



NAB's improper land acquisition policy statement

The importance of responsible finance

Sustainable development of agriculture, forestry and natural resources represents an opportunity for long-term value creation for communities, governments and companies.

Secure rights to land and natural resources are essential to achieve sustainable development and to facilitate investment by local landholders and public and private investors, without which they may face significant risk

The frequency of disputes over rights to land and natural resources is increasing, particularly in some developing countries where land rights are not clearly defined. These disputes are often caused by (i) large-scale commercial land acquisitions that may not have been conducted legally or (ii) adverse impact on local communities, livelihoods, human rights and food security. Such disputes can be exacerbated by the inadequate recognition of customary rights to land and natural resources. As a result, the issue of improper land acquisition (often called 'land grabbing') is leading to increasing public concern, particularly as it can lead to poverty, land degradation and deforestation.

NAB considers that to be effective, land rights should be legally and socially recognised, well-defined, enforceable and transferable

We recognise that this is not the case in all countries and that participating in fair and inclusive

processes which seek to clarify rights to land and natural resources, is essential for business to assist in achieving sustainable development.

Companies involved in the agricultural, forestry, natural resources and commodities trading sectors are developing processes to better manage the issue of land rights. This includes the development of industry standards and best practice guidelines.

Better management of land rights is also dependent upon governments in developing countries taking action to enhance legal and regulatory frameworks to recognise and enforce land rights.

The key markets in which NAB operates are Australia, New Zealand, the UK and US and we have a smaller presence in Asia. NAB's operations generally take place in towns and cities and we lease most buildings we occupy.

NAB does not directly purchase agricultural land. However, we do purchase some soft commodities for use in our offices and we lend to companies involved in the agricultural, forestry, natural resources and commodities trading sectors. These are key sectors in which allegations of improper land acquisition have occurred.

As a significant bank to the agriculture sector, we believe that investment in agricultural activities is vital to provide food and other soft commodities needed by all communities

Our policy on improper land acquisition

NAB is committed to doing business in a responsible manner – this includes how we manage our operations and financing activities

As a minimum, this means complying with national laws and respecting human rights, including land rights, and meeting the voluntary commitments we make.¹

We also believe we have a responsibility to use our influence, where appropriate, to help respect and protect the human rights of the communities in which we operate. We wish to do business with customers and suppliers who operate in a similar manner.

We believe that improper land acquisitions, those that are illegal and/or which lead to material adverse environmental, social and human rights impacts, are not acceptable

We recognise there is potential for NAB to be indirectly exposed to land rights violations through the business activities of our customers and suppliers.

NAB commits to respecting the land rights of communities that are, or may be, impacted by our customers and suppliers through the specific inclusion of land rights in our approach to environmental social governance (**ESG**) risk management, relevant policies and tools.

NAB will not knowingly finance or provide advice to companies that have a prevailing conviction for improper land acquisition, or against which NAB considers there is credible evidence of material violations of applicable laws and regulations.

Where there is a risk of a customer operating outside the law or not meeting NAB requirements, NAB will review the customer relationship and where appropriate, ask the customer to address

this risk. If the risk is not addressed to NAB's satisfaction, we may exit the banking relationship.

We will investigate, and, if appropriate, join relevant multi-stakeholder and industry initiatives, which seek to address and prevent the occurrence of improper land acquisition – this may include standards, certification, or verification systems.

We will work towards implementing risk processes by 2020, so that relevant major lending and advisory clients whose operations include significant land acquisition can verify to NAB that their operations are giving appropriate consideration to land rights of local and indigenous communities, particularly in developing countries.

NAB is committed to building understanding and recognition of the issue of land rights and improper land acquisition and how it can be prevented

We will address this through:

- engaging and educating our employees, particularly bankers
- engaging with our customers, suppliers and other stakeholders to encourage business best practice in respecting and protecting the land rights of relevant local communities.

We welcome engagement with stakeholders so we can understand their concerns and take appropriate steps to respond to issues raised, including issues related to human rights.

We will work within our sector and with our customers to encourage standardised disclosure on social and environmental risks.

We will report publicly on an annual basis on the actions NAB is taking to meet the commitments set out in this policy statement.

Applying our policy

In our operations

NAB has a long-term public commitment to uphold the *Universal Declaration of Human Rights* and the *OECD Guidelines for Multi-national Enterprises* and more recently the *UN Business Principles for Human Rights*.

Our **ESG risk principles** form part of NAB's overarching risk management framework. The principles state that we will encourage diversity and support and respect the protection of internationally proclaimed human rights and labour standards, and will not knowingly engage in situations where we could be complicit in human rights abuses.

Our **Group supplier sustainability principles** expect that our suppliers will, among other things:

- comply with all relevant local and national laws and regulations in relation to employment practices, human rights and anti-discrimination
- take steps to ensure that their activities do not infringe upon human rights and that they address any adverse human rights impacts associated with their business activities.

NAB has taken action, where applicable, to reduce the likelihood that we might have an adverse impact on human rights as a consequence of our procurement, by switching our purchase of soft commodities such as coffee, tea, sugar, and cocoa to Fair Trade products.

NAB has been the largest accredited Fair Trade workplace in the world since 2009. Additionally, in Australia, our *Sustainable paper guidelines*

stipulate that our paper must come from chain of custody certified, recycled stock and where possible manufacturers should be ISO14001 certified and uncoated paper (office paper) should be carbon neutral. NAB's office paper supply is expected to come from responsibly managed, preferably certified sources.

In our lending

NAB recognises that mining, agriculture (particularly soft commodities) and forestry conducted in jurisdictions where land rights and land tenure are unclear are most likely to give rise to the issues of improper land acquisitions. These sectors are included in NAB's *Sensitive sector and activity list*.

We consider exposure to risk, including ESG risk, at both a lending portfolio and an individual customer level. At the customer level, ESG risk is assessed on a case-by-case basis as part of the credit risk assessment and due diligence process.

When deciding whether to provide finance to a business customer, we undertake a comprehensive risk assessment which includes environmental and social risks as part of our due diligence process. This includes assessing a potential customer's background, character, track record and the countries in which it operates. It also includes consideration of human rights issues such as improper land acquisition, where relevant.

NAB's credit risk assessment and due diligence processes include six steps, appropriate to the relevant sector, business activity and geography.

Our credit risk assessment and due diligence processes

Origination

At origination, our bankers may identify potential material ESG factors associated with the client and/or project, its country location, and sector.

Evaluation

Detailed credit risk assessment and due diligence is conducted. This includes assessment and identification of material risk issues, incorporating ESG risk.

Approval

Lending approval is only given where risk (including ESG risk where appropriate) has been effectively evaluated, appropriately mitigated and accepted.

Documentation and settlement

During documentation and settlement, the customer may be subject to conditions and covenants to address legal obligations, comply with the Equator Principles, and/or monitor and manage specified ESG risks against agreed performance measures.

Monitoring

This may include regular review of the customer's compliance with any agreed conditions and covenants with ESG requirements. A customer's failure to comply can result in termination of the relationship.

Training

We will provide our bankers with access to appropriate expertise, information, training and tools as part of our approach to managing the issue of land rights in lending.

Application of the Equator Principles

As a signatory to the Equator Principles, in accordance with Principle 5, when we provide project-related finance, we require customers to demonstrate effective stakeholder engagement in a structured and culturally appropriate manner with affected communities and (where appropriate) other stakeholders.

We also apply the relevant *International Finance Corporation Performance Standards* when potential project-related finance occurs in non-designated countries² (as defined in the Equator Principles). This includes application of Performance Standards³:

- 5 (Land Acquisition and Involuntary Resettlement)
- 7 (Indigenous Peoples).

When we provide finance to projects that incorporate land acquisition, we give special attention to land rights of project affected communities. This includes, where appropriate, seeking evidence from the client of:

- fair and legal negotiations for land acquisitions
- use of appropriate grievance mechanisms⁴ for managing complaints and disputes, including appropriate redress
- the application of Free Prior and Informed Consent⁵ when the project has the potential to have adverse impacts on affected communities of indigenous people.

NAB has an oversight process in place to monitor and evaluate implementation of ESG risk management policies and practices, when appropriate.

Further information about NAB's approach to ESG risk management is also available at www.nab.com.au/cr

Disclosure

NAB currently provides a breakdown of loans and advances by industry and geography in our full year results. We also provide a breakdown of our agriculture and mining exposures (as exposure at default) in our full year results presentation. Consistent with our commitment to transparency and integrated reporting, we will explore further opportunities to provide appropriate disclosure in relation to our lending portfolio exposure on the topic of improper land acquisition.

While there are currently no agreed industry standards for the accounting, reporting or disclosure of ESG risks or impacts arising from finance, NAB is involved in a number of international initiatives to help address this gap, particularly in relation to environmental risks. Further, we will engage our sector, through industry initiatives such as the United Nations Environment Program Finance Initiative and the Equator Principles, in an industry dialogue leading to the development of agreed methodologies for disclosure on social risk exposure arising from lending.

We are not able to provide specific information about individual clients for legal and confidentiality reasons without express client consent, therefore information about issues of concern is best directly sought from these companies.

Where we provide finance to a project that triggers the Equator Principles requirements, we are committed to meeting the Equator Principles project name reporting requirements,⁶ where we have client consent.

We look forward to close consultation with relevant customers, NGOs, local communities, suppliers, other financial institutions and stakeholders to assist us in meeting the commitments within this public statement.

This policy statement will be reviewed annually and published on NAB's website.

1. Please refer to our list of **voluntary commitments**.
2. Non-designated countries are those countries not found on the **list of designated countries**.
3. Refer to **IFC's performance standards and guidance notes**.
4. The Equator Principles require that the grievance mechanism is scaled to the risks and impacts of the project and has affected communities as its primary user.
5. There is no universally accepted definition of FPIC. Based on good faith negotiation between the client and affected indigenous communities, FPIC builds on and expands the process of Informed Consultation and Participation, ensures the meaningful participation of indigenous peoples in decision-making, and focuses on achieving agreement. The Equator Principles note that FPIC does not require unanimity, does not confer veto rights to individuals or sub-groups, and does not require the client to agree to aspects not under their control. Process elements to achieve FPIC are found in *IFC Performance Standard 7*. The four elements of FPIC can broadly be interpreted as:
 - **free** – in non-designated countries, land rights-holders consent to the use or sale of land is given voluntarily and absent of 'coercion, intimidation or manipulation'
 - **prior** – consent is sought sufficiently in advance of any authorisation or commencement of activities from an existing legitimate land rights-holder
 - **informed** – ensures that information is provided prior to seeking consent to acquire and that information is provided as the acquisition process proceeds
 - **consent** – refers to the collective decision made by the land rights-holders and reached through the customary decision-making processes of the affected peoples or communities.
6. Project name reporting is applicable only to Project Finance transactions that have reached Financial Close, where clients have given their consent to publication. Financial Close refers to the point at which initial funding occurs.