

Notice to company pursuant to ss 249N & P of the Corporations Act 2001 (CA)

I/we [name of 'shareholder']

of

..... [address]

identified by the Holder Identification Number (HIN) or Shareholder Reference Number (SRN) [HIN or SRN]

in respect of any holding of the shareholder's National Australia Bank Limited ('NAB' or 'the company') ordinary fully paid shares;

hereby give notice to the company in accordance with sections 249N & P of the CA of: the following resolutions (1: Amendment to the Constitution, 2: Transition Planning Disclosure) the shareholder proposes to move at a general meeting of the company; and request in accordance with section 249P that the company give to all members each of the Supporting Statements following the resolutions.

SIGNED

..... (Signature of individual Shareholder [†] /company director) (Signature of second shareholder in a joint holding/for a company second director or company secretary)
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† Or sole company director and sole company secretary. JOINT HOLDING: For a holding in more than one name all shareholders must sign)

Resolution 1 – Amendment to the Constitution

Insert into the Constitution in clause 8 'General meetings' the following new sub-clause 8.3A 'Advisory resolutions': "The Company in general meeting may by ordinary resolution express an opinion or request information about the way in which a power of the Company partially or exclusively vested in the Directors has been or should be exercised. Such a resolution must relate to a material risk identified by the Directors or the Company and cannot advocate action that would violate any law or relate to any personal claim or grievance. Such a resolution is advisory only and does not bind the Directors or the Company."

Resolution 2 – Transition Planning Disclosure

Shareholders request the company disclose in annual reporting from 2020 strategies and targets to reduce exposure to fossil fuel (oil, gas, coal) assets in line with the climate goals of the Paris Agreement, including the elimination of exposure to thermal coal in OECD countries by no later than 2030.

(National Australia Bank Limited's Notice of 2019 Annual General Meeting is to include Resolutions 1 and 2. Shareholders voting by proxy can vote on both resolutions.)

Supporting Statement 1

Shareholder resolutions are a healthy part of corporate democracy in many jurisdictions other than Australia. For example, in the UK shareholders can consider resolutions seeking to explicitly direct the conduct of the board. In the US, New Zealand and Canada shareholders can consider resolutions seeking to advise their board as to how it should act. As a matter of practice, typically, unless the board permits it, Australian shareholders cannot follow the example of their UK, US, New Zealand or Canadian cousins in this respect.

A board of Directors is a steward for shareholders and accountability for the discharge of that stewardship is essential to long-term corporate prosperity.

In rare situations the appropriate course of action for shareholders dissatisfied with the conduct of board members is to seek to remove them. But in many situations such a personality-focused approach is unproductive and unwarranted. In those situations a better course of action is to formally and publicly allow shareholders the opportunity at shareholder meetings such as the AGM to alert board members that the shareholders seek more information or favour a particular approach to corporate policy.

The Constitution of NAB is not conducive to the right of shareholders to place resolutions on the agenda of a shareholder meeting.

In our view, this is contrary to the long-term interests of NAB, the NAB board and all NAB shareholders.

Passage of this resolution – to amend the NAB constitution – will simply put the company in a similar position in regard to shareholder resolutions as any listed company in the UK, US, Canada or New Zealand.

We encourage shareholders to vote in favour of this resolution.

Supporting Statement 2

Despite committing to support the climate goals of the Paris Agreement, NAB has failed to align its lending practices or policies with these goals.

NAB must disclose strategies and targets to reduce exposure to fossil fuels in line with the climate goals of the Paris Agreement, or risk exposing itself and shareholders to needless transitional climate risk.

NAB being left behind

Signed by 197 nations, the Paris Agreement aims to limit “the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C.”¹

Major financial institutions called for action to reduce emissions in line with the Paris climate goals, including the phase out of coal power in OECD countries by 2030. Signed by 515 investors representing over US\$35 trillion in assets, the Global Investor Statement to Governments on Climate Change requests governments “phase out thermal coal power

¹ https://unfccc.int/sites/default/files/english_paris_agreement.pdf, art 2(1)(a)

worldwide by set deadlines.”² Its accompanying Briefing Paper clarifies these deadlines, including the elimination of coal power in OECD countries by no later than 2030.³

Commonwealth Bank has committed to “reduce our exposures to thermal coal mining and coal fired power generation, with the view to exiting the sector by 2030.”⁴ Similarly, QBE will no longer insure new thermal coal projects, and will phase out all direct insurance services to thermal coal customers by 2030.⁵

A Paris-aligned energy transition also requires significant declines in oil and gas use. The IPCC’s Special Report on Global Warming of 1.5°C demonstrates that the role of gas for primary energy must decline globally by 25% by 2030 (from a 2010 baseline), with oil’s role in primary energy falling 37% over the same time frame.⁶

NAB’s current activities

Despite the rapid declines in fossil fuel use that can be expected under a Paris-aligned transition, there is no clear trajectory that reflects this from our company’s loan book. NAB’s reported net exposure at default (EAD) to coal mining increased 142% from \$0.61 billion in March 2018 to \$1.47 billion in March 2019.⁷ While some of this increase can be attributed to a change in accounting method, a significant proportion represents a rise in direct exposure to the sector. NAB’s reported net EAD to oil and gas extraction increased 42% from \$2.66 billion to \$3.78 billion in the year to March 2019.⁸

NAB continues to finance the expansion of the fossil fuel industry. In May 2018, NAB participated in a US\$6.1 billion loan to the Corpus Christi LNG facility in Texas, USA, which included funding for the construction of an additional LNG train.⁹ Over its lifetime Corpus Christi LNG would enable the release of over 800 million tonnes of CO₂,¹⁰ equivalent to 1.5 times Australia’s annual greenhouse gas emissions.¹¹ In May 2019, NAB loaned to the development of a new train at the Sabine Pass LNG terminal in Louisiana, USA.¹²

NAB also lends against the balance sheets of companies such as Whitehaven Coal and Oil Search, whose plans to increase fossil fuel production are inconsistent with the Paris goals. Whitehaven justifies its expansion plans with energy demand projections that are consistent

² <https://theinvestoragenda.org/focus-areas/policy-advocacy/>

³ <https://theinvestoragenda.org/wp-content/uploads/2018/05/GISGCC-briefing-paper-FINAL.pdf>

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<https://www.commbank.com.au/content/dam/commbank/about-us/download-printed-forms/environment-and-social-framework.pdf>

⁵ <http://qbe.com/media-centre/qbe-group-energy-policy>

⁶ <https://www.ipcc.ch/sr15/>

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<https://www.nab.com.au/content/dam/nabrwd/documents/reports/corporate/2019-half-year-results-investor-presentation.pdf> (slide 48)

⁸ Ibid

⁹ <https://ijglobal.com/data/transaction/41828/corpus-christi-lng-train-3>

¹⁰

<https://www.marketforces.org.au/commbank-and-nab-fund-massive-new-lng-terminal-despite-2c-commitments/>

¹¹

<https://www.environment.gov.au/climate-change/climate-science-data/greenhouse-gas-measurement/publications/quarterly-update-australias-nggi-mar-2019>

¹² <https://ijglobal.com/data/transaction/46769/sabine-pass-lng-terminal-additional-facility-2019>

with 3°C of warming by 2100,¹³ while Oil Search continues to pursue its Nanushuk Project, despite finding it is unviable under a 1.5°C scenario.¹⁴

Financial risks and regulatory scrutiny

In June 2017, the Task Force for Climate-related Financial Disclosures (TCFD) published its final recommendations, designed to allow investors to “appropriately assess and price climate-related risk and opportunities.”¹⁵

Recognising “Banks are exposed to climate-related risks and opportunities through their lending and other financial intermediary activities as well as through their own operations,” the TCFD recommends:

*Banks should provide the metrics used to assess the impact of (transition and physical) climate-related risks on their lending and other financial intermediary business activities in the short, medium, and long term.*¹⁶

The TCFD also states: “Organizations should describe their key climate-related targets... in line with anticipated regulatory requirements or market constraints or other goals.”

NAB claims to publish climate risk information “in accordance with TCFD recommendations”.¹⁷ However, after two years, shareholders have been provided with little more than a methodology for how risks may be analysed, with no quantitative evaluation of climate risk exposure, nor targets to demonstrate management of these risks.¹⁸ NAB is falling behind competitors like Commonwealth Bank, which has been disclosing measurable risks for two reporting cycles.

Adoption of this resolution would ensure NAB discloses metrics and targets to demonstrate effective management of financial climate change transition risks, in line with the TCFD recommendations and investor expectations.

Australian regulators have been calling for robust climate risk management from financial institutions. APRA has warned “Some climate risks are distinctly ‘financial’ in nature. Many of these risks are foreseeable, material and actionable now.”¹⁹ APRA Executive Board Member

¹³

http://www.whitehavencoal.com.au/wp-content/uploads/2018/09/WVN_224754_Annual-Report-2018_LR_FA-3.pdf

¹⁴

http://www.oilsearch.com/__data/assets/pdf_file/0005/18968/OSL-Climate-Change-Resilience-Report_FINAL.pdf

¹⁵ <https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-TCFD-Report-062817.pdf>

¹⁶ <https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-TCFD-Annex-062817.pdf>

¹⁷

<https://www.nab.com.au/content/dam/nabrwd/documents/reports/corporate/2018-cdp-climate-change.pdf>

¹⁸

<https://www.nab.com.au/content/dam/nabrwd/documents/reports/corporate/sustainability-report-2018.pdf>

¹⁹

<https://www.apra.gov.au/media-centre/speeches/australias-new-horizon-climate-change-challenges-and-prudential-risk>

Geoff Summerhayes has since said: “APRA wants to see continuous improvement in how organisations disclose and manage these [climate] risks over coming years.”²⁰ ASIC has similarly called for improved climate risk management.²¹

It has also been found that the OECD Guidelines for Multinational Enterprises (which NAB is subject to) require banks to formulate concrete climate goals for their financial services.²²

Investor support required

Despite its stated support for the Paris Agreement, NAB remains an active investor in an expanding fossil fuel sector, further exposing shareholders to financial risks associated with the economic transition required to meet the Paris climate goals.

We urge shareholders to vote in favour of this resolution, and expect the many institutional investors already outspoken on this issue to offer their support.

²⁰

<https://www.apra.gov.au/media-centre/media-releases/apra-step-scrutiny-climate-risks-after-releasing-survey-results>

²¹ <https://download.asic.gov.au/media/4871341/rep593-published-20-september-2018.pdf>

²² <https://www.oecdguidelines.nl/documents/publication/2019/04/19/ncp-final-statement-4-ngos-vs-ing>