

## **Fifth Third Bancorp Memo**

**SUBJECT:** Grounds for a Yes vote on Fifth Third Bancorp shareholder resolution requesting a sustainability report including greenhouse gas (GHG) reduction strategies

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**RESOLVED:** *Shareholders request the Board of Directors prepare a sustainability report describing strategies to address the environmental and social impacts of Fifth Third's business, including strategies to address climate change. The report, prepared at reasonable cost and omitting proprietary information, should be published within six months of Fifth Third's 2009 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. Investment practices relating to social and environmental issues should be reviewed along with proxy voting policies and procedures on these issues, including a comparison of Fifth Third's proxy voting record on these issues with other large institutional investors such as the largest state pension funds. This review should examine procedures for exposing any potential conflicts of interest related to proxy votes.*

*We recommend Fifth Third use the Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines to prepare the report. GRI ([www.globalreporting.org](http://www.globalreporting.org)) is an international organization developed with representatives from the business, environmental, human rights and labor communities. The Guidelines provide guidance on report content, including performance on environmental, labor, human rights, and product responsibility issues. The GRI Guidelines provide a flexible reporting system that allows the omission of content not relevant to Fifth Third.*

*Examples of topics that could be reviewed in the report include: ways to reduce the use of energy and natural resources by Fifth Third facilities and employees, and how Fifth Third uses its voice as an investor to encourage companies to act in environmentally responsible ways.*

### **Rationale for a Yes Vote:**

1. Fifth Third's shareholders bear significant financial risks related to sustainability;
2. Fifth Third does not adequately disclose its sustainability policies and practices;
3. Fifth Third lags far behind its peers on sustainability policies, practices and disclosure;
4. Sustainability reporting is an important element of business success.

## 1. FIFTH THIRD'S SHAREHOLDERS BEAR SIGNIFICANT FINANCIAL RISKS RELATED TO SUSTAINABILITY

A key purpose of publishing a sustainability report is to inform investors, in a holistic way, about significant risks faced by Fifth Third – and how the bank is managing these risks – including regulatory, legal, competitive, and reputational risks. In stark contrast to many of its peers, Fifth Third's website (and 10-K) makes no mention of environmental risks or sustainability issues, and Fifth Third has asked that its response to the latest Carbon Disclosure Project (CDP) remain private.

While sustainability reports typically cover the array of topics listed in the supporting statement of the resolution above (covering only those topics relevant to each firm), we will use climate risk as the primary example of an issue that Fifth Third should include in the report. One reason a sustainability report is necessary is that climate risk is just one of a number of similar environmental, social, and governance (ESG) issues Fifth Third needs to report on and manage.<sup>1</sup> The current market turmoil underscores the need for financial institutions to do a much better job disclosing and managing risks.

Fifth Third is exposed to three principal types of financial risk related to climate change: A) regulatory risk through the impact of new climate regulation on the companies they finance -- particularly in high-emitting sectors like transport and energy;<sup>2</sup> B) legal risk; and C) competitive and reputational risk. A recent 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.<sup>3</sup> Moreover, banks themselves are increasingly recognizing such risks to their loan portfolios.<sup>4</sup>

### A. Regulatory Risks

#### 1) Broad Regulatory Trends

The banking sector faces increasing and potentially far-reaching risks from climate legislation at the federal and state levels.

At the federal level, President Obama has committed to implementing an economy-wide cap-and-trade program in order to reduce GHG emissions eighty percent by 2050,<sup>5</sup> and over 30 leading companies have joined the U.S. Climate Action Partnership (USCAP) calling for legislation to significantly reduce GHG emissions.<sup>6</sup> The federal government also recently suspended a loan program for coal-fired plants in rural communities until 2009,<sup>7</sup> while plans for 59 proposed coal-fired power plants in the U.S. were dropped in

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<sup>1</sup> For example, water risk is a growing concern explained in a new report by the Pacific Institute and Ceres titled: "Water Scarcity & Climate Change: Growing Risks for Businesses and Investors." (<http://www.ceres.org/Page.aspx?pid=1041>)

<sup>2</sup> Clive Horwood, "The new colour of money," *Euromoney*, September 2007.

<sup>3</sup> 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>).

<sup>4</sup> 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.

<sup>5</sup> Obama-Biden Campaign, "New Energy for America." Available at <http://my.barackobama.com/page/content/newenergy>.

<sup>6</sup> See U.S. Climate Action Partnership. Available at <http://www.us-cap.org/>.

<sup>7</sup> Brown, Matthew, "Feds suspend loan program for new rural coal plants," *The Daily Independent*, March 5, 2008.

2007, many unable to procure operating licenses, and 50 more coal plants currently face challenges in the courtroom.<sup>8</sup>

At the regional level, in January 2009, ten Northeast and Mid-Atlantic States implemented a linked CO<sub>2</sub> Cap-and-Trading Program, and many other states are planning or are involved in similar initiatives.<sup>9</sup> These cap-and-trade programs assign a cost to GHG emissions that may negatively impact the cash flow of GHG emitters, and therefore may impact their ability to pay back loans.

Energy-intensive industries are also facing stricter reporting requirements, which may affect their ability to obtain operating licenses -- as emissions levels and harmful effects become clearer to regulators and the public -- which creates additional uncertainties related to financing their projects. In a major new development, the U.S. Environmental Protection Agency (EPA) unveiled a proposed rule on March 10, 2009 requiring GHG emissions disclosure from large emissions sources in the U.S (covering 85-90% of U.S emissions); the final rule is expected by June 2009.<sup>10</sup>

Thus, banks face growing credit risks associated with existing and future loans to carbon-intensive industries.<sup>11</sup>

## **2) Baard Coal-to-Liquid Project**

One example of this type of risk is Fifth Third's involvement in the Baard Energy coal-to-liquid fuel (CTL) project in Ohio. In 2007, Fifth Third took the lead in arranging financing for the proposed \$5.5 billion facility. However, the Baard plant, which would become a major contributor to global warming (even with carbon capture and storage),<sup>12</sup> failed to qualify for the U.S. Defense Department's procurement criteria because of its high CO<sub>2</sub> footprint.<sup>13</sup> By losing the Defense Department as a potential customer, the Baard project's financial outlook changed significantly. Moreover, according to Natural Resources Defense Council (NRDC), the project faces "substantial economic risks related to the cost of CO<sub>2</sub> emissions and rising coal and construction prices."<sup>14</sup> NRDC shows that Baard's financial analysis has underestimated the full cost of CO<sub>2</sub> emissions because of the possibly erroneous assumption that captured CO<sub>2</sub> will not be subject to regulation.<sup>15</sup>

Fifth Third's current involvement in this project and its exposure to other high-emitting investments are unknown. (It took a recent Freedom of Information Act request by the

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<sup>8</sup> "U.S. moving toward ban on new coal-fired power plants," Feb. 15, 2008. Available at <http://www.enn.com/pollution/article/31257>.

<sup>9</sup> See Regional Greenhouse Gas Initiative (RGGI), available at <http://www.rggi.org/home>.

<sup>10</sup> EPA, "Proposed Mandatory Greenhouse Gas Reporting Rule," available at <http://www.epa.gov/climatechange/emissions/ghgrulemaking.html>.

<sup>11</sup> Cogan, Douglas G., "Corporate Governance and Climate Change: The Banking Sector," Ceres Report, January 2008 (<http://www.ceres.org/NETCOMMUNITY/Document.Doc?id=269>).

<sup>12</sup> The plant would directly emit over 12.4 million tons (MT) of CO<sub>2</sub> and thousands of tons of other harmful pollutants, and would require the mining of 9.3MT of coal, bringing its total carbon footprint to 26.59<T per year. (Note: a total of 22.7MT was of coal was mined in Ohio in 2006; total US coal imports in 2007 were 36.3MT). See Natural Resources Defense Council (NRDC), "Fact Sheet on Baard Energy's Coal to Liquids Facility," September 16, 2008 (<http://www.nrdc.org/>)

<sup>13</sup> The 2007 *Energy Independence and Security Act* (S. 526) permits the agency to purchase only those fuels that have lower lifecycle CO<sub>2</sub> emissions than conventional fuels. Baard initially claimed it would use carbon capture and sequestration (CCS) and biomass to reduce pollution, but the company has made no binding commitments, and there is no evidence that it plans to do so. (Ibid).

<sup>14</sup> Ibid.

<sup>15</sup> Ibid.

Sierra Club to reveal that Fifth Third is no longer the lead bank arranging financing for the Baard plant.) However, we are not aware of any general principles Fifth Third is applying to analyze these kinds of projects. **Given the risks inherent in a project like the Baard facility, Fifth Third's investors need to know that the bank has a coherent framework for evaluating the risks associated with this and similar investments.** While six of its peers have adopted *The Carbon Principles* to address such concerns (see section 3 below), Fifth Third leaves its shareholders wondering whether its managers are aware of the material risks of possible future regulation of greenhouse gases.

## B. Legal Risks

Increasingly, companies that ignore climate-related litigation risks do so at their own peril, and Fifth Third's borrowers may be subject to high-cost litigation and legal fines. For example, in fall 2008, the New York Attorney General's Office reached settlements with Xcel Energy and Dynegy, whereby the companies agreed to considerable climate change-related disclosures in their 10-K filings.<sup>16</sup>

In addition, Fifth Third may also face direct legal risks relating to its board's fiduciary duty. 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."<sup>17</sup>

Climate risk litigation appears to be following a similar trajectory to tobacco litigation, which increased over a number of years until it became a significant threat to the industry. A total of approximately 100 climate-related lawsuits were filed in the United States through 2007, with the annual numbers trending markedly upward – from 6 suits in 2004 to 38 in 2007.<sup>18</sup> While impacts on particular companies are difficult to predict, litigation thus far has been focused on companies responsible for large amounts of emissions, either from their operations or products.

There are several different types of climate litigation, however, and the risks are not limited to high-emitting sectors. For example, some lawsuits have challenged or sought government regulation of emissions. If successful, they could result in new regulatory risks for carbon-intensive or other impacted sectors.

Other suits have focused on more specific activities like the construction of new coal-fired power plants. Cases have also been filed against companies for failing to include climate change as part of their environmental impact statements for new projects or developments.

## C. Competitive and Reputational Risks

Leading banks recognize that disclosing and quantifying climate risks can give them a

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<sup>16</sup> [http://www.oag.state.ny.us/media\\_center/2008/oct/oct23a\\_08.html](http://www.oag.state.ny.us/media_center/2008/oct/oct23a_08.html)

<sup>17</sup> Smith, Jeffrey A. and Mathew Morreale (Cravath, Swaine & Moore LLC), "Boardroom Climate Change," *New York Law Journal*, Vol. 238, no. 10, July 16, 2007.

<sup>18</sup> Gronewold, N. 2008. "Lawyers see 'growing legal storm' over emissions trading." *ClimateWire*. August 12, 2008. <http://www.eenews.net/climatewire/2008/08/12/2/>

competitive edge and help to protect their brands. For instance, Citigroup believes that a proactive climate policy carries five business advantages, including: reduced costs, enhanced brand reputation, and expanded market potential for new services.<sup>19</sup> Similarly, over the next five years, HSBC “will make responding to climate change central to [its] business operations and at the heart of the way [it] work with [its] clients across the world.”<sup>20</sup> Overall, according to the World Resources Institute researchers, companies that “manage and mitigate their exposure to climate change risks while seeking new opportunities for profit will generate a competitive advantage over rivals in a carbon-constrained world.”<sup>21</sup> Fifth Third, however, is either not managing these risks or not disclosing its efforts to do so.

Fifth Third’s inaction is especially worrying given that its U.S. peers are advocating and gearing up for a new regulatory framework. Bank of America, Citi, Goldman Sachs, JPMorgan Chase, and Merrill Lynch have all called for comprehensive federal climate change legislation.<sup>22</sup> The banks’ support not only increases the likelihood of regulation, but also may put industry laggards at a disadvantage as the new rules are shaped without the laggard’s influence or perhaps even awareness of the most likely regulatory outcomes.

In addition, climate change is exacerbating the banks’ reputational risks associated with lending to extractive and energy-intensive industries, which are coming under increasing scrutiny for their environmental impacts.<sup>23</sup> A 2005 study found that up to 50% of brand value might be at risk from climate change.<sup>24</sup> 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.<sup>25</sup> There is no evidence that Fifth Third has taken any steps to preserve its brand reputation in this regard.

## **2. FIFTH THIRD DOES NOT ADEQUATELY DISCLOSE ITS SUSTAINABILITY POLICIES AND PRACTICES**

**Fifth Third’s poor disclosure makes it impossible for shareholders to assess their exposure to the risks described above, even though climate change (as just one example of a sustainability concern) may have a significant impact on the bank’s profitability and competitiveness.** In contrast, most leading U.S. banks publish sustainability reports<sup>26</sup> and are full

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<sup>19</sup> 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>.

<sup>20</sup> News conference to announce the HSBC Climate Partnership, London, U.K., May 30, 2007.

<sup>21</sup> Lash, Jonathan, and Fred Wellington, “Competitive Advantage on a Warming Planet,” *Harvard Business Review*, March 1, 2007.

<sup>22</sup> *See, e.g.*, Citi, “Position Statement on Climate Change,” *available at* <http://www.citi.com/citi/environment/climateposition.htm>.

<sup>23</sup> 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.

<sup>24</sup> Carbon Trust, “Brand value at risk from climate change,” 2005.

<sup>25</sup> 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>).

<sup>26</sup> *See, e.g.*, Citibank’s “2007 Citizenship Report” ([http://www.citi.com/citi/citizen/data/citizen07\\_en.pdf](http://www.citi.com/citi/citizen/data/citizen07_en.pdf)); Goldman Sachs, “2007 Environmental Report” (<http://www2.goldmansachs.com/services/advising/environmental-markets/documents-links/Environmental-Report-2007.pdf>); HSBC, “Sustainability Report 2007”

([http://www.investis.com/reports/hsbc\\_sr\\_2007\\_en/report.php?type=1](http://www.investis.com/reports/hsbc_sr_2007_en/report.php?type=1)); JPMorgan Chase, “2007 Corporate Responsibility Report” (<http://www.jpmorganchase.com/cm/cs?pagename=Chase/Href&urlname=jpmc/community/corpresp>); Royal Bank of

participants in the annual climate disclosure survey conducted by the Carbon Disclosure Project (CDP)—a non-profit organization analyzing information on climate risks and opportunities from companies on behalf of an investor coalition of 315 firms with a combined \$41 trillion in assets under management.<sup>27</sup>

Fifth Third's CDP disclosure provides insufficient information to investors: in 2008, the bank answered the online questionnaire, but its response is "Not Publicly Available."<sup>28</sup> Based on its private submission, Fifth Third scored 37%, compared with Citigroup's 97%.<sup>29</sup> A year earlier, Fifth Third's short (but public) response acknowledged the existence of physical risks due to climate change, as well as risk of property and "loan portfolio devaluation."<sup>30</sup> However, Fifth Third did not disclose any more details about these risks, nor did it help investors understand them. Fifth Third's shareholders need to be able to assess the risks described above. They also need to know that the bank is taking such risks seriously and that it is prepared to comply with, as well as seize the opportunities, of imminent federal and state climate regulation.

### **3. FIFTH THIRD LAGS FAR BEHIND ITS PEERS ON SUSTAINABILITY POLICIES, PRACTICES AND DISCLOSURE**

#### **Sustainability & Climate Risk Reporting Trends: Fifth Third Missing in Action**

In stark contrast to Fifth Third, other banks are taking the lead on sustainability reporting. According to the 2008 Roberts Environmental Center report on the financial sector, 90% of the global banks analyzed in the report were voluntarily reporting on sustainability issues and more than 50% produce extensive formal sustainability reports.<sup>31</sup> Forty leading banks have issued over 100 research reports on climate change and related investment strategies—more than half of these were issued in 2007.<sup>32</sup> (Note that Fifth Third operates a family of mutual funds.)

Global sustainability reporting is increasingly becoming standard practice for the top-performing companies in the banking sector and beyond. Over 2,600 companies worldwide issued sustainability reports in 2007.<sup>33</sup> Among the Global Fortune 250, 80% of the companies released their corporate responsibility data, up from 64% in 2005.<sup>34</sup> In the United States, more than 50% of the 100 largest publicly traded S&P companies now report on their sustainability initiatives, with more than 30% relying on the Global Reporting Initiative (GRI) sustainability reporting guidelines.<sup>35</sup>

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Canada, "2008 Corporate Responsibility Report" (<http://www.rbc.com/responsibility/pdf/RBC-CRR-Report-2008-e.pdf>).

<sup>27</sup> See Carbon Disclosure Project (CDP), available at <http://www.cdproject.net/>.

<sup>28</sup> CDP, "Third Fifth Bancorp," available at <http://www.cdproject.net/company-homepage2.asp?id=1042>.

<sup>29</sup> CDP, "Report 2008: Global FT500" and "USA S&P500," available at <http://www.cdproject.net/reports.asp>.

<sup>30</sup> According to the bank, risks could be "caused directly by a severe weather event, or indirectly through civil unrest following the weather event [like] Hurricane Katrina"; there are also "some indirect risks" from "the sudden devaluing of property, resulting in a sudden decline in the value of loan portfolio." See CDP, "Third Fifth Bancorp," available at <http://www.cdproject.net/company-homepage2.asp?id=1042>.

<sup>31</sup> 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>).

<sup>32</sup> Cogan, Douglas G., "Corporate Governance and Climate Change: The Banking Sector," Ceres Report, January 2008.

<sup>33</sup> Corporate Registrar ([www.corporateregister.com](http://www.corporateregister.com)).

<sup>34</sup> KPMG International Survey of Corporate Responsibility Reporting 2008.

<sup>35</sup> According to the report, 41 companies refer to the GRI standards (up 71% from 2005), and 34 include a GRI Index in their report (up 70% from 2005). Social Investment Research Analyst Network (SIRAN), "Sustainability reporting by S&P 100 companies made major advances from 2005-2007," July 17, 2008 (<http://www.siran.org/>).

Fifth Third significantly lags its peers. According to a recent Ceres report,<sup>36</sup> growing numbers of U.S. and foreign banks are disclosing the following sustainability strategies, while Fifth Third seems to disclose nothing about the issues below:

- *Implementing a general environmental program and risk assessment policy*, such as **Wells Fargo's** 10-point environmental commitment initiated in 2005.<sup>37</sup>
- *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.<sup>38</sup>
- *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.
- *Adopting risk management for the power sector specifically*. **For instance, on February 4, 2008, Citibank, JPMorgan Chase, and Morgan Stanley signed *The Carbon Principles*, including the Enhanced Diligence framework, to evaluate potential carbon risks associated primarily with coal plants; new members include Bank of America, Credit Suisse, and Wells Fargo.** In addition, **Citigroup** factors in the potential costs of CO<sub>2</sub> in its financing of power generation, while **Merrill Lynch** has a specific policy on financing coal-fired electricity generation to factor in costs of coal-related emissions.
- *Calculating and/or reducing carbon risk in loan portfolios*. For instance, **Wells Fargo** performed a GHG assessment of its 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 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<sub>2</sub> profiles.<sup>39</sup>
- *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, disclosing and setting emissions reduction targets for their operations to achieve "carbon neutrality." Disclosure of progress on energy use and similar indicators can demonstrate quality management to investors—and offer real savings.<sup>40</sup>
- *Reporting on their financial support for alternative energy projects*, including direct financing and investments in renewable energy and "clean tech" market.
- *Seizing on the opportunity to diversify their investment and retail product lines*. A recent

<sup>36</sup> Cogan, Douglas G., "Corporate Governance and Climate Change: The Banking Sector," Ceres Report, January 2008.

<sup>37</sup> See <https://www.wellsfargo.com/about/csr/ea/>

<sup>38</sup> Cogan, Douglas G., "Corporate Governance and Climate Change: The Banking Sector," Ceres Report, January 2008, p. 16.

<sup>39</sup> [http://newsroom.bankofamerica.com/index.php?s=press\\_releases&item=6985](http://newsroom.bankofamerica.com/index.php?s=press_releases&item=6985)

<sup>40</sup> 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](http://www.wbcsd.ch/DocRoot/Yfe91Zpuv9xjK8PThQmF/Business%20and%20Ecosystems_211106_final.pdf).

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...”<sup>41</sup>

**Overall, the industry trend toward increasing sustainability and climate-related reporting and governance is clear. Yet Fifth Third did not even mention these topics in its latest 10-K or on its web site.** As such, Fifth Third lags significantly behind its peers in terms of direct communication with its shareholders. Fifth Third should disclose material risks and opportunities posed by climate change and share with its shareholders the plans to evaluate and manage the risks.

#### **4. SUSTAINABILITY REPORTING IS AN IMPORTANT ELEMENT OF BUSINESS SUCCESS**

Many investors and financial companies are increasingly recognizing a possible positive correlation between sustainable ESG practices and shareholder value. Corporate social responsibility improves employee recruitment, motivation, and retention.<sup>42</sup> It also creates shareholder value, according to the National Australian Bank.<sup>43</sup> A groundbreaking Goldman Sachs study found that companies that are considered leaders in environmental, social and governance policies outperform their peers in terms of their stock value—by some 25 percent.<sup>44</sup> The long-term benefits of sustainable practice and reporting to Fifth Third’s shareholders are evident.

#### **CONCLUSION & RESPONSE TO STATEMENT OF OPPOSITION**

While ESG performance and good long-term financial performance are likely to be linked, the inverse is likely also true – bank managers who ignore or hide ESG risks to save money are penny wise and pound foolish. After all, part of the current economic mess was caused by an utter lack of transparency in entire markets such credit default swap trading, as well unscrupulous mortgage lending practices. As banks face new and complex risks related to issues such as pending climate legislation, it is troubling that Fifth Third considers managing and disclosing ESG risks to be an “imprudent use of company assets,” as is stated in their opposition statement to the resolution.

Two additional concerns raised in the opposition statement are: the deadline for the report; and which topics to include. We reiterate that the spirit of the resolution is for a report, as stated in the supporting statement, “that allows the omission of content not relevant to Fifth Third.” And with

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<sup>41</sup> Green Financial Products and Services: Current Trends and Future Opportunities in North America, United Nations Environment Program-Financial Initiative, August 2007.

<sup>42</sup> See “The Importance of Being Ethical” (<http://www.inc.com/articles/2000/11/14278.html>); Brown Flynn, Resource Center > Trends (<http://www.brownyflynn.com/RESOURCECENTER/Trends/tabid/224/Default.aspx>).

<sup>43</sup> 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>).

<sup>44</sup> Goldman Sachs, “GS SUSTAIN Focus List,” 2007 ([http://www.unglobalcompact.org/docs/summit2007/g\\_s\\_esg\\_embargoed\\_until030707pdf.pdf](http://www.unglobalcompact.org/docs/summit2007/g_s_esg_embargoed_until030707pdf.pdf)).

regard to the deadline, if Fifth Third managers speak to the proponents (which they have so far declined to do) they will learn that the filers are highly flexible with regard to when the report is finished.

To summarize, in the context of rapidly growing global trends in favor of sustainability reporting and climate-related risk disclosure, Fifth Third has done woefully little, on these issues. This is despite their stating in the opposition statement that “The company recognizes the importance, as both an ethical and a business responsibility of addressing the environmental and social impacts of our business.” At a time when banks are facing an unprecedented degree of public outrage about their role in the economic crisis and massive mismanagement of risk, Fifth Third’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 improve Fifth Third’s ability to protect shareholder value and minimize their exposure to direct and indirect financial, regulatory, legal, reputational and competitive risks. Its peers are taking sustainability disclosure seriously, and Fifth Third needs to do the same.