STATEMENT:
The report should include the company's definition of sustainability and a company-wide review of policies, practices, and metrics related to long-term social and environmental sustainability. Lending practices relating to social and environmental issues should be reviewed along with proxy voting policies and procedures on these issues, including a comparison of SunTrust's proxy voting record on these issues with other large institutional investors such as the largest state pension funds.

Examples of topics that could be reviewed in the report include: ways to reduce the use of energy and natural resources by facilities and employees, governance practices related to climate change and sustainability, and how SunTrust encourages customers to act in environmentally responsible ways.

We recommend SunTrust use the Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines to prepare the sustainability report. The GRI Guidelines are developed with representatives from the business, environmental, human rights and labor communities. The guidelines provide guidance on report content, including performance on environmental impact, labor practices, human rights, and product responsibility. The guidelines provide a flexible reporting system that allows omission of content not relevant to SunTrust.

Rationale for a Yes Vote:

1. SunTrust does not adequately disclose its sustainability-related risks, opportunities, policies and practices;
2. Sustainability reporting is an important element of business success;

3. SunTrust lags behind its peers on sustainability policies, practices and disclosure.

1. SunTrust does not adequately disclose its sustainability-related risks, opportunities, policies and practices.

SunTrust Disclosure

- Web Site: We were not able to find information about sustainability, environmental issues or climate change on the SunTrust web site.
- 2010 10-K: We found only one mention of sustainability or environmental issues in SunTrust's 2010 10-K (the same statement was also in the bank's 2009 10-K):

  "*Large scale natural disasters may significantly affect loan portfolios by damaging properties pledged as collateral and by impairing the ability of certain borrowers to repay their loans. The nature and level of natural disasters cannot be predicted and may be exacerbated by global climate change." (p.11)*
- Sustainability or corporate social responsibility report: none.
- Emissions reductions target(s): None.[1]
- Carbon Disclosure Project (CDP): SunTrust received a score of 27 out of 100 on their 2010 CDP survey response, down from 29 in 2009. Comerica, a SunTrust peer, described below, received as score of 92. Royal Bank of Scotland received a 93, the highest score in the financial sector, and PNC Financial scored 75.
- SunTrust's 2010 CDP response reveals that management believes risks from climate change are "yet to be thoroughly researched and validated."[2] This is a remarkable and disquieting statement in light of the U.S. SEC's interpretive guidance on climate risk issued in early 2010.[3]
- To another CDP question, *3.1* "Do current and/or anticipated regulatory requirements related to climate change present significant risks to your company?" SunTrust responds: "…As a financial services company, SunTrust does not manufacture or produce goods that would affect climate change. Therefore, we believe that current and anticipated regulations would have little to no impact on our business*."*[4]
- Despite SunTrust managers CDP responses on climate risk, they do seem to embrace the concept of sustainability in their response to question CDP's question 5.3, stating:

  "Globally, social responsibility -- and specifically environmental sustainability have gained and will continue to gain substantial traction. SunTrust's clients, shareholders, employees and communities in which it serves will continue to take an interest in SunTrust's commitment to sustainability. SunTrust considers its impact on the environment as part of its thoughtful, prudent business practices. Not doing so would result in a negative impact to SunTrust's reputation."

[1] SunTrust CDP response 2010 question 9.2
[2] SunTrust CDP response 2010 question 2.1
[3] "[B]usiness leaders are increasingly recognizing the current and potential effects on their companies' performance and operations, both positive and negative, that are associated with climate change and with efforts to reduce greenhouse gas emissions." Commission Guidance Regarding Disclosure Related to Climate change, Exchange Act Release No. 64,169, 2010.
[4] SunTrust CDP response 2010 3.7

We agree with the tone of SunTrust's response immediately above about the importance of sustainability, and we wonder why the bank has chosen to disclose so little about its sustainability efforts.

SunTrust's current disclosure practices make it impossible for shareholders to assess the bank's exposure to sustainability-related risks – such as the following risks related to climate change:

- Regulatory risk – Does SunTrust lend to customers who are building fossil fuel-based power plants or who otherwise have high emissions of greenhouse gases? If so, is there a process in place to manage the risks of a price being assigned to carbon emissions? Six leading banks have signed onto the Carbon Principles, which includes a due diligence process to help manage these risks. [5]
- Reputational risk – Does SunTrust lend to companies who are viewed by the public as causing harm to the environment? Could this damage their brand image in a fiercely competitive marketplace? As they fall behind competitors on disclosure of environmental, social and governance (ESG) issues, could SunTrust managers be viewed as out of touch with important societal trends and business risks? How might this affect investor confidence and SunTrust's ability to attract and retain employees, given that corporate social responsibility improves employee recruitment, motivation, and retention?[6]
- Competitive risk – Does SunTrust have a plan to maintain competitiveness during the likely transition to a low-carbon economy? Leading banks and a number of SunTrust's competitors offer green banking products and expertise in lending to renewable energy companies, as described below.
- Legal risk – As one corporate attorney noted, shareholder litigation against officers and directors who fail to respond to climate change may be on the horizon: "Expectations flowing from the board's duty of care—including its obligations to inquire, to be informed and to employ adequate internal monitoring mechanisms—may create new consequences for boards and modify the standards by which their conduct is judged."[7]

2. Sustainability reporting is an important element of business success.

A key purpose of publishing a sustainability report is to inform investors, customers, employees and the public, in a holistic way, about significant risks faced by SunTrust – and how the bank is managing these risks, including emerging risks that are not covered in the 10-K. Compared to the 10-K, a sustainability report typically goes into more detail about items such as goals companies set to reduce risks and plans to meet the goals.

Another important audience for sustainability reports is data aggregators -- of environmental, social, governance and financial information -- such as Bloomberg, MSCI and providers of indexes such as the Dow Jones Sustainability Index. Without data that is easily comparable between companies – the kind of data encouraged by use of standard GRI metrics -- the data providers may have difficulty populating their databases and sharing the information with SunTrust's investors and stakeholders.

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[5] http://www.carbonprinciples.org/

[6] See "The Importance of Being Ethical" (http://www.inc.com/articles/2000/11/14278.html); Brown Flynn, Resource Center > Trends (http://www.brownflynn.com/RESOURCECENTER/Trends/tabid/224/Default.aspx).

[7] Smith, Jeffrey A. and Mathew Morreale (Cravath, Swaine & Moore LLC)," Boardroom Climate Change," *New York Law Journal*, Vol. 238, no. 10, July 16, 2007.

Sustainability reporting is also important because the process of producing a good report helps companies to establish data gathering systems that help them control costs and reduce risks. The recent banking crisis underscores the need for financial institutions to do a much better job disclosing and actively managing risks. For example, socially responsible investors repeatedly asked banks to disclose and reduce risks related to predatory lending in the years leading up to the mortgage crisis.

76 percent of executives polled by McKinsey & Company "say sustainability contributes positively to shareholder value in the long term, and 50 percent see short-term value creation."[8]

A meta study by Mercer found that 10 out of 16 studies showed a positive impact on the financial performance of investments associated with "taking ESG issues into account." Four of the 16 studies showed a neutral impact, and 2 showed a "neutral to negative" impact on performance. [9]

A Goldman Sachs study found that companies that are considered leaders in ESG policies outperform their peers in terms of their stock value by some 25 percent.[10]

According to a 2008 KPMG report on sustainability reporting, of the 250 Global Fortune companies, 79% produce reports compared to 52% in 2005. Of the 100 top U.S. companies by revenue, 73% produce reports compared to 32% in 2005. In addition to these large companies, many medium sized companies issue reports, such as the mid-sized banks described below.

A Ceres report on climate change and the banking sector cautions that "… a carbon filled atmosphere is joining capital and labor as a new resource constraint" and suggests that equity valuations will be shaped by new climate regulations, physical impacts to facilities, and shifts in consumer demand for "climate-friendly" products.[11] Moreover, banks themselves are increasingly recognizing such risks to their loan portfolios.[12]

Leading banks recognize that disclosing and quantifying climate risks can give them a competitive edge and help to protect their brands. For instance, Citigroup believes that a proactive climate policy carries business advantages, including: reduced costs, enhanced brand reputation, and expanded market potential for new services.[13] Similarly, over the next three years, HSBC "will make responding to climate change central to [its] business operations and at the heart of the way [it] works with [its] clients across the world."[14]

In addition, climate change exacerbates banks' reputational risks associated with lending to extractive and energy-intensive industries, which are coming under increasing scrutiny for their

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[8] McKinsey Quarterly, March, 2010
https://www.mckinseyquarterly.com/Energy_Resources_Materials/Strategy_Analysis/How_companies_manage_sustainability_McKinsey_Global_Survey_results__2558

[9] Environmental Finance, "ESG Can Boost Financial Performance – Mercer," Dec- Jan 2010.

[10] Goldman Sachs, "GS SUSTAIN Focus List," 2007
(http://www.unglobalcompact.org/docs/summit2007/gs_esg_embargoed_until030707pdf.pdf).

[11] Cogan, Douglas G., "Corporate Governance and Climate Change: The Banking Sector," Ceres Report, January 2008, p. 12-13
(http://www.ceres.org/NETCOMMUNITY/Document.Doc?id=269).

[12] For instance, ABN AMRO's 2006 Sustainability Report recognizes that, "To be effective, risk management needs to minimize the overall carbon footprint of the project-financing portfolio and to work in the context of the newly emerging carbon markets." *See Ibid,* p. 11-13.

[13] Citigroup, "Climatic Consequences: Investment Implications of a Changing Climate," January 19, 2006, *available at* http://www.pewclimate.org/docUploads/CIR%20--%20Climatic%20consequences%20Jan.%202007.pdf.

[14] News conference to announce the HSBC Climate Partnership, London, U.K., May 30, 2007.

environmental impacts.[15] A 2005 study found that up to 50% of brand value might be at risk from climate change.[16] Barclays, for one, has recognized the connection between sustainable practices and reputation: Barclays' Environmental and Social Impact Assessment Policy (designed to ensure that "lending proposals are thoroughly assessed to identify any environmental and social risks") is overseen by its *Brand and Reputation* Committee, a subcommittee of the Executive Committee.[17] We find inadequate evidence that SunTrust has taken sufficient steps to preserve its brand reputation in this regard.

3. SunTrust lags far behind its peers on sustainability policies, practices and disclosure.

SunTrust ranked 34th out of 39 banks and insurers in Newsweek's 2010 Green Rankings.[18] According to the 2008 Roberts Environmental Center report on the financial sector, 90% of the largest global banks analyzed in the report were voluntarily reporting on sustainability issues and more than 50% produce extensive formal sustainability reports.[19] Here is a sampling of SunTrust's direct competitors' and peers' sustainability practices:

- **Comerica** (Market Cap $6.6B) committed in the fall of 2008 to biennial GRI-based sustainability reporting and created a corporate Sustainability Office and Program lead by a Senior Vice President. In interim years, they publish an update. They describe sustainability as "a core commitment of our company,"[20] and their actions back this up, including:
    - Comerica's 2009 Carbon Disclosure Project (CDP) survey response was ranked #1 among companies in the S&P 500 for the quality of disclosure.
    - Reduced GHG emissions by almost 5% from 2008 to 2009;
    - "Developing a formal energy and emissions reduction plan so that reduction targets can be announced by the 2011 CDP reporting deadline."
    - Constructed four new LEED-certified banking centers in the Texas and Arizona markets and certified four existing buildings in the Michigan market to US EPA's Energy Star standards.
    - Reduced paper consumption by almost 19% from 2008 to 2009 and increased the percentage of total paper use with certified fiber content;
    - Develop and offer a number of 'green economy' webinars for commercial lending account officers;
    - Offer an impressive list of additional actions on their web site including efforts to green their procurement practices and boost employee awareness of sustainability.[21]
- **Regions Financial Corp** (Market Cap $9.2B) has a 2009 sustainability report based on GRI guidelines as well as a separate social responsibility report.[22] The sustainability report includes:

[15] Cogan, Douglas G., "Corporate Governance and Climate Change: The Banking Sector," Ceres Report, January 2008. *Also*, "Banks, Climate Change and the New Coal Rush," Rainforest Action Network, October 2007.
[16] Carbon Trust, "Brand value at risk from climate change," 2005.
[17] Cogan, Douglas G., "Corporate Governance and Climate Change: The Banking Sector," Ceres Report, January 2008, p. 12-13 (http://www.ceres.org/NETCOMMUNITY/Document.Doc?id=269).
[18] http://www.newsweek.com/2010/10/18/green-rankings-us-companies.html
[19] Roberts Environmental Center, "Banks, Insurance, and Diversified Financials Sectors Analysis 2008: A benchmarking tool for online sustainability reporting," October 20, 2008 (http://www.roberts.cmc.edu/PSI/RedirecttoPDF/redirectBanks2008.asp).
[20] http://www.comerica.com/vgn-ext-templating/v/index.jsp?vgnextoid=abb06261630d6110VgnVCM1000001c21160aRCRD
[21] http://www.comerica.com/vgn-ext-templating/v/index.jsp?vgnextoid=abb06261630d6110VgnVCM1000001c21160aRCRD
[22] http://www.regions.com/about_regions/social_responsibility.rf

- Implementation of a computerized utility tracking database to measure and manage consumption across the entire corporation.
    - Reduction of electric consumption by an estimated 10.7 million kilowatt-hours (kWh) over the 2008 baseline.
    - Certification of the first bank facility in the state of Alabama to Energy Star standards.
- **KeyCorp** (Market Cap $7.97B): KeyBank provides a series of web pages on environmental activities, including the following text: "Under the direction of Chief Executive Officer Henry Meyer, KeyBank is constantly pursuing business practices to help the environment. 'Several years ago we put in place environmentally responsible behaviors throughout the organization that produced winning results — for Key, its shareholders and the planet," he says. 'Key is committed to building green and going green whenever possible."[23] Key's environmental web pages are a step in the right direction, but could benefit from a more in-depth explanation of the company's efforts and from use of GRI guidelines.
- **Capital One** (Market Cap $23.4B) describes some of its environmental initiatives as follows:[24]
    - "Reduce Emissions: In September 2009, Capital One set, and the EPA approved, a Greenhouse Gas (GHG) emissions reduction target of 10 percent over the next five years."[25]
    - "In 2008, we established an Environmental Sustainability Office (ESO) to promote and coordinate corporate environmental sustainability activities.
    - The ESO reports into a member of our Executive Committee and reports corporate progress on sustainability efforts monthly. This team is specifically responsible for developing the environmental measurement systems, developing a greenhouse gas emissions reduction strategy and goals, as well as promoting and implementing environmental projects across the enterprise.
    - In addition, for the past several years our Executive Committee has sponsored an Environmental Council comprised of leaders across our enterprise. The Council has promoted associate awareness and action for many environmental causes."[26]
- **PNC** (Market Cap $32.98B) has a non-GRI based 2010 Corporate Responsibility Report and has accomplished the following (among other things):
    - More newly constructed green buildings (more than 100) certified by the U.S. Green Building Council than any company on Earth.[27]
    - Becoming the first major U.S. bank to apply green building standards to all newly constructed or renovated retail offices beginning in 2002.
    - A green lending program that includes lending for energy efficiency and renewable energy projects;
    - An extra due diligence process for lending to companies with fossil fuel-based

[23] https://www.key.com/html/key-bank-environmental-commitment.html

[24] http://www.capitalone.com/about/corporatecitizenship/environment/governance.php?linkid=WWW_Z_Z_Z_ABTENV_R1_02_T_ABTENVGOV

[25] http://www.capitalone.com/about/corporate-citizenship/environmental-sustainability/progress/?

[26] http://www.capitalone.com/about/corporate-citizenship/environmental-sustainability/governance/

[27] https://www.pnc.com/webapp/unsec/NCProductsAndService.do?siteArea=/pnccorp/PNC/Home/About+PNC/Media+Room/Press+Kits/PNCs+Environmental+Responsibility

energy projects, as well as special restrictions on lending to companies that practice mountain top removal coal mining.[28]

- **US Bancorp** (Market Cap $51.22B) has a GRI-based 2009 Corporate Citizenship Report[29] and an Environmental Sustainability Update for 2008-'09.[30] Some details include:
    - Exceeded goal to invest $1 billion in environmentally beneficial business opportunities by 2015 including renewable energy projects, energy efficiency upgrades to low-income housing projects, and LEED certified construction.
    - Reduced same-site energy consumption and associated GHG emissions 5% in 2008 and an additional 3% in 2009;
    - Added questions to "initial vendor questionnaire around sustainability practices;"
    - Green auto loan program offers customers .50% off the interest rate on U.S. EPA Certified SmartWay® new or used vehicles;[31]
    - Launched a green home equity loan pilot program in Colorado;
    - Added forest protection language to applicable loan documentation, underwriting and post-closing procedures.
- **Other Banks:** According to a Ceres report issued in January of 2008 on the banking sector, growing numbers of U.S. and foreign banks are disclosing the following sustainability strategies:
    - *Implementing a general environmental program and risk assessment policy*, such as **Wells Fargo's** 10-point environmental commitment initiated in 2005.[32]
    - *Increasing board oversight of the company's climate-related initiatives.* For instance, **HSBC** has a far-reaching board-level climate governance structure: its General Management Board, which monitors the bank's investments in emission-reducing projects and other carbon market opportunities, decided in 2004 to make HSBC the world's first "carbon-neutral" bank. HSBC also has a board-level Corporate Responsibility Committee overseeing its sustainability policies.[33]
    - *Increasing management execution of climate policies.* For instance, in 2007, **Royal Bank of Canada (RBC)** added an Environmental Blueprint to its existing Carbon Risk Management Project, committing the bank to reduce its environmental footprint, give its clients environmental credit-risk policies, and offer new climate-focused products and services.[34]
    - *Adopting risk management for the power sector specifically*, such as The Carbon Principle's Enhanced Diligence framework, adopted by: **Bank of America, Citi, Credit Suisse, JPMorganChase, Morgan Stanley,** and Wells Fargo
    - *Calculating and/or reducing carbon risk in loan portfolios.* For instance, Wells Fargo performed a GHG assessment of three key lending portfolios (agriculture, primary energy production, and power generation), while RBC made a carbon risk profile of its lending portfolio and reviewed the potential physical impacts of climate change to business sectors and regions in North America. Similarly, Bank

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[28] PNC Corporate Responsibility 2010 report
[29] http://www.usbank.com/cgi_w/cfm/about/community_relations/CorporateCitizenshipReport.cfm
[30] http://www.usbank.com/cgi_w/cfm/about/community_relations/EnvoSustain.cfm
[31] http://www.usbank.com/cgi_w/cfm/personal/products_and_services/loans_and_credit_lines/auto/green_auto.cfm
[32] *See* https://www.wellsfargo.com/about/csr/ea/
[33] Cogan, Douglas G., "Corporate Governance and Climate Change: The Banking Sector," Ceres Report, January 2008, p. 16.
[34] Cogan, Douglas G., "Corporate Governance and Climate Change: The Banking Sector," Ceres Report, January 2008, p. 16

of America announced that it would reduce the GHG emissions associated with its utility corporate finance portfolio by 7% by 2009; to that end, it is shifting its portfolio mix toward customers with lower-CO_2 profiles.[35]

- *Setting internal greenhouse gas reduction targets for their operations*, such as by changing energy procurement policies in favor of renewable energy, adopting "green" building principles in real-estate management, and achieving "carbon neutrality." Disclosure of progress on energy use and similar indicators can demonstrate quality management to investors—and offer real savings.[36]
- *Seizing on the opportunity to diversify their investment and retail product lines.* A United Nations Environmental Program-Finance Initiative (UNEP-FI) report found that rising concern about climate change, coupled with growing support for regulatory action, is driving a rapid expansion of green financial products: "most banks…consider climate change as the most important environmental issue they face. In response, carbon commodity products and services are developing at an extraordinary pace…The innovation displayed by the front-runners in carbon finance is based on their capacity to identify opportunities for carbon asset generation across all types of financing activities...*"*[37]

Conclusion

At a time when banks are recovering from unprecedented public outrage over their role in the economic crisis and massive mismanagement of risk, SunTrust's resistance to investor suggestions to address sustainability issues – in particular, climate change risks – represents a misguided response to a changing environment. Strong disclosure and transparency will help SunTrust protect shareholder value and minimize exposure to direct and indirect financial, regulatory, legal, reputational and competitive risks. As a practical matter, climate risk is particularly important to SunTrust due to its extensive operations in Florida, a state highly vulnerable to the impacts of climate change such as more frequent and severe hurricanes and flooding related to sea level rise. Many of SunTrust's peers take sustainability disclosure seriously, and SunTrust must do the same.

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[35] http://newsroom.bankofamerica.com/index.php?s=press_releases&item=6985

[36] Earthwatch Institute, the World Conservation Union, World Business Council for Sustainable Development and World Resources Institute, Ecosystem Challenges and Business Implication, 2006, http://www.wbcsd.ch/DocRoot/Yfe91Zpuv9xjK8PThQmF/Business%20and%20Ecosystems_211106_final.pdf.

[37] Green Financial Products and Services: Current Trends and Future Opportunities in North America, United Nations Environment Program-Financial Initiative, August 2007.