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17 April 2014

Dear Kelly

Thank you for your letter sent 5 March 2014, addressing the recent investigation by Oxfam into allegations of improper acquisitions of land in emerging market economies.

Westpac welcomes Oxfam's report. We take improper land acquisition seriously, and are committed to helping foster sustainable futures in the communities we serve. The work of Oxfam and other NGOs helps to draw attention to these critical issues and is aligned with our commitment to sustainability and responsible financing.

For Westpac Group, sustainability means managing risk and opportunity in ways that best balance the long term needs of our stakeholders, including our customers, employees, investors, suppliers, the community – as well as our environment.

Westpac is a major bank in Australia, New Zealand and the Pacific, and has a growing presence in Asia. We acknowledge our responsibility to take action and to use our influence to help protect the rights of local communities in all the countries in which we operate. In particular we are committed to responsible growth of the soft commodities sector in the Asia Pacific region.

Westpac has zero tolerance for customers operating outside the law – including the displacements of any legitimate land holders. Where there is a risk of customers operating outside the law or the customer does not meet our requirements, Westpac will undertake a review, and if appropriate, exit the banking relationship. In particular, we have exited customers who have participated in land clearing in the past¹.

Westpac is specifically addressing improper land acquisitions through our extensive Environmental, Social and Governance (ESG) Risk Management Framework², through application of the Equator Principles³ and by becoming a founding signatory to the Soft Commodities Compact in late 2013⁴.

¹ <http://www.2013annualreport.westpacgroup.com.au/our-brands/westpac-pacific>

² <https://www.westpac.com.au/about-westpac/sustainability-and-community/sustainability-action/responsible-banking-investment/assessing-sustainable-risks/>

³ <http://www.equator-principles.com/>

⁴ <http://www.cpsl.cam.ac.uk/Business-Platforms/Banking-Environment-Initiative.aspx?#fragment-3>

Disclosing risks and impacts to communities related to land issues in the agricultural commodities industry

Westpac is bound by customer confidentiality, and is unable to comment on particular allegations made by Oxfam – including the acknowledgement of specific customer relationships.

As you have noted in your correspondence, Westpac does currently provide a breakdown, by business division, of our exposures to the agricultural, forestry and fisheries industries in our Annual Review and Sustainability Report. In keeping with our commitment to transparency, Westpac will explore further opportunities to provide increased reporting in relation to our business lending profile.

Westpac's strategy in Asia is to support the two-way flow of trade capital and investment between Australia and Asia, driven by significant urbanisation and economic growth in the region. As such, our focus is on facilitating trade of commodities across our region and supporting Australia's role as a key financial markets hub. Management of core ESG and sustainability principles is a key area of focus for Westpac's relationships in Asia.

Committed to Zero Net Deforestation

Westpac regards land grabbing as a serious issue – an issue that we address through our responsible lending and banking practices in the soft (agricultural) commodities sector.

Westpac views the problem of land grabbing within the broader context of responsible agriculture and trading of soft commodities. Our approach is operationalised by our ESG Risk Management Framework.

ESG Risk Management Framework

Westpac Group's policies and practices are guided by Our Principles for Doing Business⁵, which set out commitments governing Westpac's response to ethical issues, such as respecting human rights, preventing financial crimes and the management of environmental and social risks⁶.

Our overarching ESG Risk Management Framework sets out how we manage ESG risks in all aspects of our operations, including lending and investment. This Framework is supported by position statements including our approach to 'Sustainable Finance'⁷, and is currently being refreshed in keeping with our governance timetable.

ESG and Credit Risk Management

Westpac's credit policies, rules and procedures are organised in accordance with our credit risk cycle and are set out in the Credit Risk Management Framework. This Framework is

⁵ https://www.westpac.com.au/docs/pdf/aw/Principles_for_doing_business.pdf

⁶ <https://www.westpac.com.au/about-westpac/sustainability-and-community/sustainability-action/responsible-banking-investment/environmental-risks/>

⁷ https://www.westpac.com.au/docs/pdf/aw/Position_statement_on_sustainable_finance.pdf

supplemented by our ESG Credit Risk Policy which outlines the way in which ESG risk analysis is embedded in our credit risk management process.

- Stage 1 – Origination. In this stage we identify potential ESG factors and associated risks at a country, sector, transaction and customer level.
- Stage 2 – Evaluation. In this stage we undertake ESG risk analysis, including identification of material risk issues and identification and assessment of ESG risks.
- Stage 3 – Approval. In this stage approval is only given where ESG risk has been effectively analysed, evaluated, appropriately mitigated and accepted.
- Stage 4 – Documentation and Settlement. In this stage the customer may be subject to undertakings to address legal obligations, comply with voluntary principles such as the Equator Principles and/or monitor and manage specified ESG risks against agreed performance measures.
- Stage 5 – Monitoring. This stage includes regular review of the customer's compliance with any agreed ESG performance measures. Failure to comply can result in termination of the relationship.

In 2003 Westpac became a global founding signatory to the Equator Principles, a voluntary set of guidelines for the assessment of ESG risks in project finance, since extended to a range of corporate finance facilities. We would note that Principle Five of the framework on Stakeholder Engagement explicitly requires consideration of 'Free, Prior and Informed Consent' (FPIC) when assessing the performance of the transaction.

To ensure that commitment to assess ESG risk is upheld and applied, we implement ESG specific risk training for our institutional bankers. Adherence to ESG Risk Management policies and practices are reviewed as part of the annual audit and assurance process undertaken ahead of the publication of Westpac's Annual Review and Sustainability Report.

The Banking Environment Initiative's (BEI) Soft Commodities Compact

Westpac Group became a signatory to the Soft Commodities Compact⁸ in late 2013, the first bank in Australia and the Asia Pacific region to do so⁹.

The Soft Commodities Compact has been developed by the BEI – an organisation that has been working in partnership with the Consumer Goods Forum (CGF) to support CGF member companies to transform their commodity supply chains to achieve zero net deforestation by 2020.

⁸ http://www.cpsl.cam.ac.uk/Business-Platforms/~media/Files/Business_Platforms/BEI/The_BEI_and_CGFs_Soft_Commodities_Compact.ashx

⁹ <http://www.westpac.com.au/about-westpac/sustainability-and-community/news-stories/2014/2-april-2>

A range of major international banks including Westpac have become founding signatories to the Compact, representing approximately one third of the global market for lending to soft commodity supply chains.

By signing up to the Soft Commodities Compact, Westpac is committing to do its part in **achieving zero net deforestation by 2020** and engaging with customers around the challenges associated with soft commodities. In practice, this means supporting initiatives that will transform the supply chains of soft commodities - those commodities that are grown rather than mined, starting with palm oil, timber products, soy and beef - reducing tropical deforestation and addressing issues such as land grabbing.

As a signatory to the Compact we have committed to prioritising the establishment of internal mechanisms such that by 2020 all banking customers whose operations include significant production or processing of palm oil, timber products or soy in markets at high risk of tropical deforestation must be able to verify that these operations are consistent with zero net deforestation. This will reinforce the consistent application of new market norms, including:

- Roundtable on Sustainable Palm Oil (RSPO) certification for palm oil;
- Forest Stewardship Council (FSC) verification or that of a national scheme endorsed against the 2010 Programme for the Endorsement of Forest Certification (PEFC) meta standard for timber products; and
- Round Table on Responsible Soy (RTRS) certification for soy.

The Compact provides us with a framework to explore new ways of supporting our corporate customers that produce soft commodities in locations that are at high risk of tropical deforestation and the associated and specific problem of land grabbing - and to operate in a way that is consistent with zero net deforestation.

While the Compact references widely recognised standards of best practice likely to already be adopted by many Westpac Group clients in these sectors, it will be particularly beneficial as the bank expands its lending activities across Asia. As Westpac increases lending to customers operating throughout Asia, potentially in countries with different environmental and social standards than those with which we are familiar in Australia and New Zealand, the Compact will provide a standard to guide the bank's decision-making in this area.

The full compliance deadline of 2020 provides time for relevant business units of Westpac to take appropriate steps to implement the Compact and work with impacted customers.

Advocate for Responsible Financing

In addition to the specific actions above we are taking to address improper land acquisition, Westpac has long been an advocate for responsible financing¹⁰:

- In 2000 Westpac was a founding signatory of the UN Global Compact. We published a Social Accountability Charter, which was subsequently revised and expanded to become Westpac's Principles for Doing Business.
- In 2002 Westpac was the first Australian bank to publish a sustainability report.
- In 2003 Westpac was one of nine founding signatories to the Equator Principles.

¹⁰ <https://www.westpac.com.au/about-westpac/sustainability-and-community/reporting-our-performance/commitments-and-frameworks/>

- In 2007 Westpac endorsed the UN Principles for Responsible Investment and developed its Principles for Responsible Lending.
- In 2012 Westpac joined the Banking Environment Initiative (BEI) - an organisation with a mission to lead the banking industry in collectively directing capital towards environmentally and socially sustainable economic development.
- In 2013 Westpac became a founding signatory to the BEI's Soft Commodities Compact, and in 2014 shared this publicly and commenced engagement with civil society groups and banking peers in building greater awareness and support for this initiative.

Assessing and Monitoring ESG Risks and Impacts

Westpac assesses and monitors ESG risk of our customers through embedding dimensions of ESG risk in our credit risk policies, rules and procedures. In particular where there is a risk of customers operating outside the law or the customer does not meet our requirements, Westpac will exit the banking relationship.

As a signatory to the Soft Commodities Compact, Westpac is committed to working collaboratively with customers towards zero net deforestation. In particular, Westpac is committed to prioritising the establishment of internal mechanisms such that by 2020 all institutional banking customers whose operations include significant production or processing of palm oil, timber products or soy in markets at high risk of tropical deforestation can verify that these operations are consistent with zero net deforestation – aligned with the CGF's commitment to responsible palm oil, timber and soy.

Responding to Community Concerns

Westpac is committed to maintaining open and transparent dialogue with the communities in which we work and operate. If customers or communities, including NGOs such as Oxfam, have concerns around the operation of projects or businesses which they believe Westpac may be supporting, we would welcome further engagement and commit that Westpac will take appropriate steps to respond swiftly to any potential cases of human rights abuses raised with us.

Yours sincerely .



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