Sustainable Financing of Deforestation-risk Commodities in India

Integrating Deforestation-Risk into India's Financial Sector Landscape

1. Introduction

Nature-related risks, including deforestation, biodiversity loss, and land-use changes, are intrinsically linked to climate-related risks, particularly the adverse impacts of climate change.[1] Taken together, such risks contribute to the loss of ecosystem services and adversely affect planetary goals, including the achievement of the Sustainable Development Goals (SDGs) and the global warming targets outlined in the Paris Agreement on climate change. Sustainable finance pathways, which aim to generate both financial returns and positive environmental and other impacts through financial sector activities, constitute a crucial link between sustainable development and the financial sector.[2]

Although the discourse on the financial materiality of nature-related risks is not as advanced as that surrounding climate-related risks,[3] there is increasing evidence that nature-related risks are indeed material to the financial sector and the broader economy.[4]

The depletion of natural capital through the loss of nature (such as deforestation and associated biodiversity loss) can potentially pose financial and other risks for financiers/lenders. In contrast, the financing and lending decisions of financial institutions (FIs) can themselves aggravate nature-degradation risks. This "double materiality" approach is one of the main entry points central to discussions around nature-related risk for financial sector activities.

Financial sector action can generate both positive and negative externalities for nature-related risks. Similar to the concept of financed emissions (i.e., greenhouse gas emissions attributable to the loans and investments made by FIs to investees), which is central to climate-related risks,

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1 M. Stevanović et. al, Climate-nature scenario development for financial risk assessment (2024), Nature Finance, ECB, available at <https://www.naturefinance.net/wp-content/uploads/2024/11/ECB_PIK-Report-2024-FINAL.pdf>

2 Alex Nicholls, "Sustainable Finance: A Primer and Recent Developments", ADB Background Paper, 2021, available at <https://www.adb.org/sites/default/files/institutional-document/691951/ado2021bp-sustainable-finance.pdf>

3 "Stocktake on Nature-related Risks: Supervisory and regulatory approaches and perspectives on financial risk", Financial Stability Board, 18 July 2024, available at < https://www.fsb.org/uploads/P180724.pdf>

4 Joris van Toor et al. "Indebted to nature: Exploring biodiversity risks for the Dutch financial sector", June 2020, De Nederlandsche Bank (DNB), available at <https://www.dnb.nl/media/4c3fqawd/indebted-to-nature.pdf>

is the concept of financed deforestation (i.e., deforestation directly or indirectly linked to the lending and financing decisions of FIs) in the context of nature-related risks.[5]

The two are also inter-linked, as deforestation and forest degradation is itself a major contributor of greenhouse gas emissions (apart from reducing carbon sinks which mitigate warming). An important area of exposure of FIs to nature-related risks, such as conversion of forest land, deforestation and related biodiversity loss, is through the provision of financing to clients associated with activities (production, processing, procurement, etc.) related to forest-risk agricultural commodities.[6]

2. Identifying and Managing Deforestation-related Risks in the Financial Sector

Through an assessment of the interaction between the financial and the real economy in terms of nature-related dependencies, understanding exposure to nature-related risk through physical and transition risks, assessing the sustainability of financing activities involving forest-risk commodities, and promoting the use of nature-positive financial instruments, FIs can enhance their positive externalities and mitigate negative impacts on natural systems. This process goes beyond risk assessment; it also enables FIs to identify opportunities to meet evolving market demand, remain competitive, and capitalize on emerging financial opportunities.

Box 1: Broad Aspects involved in Identifying and Managing FIs' Exposure to Nature-related Risks

1. What is the degree of exposure of the FI to sectors and companies driving deforestation and nature/biodiversity loss at source? What is the percentage of total assets exposed to nature-related/deforestation risk? Is adequate data available to assess instances of deforestation in financed activities?
2. Does the FI have policies which address nature-related risk, particularly relating to key forest-risk commodities, across portfolios?
3. Does the FI publicly disclose the nature-related (ecological, biodiversity, forest etc.) footprint of its financial activities/portfolio? Are nature-related/deforestation aspects captured in the FIs' Environmental, Social and Governance (ESG) reporting/financial disclosures? Are nature-related aspects covered by applicable exclusion lists, where FIs commit to ensuring that funds are not used to finance certain end uses?

5 Grant Rudgley et. al, "Banking Beyond Deforestation: How the banking industry can help halt and reverse deforestation", University of Cambridge Institute for Sustainability Leadership, 2020, available at < https://www.cisl.cam.ac.uk/system/files/documents/bankingbeyonddeforestation-cisl-jan2021.pdf>

6 "Deforestation and Conversion Free Supply Chains: A Guide for Action", WWF and BCG, July 2021, available at <https://wwflac.awsassets.panda.org/downloads/wwf_bcg_deforestation_and_conversion_free_supply_chains_a_guide_for_action_3_.pdf>

4. Does the FI have any specific sectoral policies in terms of its investments and financing of key forest-risk commodities?
5. Does the FI establish/provide financial sector products and instruments relevant for mitigating nature-related risks, which allocate direct green finance (such as green bonds, sustainability bonds, sustainability-linked loans, green asset and project finance, etc.)?
6. Does the FI have any climate commitments related to deforestation and land/ecosystem conversion? Do transition plans contain any references to reducing financed deforestation?
7. Is there any thinking on how the FI's banking and investment portfolios can be built in a manner that mitigates negative impacts and enhances positive impacts on nature? Are there planned actions to reduce adverse nature-related impacts of the FI's financial activities? Have any targets/timelines been established?
8. Does the FI adopt/endorse/encourage its clients to subscribe to globally recognised instruments/good practices around deforestation-free finance and mitigating nature-related/deforestation risk of corporate/financial sector activities (such as the Deforestation-free Finance Roadmap, Deforestation Disclosure Guide, Finance Sector Deforestation Action, FAO Voluntary Guidelines on the Responsible Governance of Tenure, FAO-OECD Guidance for Responsible Agricultural Supply Chains, Soft Commodities Compact, Finance for Biodiversity Pledge, Taskforce on Nature-related Financial Disclosures (TNFD) etc.
9. Does the FI engage with its clients who are exposed to deforestation risk, to encourage supply-chain-wide sustainability?

Source: Authors' compilation from public disclosure documents of several banks around the world, and the shareholder resolution database, Principles for Responsible Investment.

For FIs exposed to deforestation through the provision of finance to corporate clients in sectors with prominent links to key forest-risk commodities, nature-related risks can take various forms. They can impact material risk categories, such as credit portfolios and default risk (e.g., borrower stress or loan defaults arising from regulatory crackdowns on illegal deforestation or mining activities), revenue implications and erosion of shareholder value (e.g., loss of export markets due to sustainability-linked trade restrictions or supply chain disruptions), reputational damage (such as public backlash or loss of investor confidence linked to financing environmentally harmful projects), and litigation risk (e.g., legal action against firms and their financiers for environmental or social harm), among others.[7]

In addition, such financing activities may contribute to broader environmental and social impacts beyond deforestation and biodiversity loss, including the displacement of communities

7 "Nature-related Risk: Handbook for Financial Institutions", Climate Financial Risk Forum, October 2024, available at <https://www.fca.org.uk/publication/corporate/cfrf-nature-related-risk-handbook-financial-institutions-2024.pdf>

and the degradation of soil, air, and water resources (for instance, in sectors such as mining and large-scale agriculture). These interconnected impacts can further amplify financial risks over the medium to long term.

At the same time, it is important to note that deforestation-risk intensive activities such as operations along forest-risk commodity supply chains remain directly linked to economic development and livelihoods in several parts of the developing world,[8] including in many countries of Southeast Asia (where such natural commodities are produced) and countries like India (where they are procured and processed). Financial institutions need to continue supporting companies engaged in forest-risk agricultural commodities, while using banking practices, financing, and investment decisions to encourage a gradual shift toward more sustainable production and value-chain-wide sustainability.

3. Nature-related Risk in India's Financial Sector Landscape: State of Play

Regulatory and Policy Thinking

In terms of financial sector regulatory thinking in India, the assessment of climate-related risks to the financial system has gained salience in the past few years, with increasing attention on how climate objectives can be integrated into broader financial stability assessments. As part of the latest round of Systemic Risk Survey (SRS) undertaken by the Reserve Bank of India (RBI) in May 2025, which gathers perceptions on potential risks to financial stability, reported in the RBI's 2025 Financial Stability Report, climate risk is perceived to be in the "high-risk" category.[9]

RBI has previously carried out a Pilot Climate Vulnerability Assessment and Stress Testing (VAST), a pilot climate stress-testing exercise for major Indian banks, to assess exposure and the degree of resilience to various climate scenarios.[10]

In its 2022 Discussion Paper on Climate Risk and Sustainable Finance, the RBI noted that deforestation constituted a key anthropogenic activity that has exacerbated the pace of global warming and climate change.[11]

8 "Forests, Food Systems and Livelihoods: Trends, Forecasts and Solutions to Reframe Approaches to Protecting Forests", TFA-WEF Insight Report, September 2021, available at < https://www3.weforum.org/docs/WEF_Forests_Food_Systems_and_Livelihoods_2021.pdf>

9 Financial Stability Report, Financial Stability Department, Reserve Bank of India, available at < https://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/0FSRJUNE20253006258AE798B4484642AD861CC35BC2CB3D8E.PDF>

10 Amit Sinha and Shivang Bhanvadia, "Climate Stress Testing and Scenario Analysis: Navigating Uncharted Waters", Department of Regulation, RBI, 18 January, 2024, available at < https://www.rbi.org.in/Scripts/BS_ViewBulletin.aspx?Id=22327>

11 Discussion Paper on Climate Risk and Sustainable Finance, RBI, 27 July 2022, available at <https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=21071#C2>

In 2024, the RBI published its Draft Disclosure Framework on Climate-related Financial Risks.[12] This is specifically for "potential risks that may arise from climate change or from efforts to mitigate climate change, their related impacts and economic and financial consequences."[13]

The draft framework refers to several aspects of the Basel Framework's climate-related financial risk measurement methodologies, as well as the International Financial Reporting Standards (IFRS) Standard on Climate-related disclosure. The Reserve Bank-Climate Risk Information System (RB-CRIS) was established in 2024, envisaged as a data repository to provide adequate data to financial sector entities to carry out effective climate risk assessments.[14]

Notably, the RBI became a member of the Central Banks and Supervisors Network for Greening the Financial System (NGFS) in 2021, noting that membership of NGFS will promote cross-learning on green finance.[15] Technical guidance documents of the NGFS contain conceptual frameworks guiding Central Banks on dealing with nature-related financial risks, including deforestation risk. RBI's participation in NGFS indicates a degree of interest in these issues.[16]

Similarly, the RBI has actively participated in discussions at the Standing Committee of the Financial Stability Board (FSB) on global financial regulatory issues, including nature-related financial risks.[17]

The definition of "green finance" in RBI's 2023 framework for acceptance of green deposits is notable for the inclusion of "other climate-related or environmental objectives – including biodiversity management and nature-based solutions."[18]

The framework was envisaged as a mechanism for covered entities to accept interest-bearing financial deposits, which would be earmarked for covered green finance activities. The

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12 Draft Disclosure framework on Climate-related Financial Risks, 2024, Sustainable Finance Group, Department of Regulation, RBI, 28 February, 2024, available at < https://www.rbi.org.in/Scripts/bs_viewcontent.aspx?Id=4393>

13 Guideline 6(a) Draft Disclosure framework on Climate-related Financial Risks, 2024

14 Keynote address by Mr Sanjay Malhotra, Governor of the Reserve Bank of India, at the Policy Seminar on "Climate change risks and finance", organised by Reserve Bank of India, New Delhi, March 13, 2025, available at < https://www.bis.org/review/r250319b.pdf>

15 RBI joins Network for Greening the Financial System, RBI, April 29, 2021, available at <https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=51496>

16 Network for Greening the Financial System, Technical document - Nature-related Financial Risks: A Conceptual Framework to guide Action by Central Banks and Supervisors, July 2024, available at <https://www.ngfs.net/system/files/import/ngfs/medias/documents/ngfs-conceptual-framework-nature-risks.pdf>

17 Reserve Bank of India Annual Report 2024-2025, pp. 185, available at < https://rbidocs.rbi.org.in/rdocs/AnnualReport/PDFs/0ANNUALREPORT202425DA4AE08189C848C8846718B080F2A0A9.PDF>

18 Guideline 2(b), Framework for acceptance of Green Deposits, RBI, April 11, 2023.

proceeds from such green deposits could be used to finance covered activities, including "green activities/projects which improve natural ecosystems and biodiversity."[19]

Within these are covered both the "sustainable management of living natural resources and land use", as well as "terrestrial and aquatic biodiversity conservation."

Overall, while there is a lot of thinking around climate-related risk for the Indian financial system,[20] nature-related risk is not yet treated as a distinct risk category and is only peripherally covered in policy and regulatory discussions. This is to be expected, given that even global discussions on nature-related risks and disclosures for financial sector activities are a fairly recent development. Not only are several jurisdictions still examining whether nature-related risks are relevant financial risks in their respective contexts, but international financial reporting standards on nature-related risks are also still evolving. For example, the International Sustainability Standards Board (ISSB) is currently updating its standard-setting framework to include nature-related risks and opportunities, building on its IFRS S1 and S2 standards, which focus on general sustainability-related disclosures and climate-related disclosures, respectively.[21]

4. Approach and Practice of Indian FIs

Over the past decade, Indian financial institutions have steadily expanded their engagement with Environmental, Social, and Governance (ESG) frameworks. This evolution has been shaped by growing expectations from international investors, the diffusion of global sustainability disclosure standards, and increasingly explicit regulatory signals from domestic authorities such as the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI). Within this broader ESG transition, climate-related risks, particularly those linked to carbon emissions and energy transition, have begun to receive systematic attention.

This section reviews ESG practices across seven major Indian banks:[22] State Bank of India (SBI), Punjab National Bank (PNB), ICICI Bank, Axis Bank, Yes Bank, IDFC First Bank, and Bank of Baroda, drawing exclusively on publicly available ESG and sustainability reports, Business Responsibility and Sustainability Reports (BRSR), and Basel III Pillar 3 disclosures.

Notably, annual reports capture the full spectrum of business operations, including lending, investment, and risk management activities, rather than being limited to Corporate Social Responsibility (CSR) related initiatives. The analysis focuses on how environmental risks are

19 Guideline 7, Framework for acceptance of Green Deposits, RBI, April 11, 2023.

20 "The country has adopted an ambitious strategy to reduce emission intensity and enhance non-fossil fuel composition in the installed electricity capacity while expanding forest and tree cover to create an additional carbon sink." - Draft Framework of India's Climate Finance Taxonomy, available at <https://static.pib.gov.in/WriteReadData/specificdocs/documents/2025/may/doc202557551101.pdf>

21 "ISSB welcomes TNFD's support as it advances nature-related disclosures", International Sustainability Standards Board, 7 November, 2025, available at < https://www.ifrs.org/news-and-events/news/2025/11/issb-welcomes-tnfd-support-nature-related-disclosure/>

22 The banks were selected to capture a representative mix of public and private sector institutions with sufficient sector-wise disclosure to enable meaningful exposure analysis across the Indian banking system.

conceptualised and integrated into governance and risk management frameworks. The extent to which land-use change and deforestation risks are recognised as financially material within these broader environmental and climate categories.

ESG Framework Adoption and Disclosure Practices

All banks in the sample demonstrate formal adoption of ESG principles, largely anchored in nationally mandated frameworks such as the National Guidelines on Responsible Business Conduct (NGRBC) and SEBI's BRSR requirements.

Several private sector banks, including ICICI Bank, Axis Bank, Yes Bank, and IDFC First Bank, also reference international frameworks such as the Task Force on Climate-related Financial Disclosures (TCFD).

PNB has become a signatory to the Partnership for Carbon Accounting Financials (PCAF) and has begun disclosing financed emissions in line with this commitment[23]. Bank of Baroda, IDFC First Bank, State Bank of India, UCO Bank, and YES Bank Limited are also signatories, albeit they haven't shared any disclosures.[24]

ICICI Bank and Axis Bank further align their reporting with the Sustainability Accounting Standards Board (SASB) and the Global Reporting Initiative (GRI).[25] Yes Bank has adopted an Environment and Social Policy (ESP) based on International Finance Corporation (IFC) Performance Standards, supported by an Environment and Social Risk Management System (ESRMS).[26]

All banks disclose Scope 1 and Scope 2 emissions, primarily covering electricity consumption, fuel use, and other operational activities. These disclosures are relatively standardised and reflect a compliance-driven approach. Several banks have articulated long-term decarbonisation targets.

SBI has outlined a vision to achieve net-zero emissions across Scopes 1, 2, and 3 by 2055, alongside measures to expand renewable energy use and retire residual emissions through offsets.[27] ICICI Bank has committed to carbon neutrality for Scope 1 and Scope 2 emissions by FY2032. Yes Bank, guided by an Environmental Management Policy aligned with ISO

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23 PNB Business Responsibility & Sustainability Report 2024-25, available at https://pnb.bank.in/downloadprocess.aspx?fid=3tNq9iGo/M5fDJSR54hUXw==

24 https://carbonaccountingfinancials.com/en/signatories#overview-span-of-financial-institutions-span

25 ICICI Bank Environmental, Social and Governance Report 2024-25, available at https://www.icici.bank.in/content/dam/icicibank/managed-assets/docs/investor/annual-reports/2025/icici-bank-esg-report-2024-25.pdf

26 YES Bank Business Responsibility & Sustainability Report 2024-25, available at http://yes.bank.in/pdf?name=ybl_business_responsibility_and_sustainability_report_fy_2024_25

27 State Bank of India Sustainability and Business Responsibility (BR) Policy, 2024, available at https://sbi.bank.in/documents/16012/44015480/120424-SBR+Policy+for+Bank%27s+site.pdf/4bbbdfd6-56c7-af57-2d7f-fc8bbcbe30ea?t=1712899096923

14001:2015, targets net-zero Scope 1 and 2 emissions by 2030 and reports year-on-year reductions in operational emissions alongside increased renewable energy uptake.

Scope 3 emissions, indirect greenhouse gas emissions (not included in Scope 2 emissions) that occur in the value chain of an entity, including both upstream and downstream emissions. Even where these emissions are acknowledged, disclosures remain highly aggregated and, so far, do not include sector or commodity-level detail.

Climate Risk Governance and Risk Integration

Most banks report of governance structures for ESG and climate risk, including board-level committees and senior management oversight. These arrangements indicate that climate-related issues are increasingly recognised as strategically relevant.

For example, ICICI Bank has formulated a Climate Risk Management Framework to integrate physical and transition risks into its overall risk management processes. At the same time, SBI reports that it has integrated ESG considerations into lending and procurement decisions.

IDFC First Bank has established a structured climate risk governance framework, with climate-related issues regularly discussed at both the board and management committee levels. ESG considerations are embedded into credit appraisal processes through the bank's Environment and Social Policy, which includes screening criteria, exclusion lists, and due diligence procedures for large-scale loans.[28]

Bank of Baroda has similarly institutionalised ESG oversight through a Board-level CSR and Sustainability Committee and a dedicated "Green Cell" housed within the risk management function.[29]

Though there is no real evidence of the inclusion of independent external stakeholders, such as civil society organisations or community representatives, within these frameworks.

A review of these developments indicates that environmental risk is generally framed in broad terms, with primary emphasis on climate transition risks and physical climate impacts. Nature-related dimensions such as land-use change, biodiversity loss, and deforestation are often addressed implicitly, if at all, within generic environmental or climate risk frameworks. In this context, it is an opportune moment for greater discussion of nature-related risk (deforestation and related loss of biodiversity) disclosures and the distinct transmission channels associated with such risks, including regulatory tightening, supply-chain disruption, and asset stranding in forestland-reliant sectors.

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[28] IDFC Business Responsibility & Sustainability Report 2024-25, available at https://www.idfcfirstbank.com/content/dam/idfcfirstbank/pdf/annual-report/Business-Responsibility-and-Sustainabilit-Report-FY-2024-25.pdf

[29] Bank of Baroda; Business Responsibility and Sustainability Report FY 2024-25, available at https://bankofbaroda.bank.in/-/media/project/bob/countrywebsites/india/shareholders-corner2/2025/25-08/sebrsr2025-hindi-07-15.pdf

Green Finance

Green finance has emerged as a visible and growing component of banks' sustainability strategies, guided by the RBI's Framework for Acceptance of Green Deposits. Under this framework, green deposits are raised voluntarily and earmarked exclusively for environmentally sustainable activities, including renewable energy, clean transportation, pollution prevention, climate adaptation, biodiversity conservation, and sustainable water and waste management.[30]

SBI has committed to ensuring that at least 7.5 per cent of its loan portfolio is classified as "green" by 2030 and raised over ₹90 billion through green bonds in the most recent financial year.

ICICI Bank reports a sustainable financing portfolio of ₹906.24 billion as of March 31, 2025, with green financing largely directed toward renewable energy generation, accounting for roughly one-third of this total.

Axis Bank reports significant exposure to green sectors within its wholesale lending portfolio at ₹221.6billion as of March 31, 2025.

Yes Bank has played an important role in India's green bond market. It has issued three green infrastructure bonds, of which two were outstanding as of March 31, 2024. These include India's first green infrastructure bond, issued in February 2015, which raised ₹1,000 crore through a 10-year tenor and attracted strong participation from institutional investors. Subsequent issuances included a ₹315 crore bond privately placed with the International Finance Corporation in August 2015 and a ₹330 crore bond placed with FMO in December 2016, the latter of which was redeemed at maturity in December 2023.[31]

IDFC Bank reports full utilisation of the ₹0.51 Crores in green deposit proceeds for clean transportation projects.[32]

While these initiatives underscore the growing scale and sophistication of green finance in India, their scope remains concentrated in energy, transport, and infrastructure. Considerations related to land use, forest impacts, and agricultural commodity supply chains receive comparatively limited attention. There is room for discussion of how nature-related risks are assessed within green finance frameworks and how lending decisions account for sustainability risks associated with forest-intensive activities.

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30 Framework for acceptance of Green Deposits, Circular dated April 11, 2023, available at https://www.rbi.org.in/commonman/english/scripts/FAQs.aspx?Id=3545

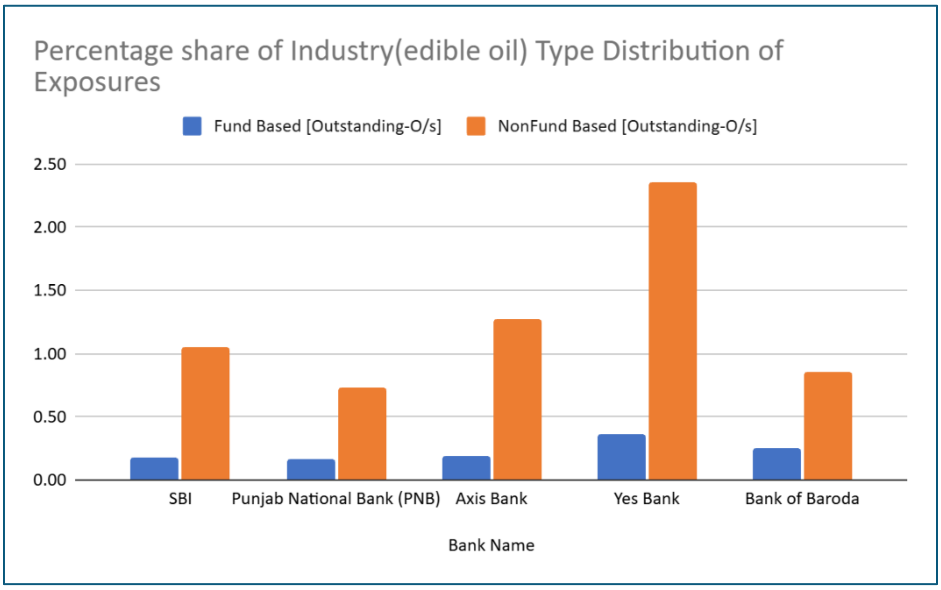
31 ` Yes Bank Green Debt Securities for the quarter ended March 31, 2024, available at https://www.yes.bank.in/pdf?name=GBD_Apr_2024.pdf

32 IDFC First Bank Green Deposit Allocation Report FY-25.pdf, available at https://www.idfcfirst.bank.in/content/dam/idfcfirstbank/pdf/green-deposits/Green-Deposit-Allocation-Report-FY-25.pdf

Sectoral Exposure and Implicit Deforestation Risk

Disclosures of Basel III sectoral exposure of outstanding loans provide an indirect window into Indian banks' potential exposure to deforestation-related risks. Several banks report lending to sectors globally recognised as deforestation-intensive, including rubber, vegetable oils, paper and paper products, and segments of food processing. While these sectors typically account for a modest share of total advances, the absolute exposure can be substantial.[33]

Figure 1: Percentage Share of Banks' Exposure to Edible Oil Industry



Source: Based on the author's calculation, from the Respective Bank's Basel III (Pillar-3) Disclosures

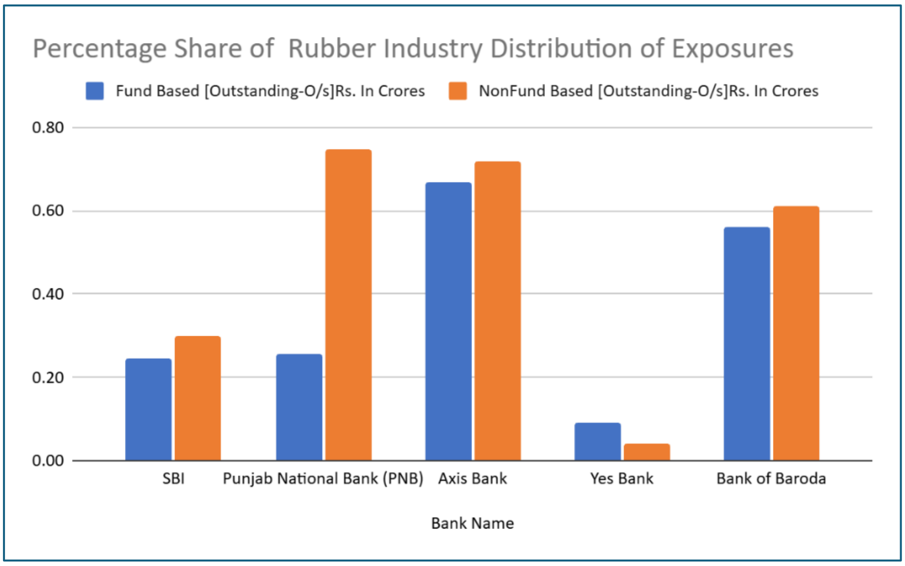
Figure 1 shows the percentage share of selected banks' exposure to the edible oil industry, split between fund-based (loans) and non-fund-based (guarantees, letters of credit, etc.) outstanding exposures. (For detailed tabular representation, see Annexure)

Across all banks, non-fund-based exposure is significantly higher than fund-based exposure, indicating that banks are more exposed to the edible oil sector through trade finance and contingent liabilities than through direct lending. Yes Bank stands out with the highest exposure in both categories, particularly non-fund-based exposure. Axis Bank and SBI show moderate non-fund-based exposure, while PNB has the lowest exposure among the banks shown. Fund-based exposures remain relatively small across all banks. This suggests that direct credit

[33] PNB Basel III (Pillar-3) Disclosures, available at https://pnb.bank.in/downloadprocess.aspx?fid=7M5UZDvpGvJ+uL3CQjO4cg==
Axis Bank Basel III (Pillar-3) Disclosures, available at https://www.axis.bank.in/docs/default-source/regulatory-disclosure-section/basel-iii-disclosures/basel-iii-pillar-3-disclosures-september-2025.pdf?sfvrsn=ab0af08d_3
Yes Bank Basel III (Pillar-3) Disclosures, available at https://www.yes.bank.in/pdf?name=basel_disclosure_dec_2025.pdf
Bank of Baroda https://bankofbaroda.bank.in/-/media/Project/BOB/CountryWebsites/India/shareholders-corner2/2025/25-11/BASEL-III-DISCLOSURE-SEP-2025-04-13.pdf

exposure to the sector is limited, even though indirect exposure through trade-related instruments is more pronounced.

Figure 2: Percentage Share of Banks' Exposure to the Rubber Industry



Source: Based on the author's calculation, from the Respective Bank's Basel III (Pillar-3) Disclosures

Unlike the edible oil sector, exposures to the rubber industry are more evenly split between fund-based and non-fund-based instruments. Axis Bank and Bank of Baroda show the highest overall exposure, with Axis Bank having the largest fund-based share (0.67 percent) and a similarly high non-fund-based exposure (0.72). PNB's skewed exposure toward non-fund-based instruments (0.75 percent), reflects a stronger emphasis on guarantees and trade finance rather than term lending. SBI shows moderate exposure across both categories, while Yes Bank's exposure remains relatively low, suggesting limited involvement in the rubber sector.

5. Conclusion and the Way Forward

To sum up, while the discourse on nature-related risks in the financial sector is gaining momentum globally, its integration into policy and practice remains uneven, particularly in the Indian context.

- Nature-related risks are increasingly recognised as financially material globally, though regulatory responses remain evolving.
- In India, financial sector discourse is predominantly climate-focused, with limited attention to nature-related risks.
- Global financial institutions are beginning to assess and manage exposure to nature-related risks, including deforestation-linked activities.
- The Indian financial sector has exposure to forest-risk commodities, creating a need for greater policy and industry dialogue.

This Policy Brief has flagged the need to stimulate greater discussion of nature-related risks in the Indian financial sector landscape. There is increasing evidence from around the world showing the materiality of nature-related risks for the financial sector. At the same time, several jurisdictions around the world are still evaluating the implications of nature-related risk for their financial systems, and the approaches of financial supervisory authorities and standard-setting bodies to nature-related risk are still evolving.

In the Indian context, while there is increasing discourse on aspects of climate-related risks for the financial sector (in both regulatory discussions and financial sector initiatives), particularly in terms of exposure to financed emissions, there is limited dialogue on nature-related risk factors, such as deforestation and land degradation. This broadly aligns with global trends.

For their part, financial institutions around the world are already pioneering nature-related risk assessment and mitigation techniques. They are trying to understand their exposure to nature-related risk, assess the sustainability of their financing activities with high nature-risk potential such as deforestation-risk agricultural commodities, and promoting the use of nature-positive financial instruments. Through these, financial institutions are positioning themselves to respond to market demands, regulatory trends, and to stay competitive and leverage new and emerging financial opportunities, while driving positive nature-related impacts through their activities.

Given that the Indian financial sector has a degree of exposure to forest-risk agricultural commodities such as edible oils and natural rubber, it is an opportune moment to promote greater dialogue on the opportunities and challenges around integrating nature-related and deforestation risk in the Indian financial sector landscape. At the same time, it is important to point out that deforestation-risk intensive activities such as operations along forest-risk commodity supply chains remain directly linked to economic development and livelihoods in several parts of the developing world, including India.

Overall, financial institutions can leverage good banking industry practices, and financing and investment decisions in a manner that encourages gradual shifts to more sustainable commodity production and value-chain wide sustainability in commodity value chains with inherent nature-related risks.

Annexure: Sectoral Exposure

S. No.	Bank Name	Total Industry Type Distribution of Exposures		Industry (Rubber) Type Distribution of Exposures		Percentage Share of Industry Type (rubber) Distribution of Exposures		Industry (Vegetable Oils) Type Distribution of Exposures		Percentage share of Industry (edible oil) Type Distribution of Exposures	
		Fund Based [Outstanding-O/s]Rs. In Crores	Non-Fund Based [Outstanding-O/s]Rs. In Crores	Fund Based [Outstanding-O/s]Rs. In Crores	Non-Fund Based [Outstanding-O/s]Rs. In Crores	Fund Based [Outstanding-O/s]%	Non-Fund Based [Outstanding-O/s]%	Fund Based [Outstanding-O/s]Rs. In Crores	Non-Fund Based [Outstanding-O/s]Rs. In Crores	Fund Based [Outstanding-O/s]Rs. In Crores	Non-Fund Based [Outstanding-O/s]Rs. In Crores
1	SBI	4516808.36	539047.78	11,068.82	1613.78	0.25	0.30	7,989.03	5673.08	0.18	1.05
2	Punjab National Bank (PNB)	1484666.03	140416.37	3,823.30	1050.411	0.26	0.75	2,412.36	1032.828	0.16	0.73
3	Axis Bank	1692612	258185.4	11303.8	1860.2	0.67	0.72	3303.6	3287.4	0.19	1.27
4	Yes Bank	348,221.20	109683	323	43.57	0.09	0.04	1,267.80	2583.67	0.36	2.35
5	Bank of Baroda	1717341.54	137729.21	9,658.73	838.63	0.56	0.61	4,307.08	1,170.61	0.25	0.85

Source: Respective Bank's Basel III (Pillar-3) Disclosures

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