

From Principles to Practice:
Responsible Banking Case
Study Series

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Principles for
Responsible Banking

National Bank of Canada:
Contributing to a Sustainable
Future Through Green
Commercial Real Estate
and Renewable Energy

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Principles for Responsible Banking

The Principles for Responsible Banking (PRB) are a unique framework for ensuring that signatory banks' strategy and practice align with the vision society has set out for its future in the Sustainable Development Goals and the Paris Climate Agreement.

The framework consists of six principles designed to bring purpose, vision and ambition to sustainable finance. They were created in 2019 through a partnership between founding banks and the United Nations. Signatory banks commit to embedding these six principles across all business areas, at the strategic, portfolio and transactional levels.





**NATIONAL BANK
OF CANADA**

National Bank of Canada (NBC), headquartered in Montreal, is one of Canada's six systemically important banks. NBC became a founding signatory of the Principles for Responsible Banking (PRB) in 2019.

For more information about the bank, visit [here](#).

Prioritizing climate action through energy transition

NBC has identified climate change mitigation and financial health as impact areas for setting targets based on the UNEP FI impact analysis methodology. The bank's approach to climate change mitigation emphasizes a strategy centered on actively supporting and advising clients in their transition to a low-carbon economy.

The bank has financed energy projects across Canada for nearly 40 years, supporting businesses in expanding energy production. The demand for energy is increasing due to factors such as electrification, digitization, decarbonization, and population growth. In response to the evolving energy landscape, National Bank Financial Markets (NBFM) offers loans and advisory support for the development of renewable energy and energy storage projects in North America. NBFM also provides financial services for the traditional oil and gas sector including financing of transportation and export terminals to expand market access for clients. NBFM supports clean technology clients with advice, in addition to exploring emerging technologies, including hydrogen, carbon capture and small modular nuclear reactors.

In the past decade, the bank's renewable energy lending portfolio has supported approximately 150 renewable energy projects in North America. Recent financing includes the 150-megawatt Lanfine Wind project in Alberta and the 3.5 GW SunZia Transmission and SunZia Wind projects in New Mexico. The latter is one of the largest clean energy infrastructure projects in the USA. Between 2019 and 2023, the bank's credit exposure to renewable energy increased by USD 11 billion, encompassing financing for wind, solar, and hydro projects across North America.

Champlain Hudson Power Express (CHPE) project

NBC acted as joint lead arranger in the financing of the Champlain Hudson Power Express (CHPE) project. This financing supports the construction of a 339-mile fully buried transmission line that will deliver 1,250 megawatts of renewable hydropower from Québec to New York City. The overall project cost is approximately USD 6 billion.

CHPE is expected to lower electricity generation costs for New York and provide economic benefits, including the creation of approximately 1,400 jobs and increased incremental tax revenue for local communities over the first 25 years of the project.

This project exemplifies the bank's commitment to supporting the renewable energy sector while working towards its goal of achieving net zero emissions in its financing and operational activities by 2050

NBC has extended its financing restrictions to thermal coal activities in the mining and power generation sectors. The bank will not provide financing as a lender to any new thermal coal mines or new clients with greater than 25% of their revenues from operating thermal coal mines. In addition, the bank will not lend, invest, or fund the development, construction of new coal-fired power plant projects. The bank has also expanded its sustainable finance offerings, issuing over USD 3.2 billion in sustainable bonds as of 31 October 2023, with 68% of proceeds financing renewable energy projects

Prioritizing climate action through green commercial real estate

As a key financier for green commercial real estate in Canada, NBC aims to reduce the carbon intensity of its commercial real estate sector portfolio by 50% by 2030. In 2023, NBC issued 10 green loans totaling USD 778 million, exceeding its target for the first year of USD 750 million.

To promote green commercial real estate, NBC launched an ESG questionnaire in 2023 to better understand and measure clients' carbon footprint, enabling targeted advice on decarbonization strategies and cost-effective transition projects.

The questionnaire was developed using regulatory data collection requirements and incorporating content from recognized ESG and climate questionnaires. It focuses on gathering comprehensive information about clients' ESG practices, particularly greenhouse gas emissions and actual energy consumption data, which are often not publicly available.

The deployment of this questionnaire was gradual and began with the training of account managers to develop their expertise in financing for green buildings and to support them in raising client awareness of ESG benefits. As the market has evolved, the questionnaire

has become mandatory for all new financing or refinancing applications, integrated into the bank's processes.

Additionally, NBC has developed an internal green building taxonomy, which defines green buildings within its portfolio. Staff are trained to enhance their engagement with clients pursuing affordable, energy-efficient, and accessible real estate projects. The bank offers customized support for both new and existing clients to find solutions to integrate ESG matters into their projects and build resilience over time to climate change. To benefit from a green loan, clients must commit to achieving minimum thresholds for reducing greenhouse gases or energy consumption. A third party will need to provide a report confirming alignment between the project and the commitment:

Green Real Estate Initiative

In 2022, NBC granted a Net-Zero Transition Loan to Quo Vadis Capital for the revitalization of Complexe du Canal Lachine in Montreal. The loan funds technology investments aimed at retrofitting the complex to achieve a net zero greenhouse gas emissions profile, including energy-efficient heating, ventilation, and air conditioning (HVAC) systems and renewable energy technologies developed through research at Concordia University's Next Generation Cities Institute. The project also includes provisions for leasing space to target groups, such as artists and green SMEs, thereby driving inclusion.

In 2024, NBC provided a green loan to Capital Developments, a Canadian real estate development company, for the Olive Residences project in Toronto, a 29-story building seeking LEED (Leadership in Energy and Environmental Design) Gold certification. This project incorporates environmentally friendly practices and offers favorable borrowing conditions.

The project will develop an industrial site adjacent to first-order transit, reducing the need for parking and encouraging mass transit usage. It will include enhanced commissioning of glazing and mechanical systems to meet low-energy specifications, pursue certifications for key raw materials, and install beehives for on-site pollination. To promote sustainability, individuals who finance a unit in the project through an NBC mortgage loan may receive cash back if they meet certain criteria.

Advancing financial inclusion: promoting affordable housing initiatives and working with newcomers

PRINCIPLE 4: STAKEHOLDERS

Affordable housing is a critical societal issue in Canada that requires collaboration among government and private sector stakeholders. NBC finances affordable, energy-efficient, and accessible housing projects that align with national sustainability goals.

NBC engages in ongoing dialogue with market participants to identify innovative solutions and contribute to programs that focus on affordable housing. In addition, the bank participates annually in the province of Quebec's public tenders for social housing for non-profit organizations.

Social mission loan

In 2023, Groupe AFFI, a social and not-for-profit enterprise specializing in industrial subcontracting and logistics outsourcing, acquired Abeilles Busy Bees with the support of a social mission loan granted by NBC and another financial institution. This acquisition expands Groupe AFFI's social mission to create a stimulating work environment for individuals with functional limitations. This loan, the first of its kind at NBC, aligns with the bank's commitment to supporting organizations that contribute to achieving ESG objectives.

Moreover, as a high-street bank, NBC has identified newcomers as a priority segment for its financial health initiatives and developed an action plan using PRB's core indicators to measure financial health and inclusion.

For the first year of the bank's action plan, the focus was put on portfolio composition and client engagement. NBC launched a pilot project on inclusion by design and released a new guide for newcomers on understanding and managing finances in Canada. Topics covered by the guide include opening a bank account, cybersecurity and fraud, credit reports, saving and investing and buying a home in Canada.

Governance structure and specific initiatives supporting sustainability goals

PRINCIPLE 5: GOVERNANCE & CULTURE

Robust governance plays a critical role in supporting sustainability progress and especially in supporting and overseeing the effective implementation of the Principles. Through Principle 5, banks commit to having appropriate structures, policies and processes in place to achieve their sustainability goals.

NBC established its ESG organizational structure in 2019, which was updated in 2023 to accelerate the implementation of sustainability initiatives across the bank. This structure includes an ESG Committee led by the CFO and Executive Vice-President-Finance, as well as the Senior Vice-President-Communications, Public Affairs and ESG. The ESG Committee comprises experts from various business lines of the bank and several members of the senior leadership team. Its primary role is to define and support NBC's overarching ESG strategy while fostering a culture that aligns with the bank's ESG ambitions.

The ESG Committee is supported by a management committee, three working groups and a team fully dedicated to ESG. These three working groups have clearly defined

roles to help advance the bank's ESG goals. One working group focuses on supporting the development of the ESG strategy and ensuring its alignment with the bank's business segments. Another group is responsible for managing ESG data, ensuring that the data is accurately tracked and reported. The third working group focuses on implementing new regulatory and disclosure requirements to keep the bank in compliance with evolving standards.

Members of the ESG Committee meet monthly to oversee the implementation of key sustainability commitments, including the PRB and recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), now integrated in the ISSB. The Committee communicates with the senior management periodically and reports progress to the Board's Conduct Review and Corporate Governance Committee twice a year. Additionally, the ESG Committee provides updates to other Board committees on specific topics, such as climate commitments, diversity, equity and inclusion, and mandatory sustainability disclosure requirements.

To embed sustainability across the bank, NBC has ESG teams integrated within different business lines. These teams collaborate closely with the working groups to provide sector-specific insights and support the bank's ESG transformation. Ongoing dialogue with internal and external stakeholders further advances the bank's ESG practices.

In the case of financial health and inclusion, the bank established a dedicated working group focused on retail banking, which reports to the Retail Client Inclusion Governance Committee (RCIG Committee). This specialized working group, small in size but with a high level of expertise, assesses financial health across vulnerable client segments by analyzing data extracted from multiple systems, working through complexities such as system upgrades and data accessibility challenges. The specialized working group addressed these challenges by taking a step-by-step approach and giving regular updates to the RCIG Committee. This approach allowed each step to be validated and to make the required adjustments in an agile manner. Consultation with the UNEP FI team also ensured alignment with the PRB methodology. One of the functions of this specialized group is to propose targets to the RCIG Committee and then to the ESG Committee for final approval, ensuring a rigorous review process.

These structures and processes help NBC enhance its efforts in financial health and inclusion, serving diverse client needs through targeted, data-driven insights. It also enhances the communication of PRB expectations across business lines and increases overall knowledge of financial health and inclusion.

In 2023, National Bank Trust (NBT), the portfolio manager for several funds under National Bank Investments, took another step forward in responsible investment by adopting a proxy voting policy aligned with the Institutional Shareholder Services Sustainability Policy. This policy encourages sustainable practices among companies in which NBT invests and supports the bank's broader ESG strategy and governance framework. Guided by this policy, during the 2024 proxy season, NBT supported shareholder proposals on topics such as disclosure, GHG emissions, and reporting on climate change lobbying.

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UNEP Finance Initiative (UNEP FI) brings together a large network of banks, insurers and investors that catalyses action across the financial system to deliver more sustainable global economies.

For more than 30 years the Initiative has been connecting the UN with financial institutions from around the world to shape the sustainable finance agenda establishing the world's foremost sustainability frameworks that help the finance industry address global environmental, social and governance challenges.

Convened by a Geneva, Switzerland-based secretariat, more than 500 banks and insurers with assets exceeding USD 100 trillion are individually implementing UNEP FI's Principles

unepfi.org

for Responsible Banking and Principles for Sustainable Insurance. Financial institutions work with UNEP FI on a voluntary basis to apply the sustainability frameworks within their industries using practical guidance and tools to position their businesses for the transition to a sustainable and inclusive economy.

Founded in 1992, UNEP FI was the first initiative to engage the finance sector on sustainability. Today, the Initiative cultivates leadership and advances sustainable market practice while supporting the implementation of global programmes at a regional level across Africa & the Middle East, Asia Pacific, Europe, Latin America & the Caribbean and North America.



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