



2025

2025

ASSESSING
CLIMATE TRANSITION MATURITY OF
NEPALI COMMERCIAL BANKS

FOREWORD FROM NEPAL RASTRA BANK



गवर्नर
Governor

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Foreword

I extend my appreciation to the Nepal Bankers' Association for undertaking this important effort. This report "Assessing Climate Transition Maturity of Nepali Commercial Banks, 2025" contributes to improving the understanding of climate-related issues and enhancing the resilience of Nepal's financial system. It provides insight into how commercial banks are beginning to integrate climate-related considerations into their lending practices, while also highlighting areas where further progress is required. These findings will be valuable in informing supervisory engagement and supporting broader discussions across the financial sector as climate-related risks continue to evolve.

The rising frequency of extreme weather events, alongside increasing evidence of both physical and transition risks, highlights the importance of the financial sector in safeguarding financial stability, enhancing climate-resilience, and channeling capital toward climate adaptation and mitigation. Recognizing this, NRB has taken proactive measures to advance Nepal's sustainable finance framework. Key initiatives include the Environmental and Social Risk Management (ESRM) Guidelines initially issued in 2018 and revised in 2022, and the Nepal Green Finance Taxonomy introduced in 2024, which collectively guide financial institutions in aligning their activities with the nation's climate objectives and long-term development priorities.

The assessment findings reveal that many banks are still in the early stages of integrating climate-related considerations into their operations. NRB will continue to engage proactively with the banking sector and encourage institutions to use the insights from this assessment to enhance internal processes, thereby contributing to the development of a more resilient and sustainable financial system in Nepal.

४/१४/८०८

Prof. Dr. Biswo Nath Poudel



MESSAGE FROM THE NEPAL BANKERS' ASSOCIATION



नेपाल बैंकर्स संघ NEPAL BANKERS' ASSOCIATION

Acknowledgement

It is my great pleasure to present this landmark report, "Assessing Climate Transition Maturity of Nepali Commercial Banks" - an important step forward in Nepal's journey towards sustainable finance. As climate-related risks intensify and its impact on our economy is becoming increasingly visible; the role of Nepal's banking sector has been more critical.

Climate change has deepened financial risks in countries like Nepal where increasing floods, landslides, droughts, and glacial hazards are causing substantial economic losses each year damaging infrastructure, disrupting hydropower production, reducing agricultural output – ultimately weakening borrowers' repayment capacity.

Over the past decade, Nepal Bankers' Association (NBA) has been working steadily to advance sustainable finance practices. NBA has consistently encouraged member banks to strengthen climate awareness, integrate sustainability into operations and intensify governance. This report builds on those efforts by providing a detailed picture of where we stand today, the progress we have made, and the opportunities ahead.

This report also provides an essential analysis of commercial banks - assessing how well banks are integrating climate-related risks and opportunities into their management processes, specifically across the four key areas of Governance, Strategy, Risk, and Metrics & Targets. While the assessment shows that most banks are at an early stage in their climate transition, and some are at the discovery phase, it also provides a clear roadmap for advancing towards maturity.

On behalf of NBA, I extend my sincere appreciation to Invest for Impact Nepal (IIN) for their unwavering partnership and continued support in NBA's sustainable finance initiatives. IIN has worked closely with us over the years to strengthen sector-wide capacity to align with global climate frameworks. I also express deep gratitude to SLR Consulting for leading this important assessment with professionalism. Most importantly, I wish to thank all member banks for their active participation in supporting this study.

As we look ahead, NBA remains committed to work with concerned stakeholders to deepen sectoral capabilities and accelerate Nepal's transition toward a sustainable financial system.

Thank you!

A handwritten signature in black ink, appearing to read "Santosh Koirala".

Santosh Koirala
President



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EXECUTIVE SUMMARY

► The context for banks to embrace climate change efforts

In September 2024, two days of relentless rain broke 50-year records and caused severe flooding and destructive landslides across Nepal. Total losses due to this single flood event were estimated at NPR 46.7 billion, or 1% of GDP.¹ The floods caused widespread damage to hydropower facilities (NPR 3 billion) and agriculture (NPR 7.2 billion), submerging farmland, destroying crops and causing severe livestock casualties.² Events such as the September 2024 floods are exacerbated by climate-related changes and are expected to become more frequent and severe as climate change intensifies.³

Nepal Rastra Bank (NRB) will require commercial banks to allocate at least 10 percent of their total credit portfolios to the energy sector by mid July 2027 and 15 percent to the agriculture sector by mid July 2028, as outlined in Circular No.15, of 23 June 2025. Climate change is a clear potential risk to the banking sector investing in these sectors in Nepal. The sharp rise and expected trend in climate-related losses underscores why the banking sector must act swiftly and decisively to protect its portfolios against eroding collateral, disruptions to loan performance and, ultimately, economic instability. To fulfil Nepal's climate objectives, commercial banks also have a pivotal role to play as stewards of capital to mobilise funds towards the target of a low-carbon and resilient future.

► The evolution of the Nepal sustainable finance landscape

Since joining the Sustainable Banking and Finance Network (SBFN) in 2014, NRB has taken progressive steps to embed sustainability in the financial sector. In 2018, NRB issued its first Guideline on Environmental and Social Risk Management (ESRM) for Banks and Financial Institutions, complete with due diligence tools and an annual reporting template, requirements that became mandatory in 2020. In 2022, the guideline was updated to include climate-related risks. To further align the financial sector with Nepal's climate change policy and net-zero target, the Nepal Green Finance Taxonomy was introduced in 2024. The Nepal Bankers' Association has been supporting the industry in advancing practices through various capacity-building, policy advocacy and knowledge-sharing efforts, including most recently establishing a community of practice (CoP) for peer-to-peer exchange on environmental, social and governance (ESG) practices.

► A summary of the findings of the market assessment

The key objective of this study was to assess the climate transition maturity of Nepal's commercial banking sector by evaluating how well banks are integrating climate-related risks and opportunities into their management processes. The banks were asked to rate their current maturity and future ambition in four key areas, Governance, Strategy, Risk, and Metrics and Targets, using a five-tier scale that takes Nepal's emerging market status taken into consideration. The results were calibrated through management interviews and a review of the justifications given for the ratings. All 20 Class A (commercial) banks participated in the study, providing a clear picture of the commercial banking sector's views on this important topic.

¹ Group, Nepal Development Update, 2025

² Idem

³ World Bank, Country Climate and Development Report (2022)

Most commercial banks are currently progressing to or are at Level 2, or the discovery phase (See section 1.3 for full explanation of ratings). The discovery phase reflects the fact that climate-related considerations are at an early stage, and are generally in a more ad-hoc and unstructured state. The banks acknowledge climate change is an important issue although formalised systems and structures are generally not in place to address it, and it is typically considered within wider environmental and social (E&S) topics. More advanced banks, which are considered to be at Level 3 or in the developing phase, have elevated climate change to strategic levels, incorporating it within their business strategy and mostly collaborating with international partners.

	Observations	Key recommendations
Governance – climate responsibilities emerging	<p>The strongest pillar, driven by the NRB ESRM guideline. Requires nomination of an ESRM officer, who typically forms part of the risk function. Credit committees were found to have more oversight than boards, though some banks plan to establish ESG committees or similar in the near future. Leading banks have established separate units for green finance.</p>	<p>Leadership and responsibilities of boards and senior management must be made evident, with clear oversight and commitment to establish the right tone at the top. A clear organisational structure with responsibilities for climate change must be documented, with responsibilities across functions to address both risks and opportunities. Banks must invest in identifying and building the skills and competencies to create momentum.</p>
Strategy – focused on risks over opportunities	<p>Climate-related risks mostly identified at a transaction level, where material, in accordance with the ESRM guideline. Portfolio-level assessments are nascent. Only 20% of banks have a climate strategy in place or in development, suggesting that most are yet to address climate as a strategic issue or opportunity. Most banks are not yet engaging with the Nepal Green Finance Taxonomy.</p>	<p>Banks must conduct a portfolio-wide assessment of risks and opportunities so they can develop a strategy and transition plan effectively. Making the connection between climate-related risks and their financial impact is essential for decision-making to price-in climate-related risks appropriately. Banks should assess climate opportunities equally, and engage with customers effectively to identify product solutions to support their transition and resilience.</p>



	Observations	Key recommendations
Risk management – driven by ESRM guideline, with a need for climate-specific methodologies	<p>Banks are currently identifying material risks and corrective actions, in accordance with the ESRM guideline. This includes a climate-related question in the environmental and social due diligence (ESDD) questionnaire for transactions above thresholds set by NRB for small loans, term finance and project finance. Most banks do not have defined methodologies or separate templates for risk assessments and use the ESRM's environmental and social risk rating (ESRR) to monitor risks in their portfolios – although this does not give a clear picture of the true level of climate risk.</p>	<p>Banks should develop methodologies and guidance to evaluate climate risk, with a focus on vulnerable sectors such as hydropower and agriculture. A tagging system should be established to gather data in the event that climate is a key contributor for a loan becoming non-performing. Banks must integrate climate risk in enterprise risk management, with an agreed risk appetite, risk management framework and reporting.</p>
Metrics and targets – voluntary measurement underway but targets to be established	<p>The weakest pillar, due to the lack of climate-specific metrics in the sector, with most banks quoting the E&S risk rating of high/medium/low risk, as required by the ESRM guideline. Just 20% of banks measure financed emissions, and no other climate-related metrics are currently used to monitor risks. No banks have committed to climate-related targets or to align with Nepal's nationally determined contribution (NDC).</p>	<p>Banks must develop climate-related metrics, specific to their material risks and opportunities, to create decision-useful information to guide their transition. They must consider their trajectory in relation to Nepal's NDC net zero target by 2045 to develop future climate targets. Linking executive remuneration to metrics and targets will be a powerful tool.</p>

► A comparison of Nepal to similar emerging markets

Like other emerging markets, Nepal's commercial banking sector is at an early stage in its climate transition process. As with many of its regional peers, Nepali banks are still developing the capacity to conduct robust climate risk assessments and integrate climate considerations into core decision-making. A 2022 study notes that most banks in markets in Asia are misaligned with their own national policies for decarbonisation.⁴ Within the Asia-Pacific region, climate risk has mostly been integrated by institutional-level regulation from central banks through measures such as climate stress testing and

⁴ Banking Asia's Future: How to Align with National Climate Plans, 2022

supervisory risk management guidance, with more comprehensive guidance in Australia, Hong Kong SAR, Indonesia, Malaysia, the Philippines and Singapore.⁵ Since 2022, India's central bank has taken a more gradual approach, announcing its expectations for banks to integrate climate considerations into overall risk management frameworks and lending decisions. Disclosure is a powerful catalyst for improving practices, and central banks have begun to integrate climate risk into prudential disclosures, with leaders in Hong Kong SAR, Malaysia, New Zealand and Singapore, and many other jurisdictions developing mandatory or voluntary requirements⁶ including Nepal's regional neighbours India and Bangladesh. Overall, Nepal's sustainable finance landscape has progressed from the preparation phase to the implementation phase, yet more attention is required specific to climate-related issues and risk management.⁷

► The way forward for commercial banks

In addition to evaluating current practices, the market assessment also captured the banks' ambition levels for a two-to-three-year time horizon, providing a forward-looking view into their intended progress. Most banks envision rapid progress to developing or advanced (Level 4) stages within the next three years, signalling that with adequate capacity-building and regulatory and industry support, Nepali banks are prepared to shift to a resilient and low-carbon future. The assessment identifies the following top priorities for banks to accelerate progress:

- Improve risk assessment methodologies to identify how climate risks transmit to financial impacts to determine the impact on credit risk and to price-in climate risks.
- Move beyond risk management to identify and prioritise climate-related opportunities in a structured manner using the Nepal Green Finance Taxonomy (NGFT) to tailor products and services to support the economy-wide transition.
- Invest to build institutional capacity across all levels to support the climate transition through practical training tailored to different levels within the organisation.

Action is required not just from banks. Collaborative measures from the regulator, industry bodies and the international development community are necessary to support Nepali commercial banks with the climate transition. Banks that accelerate the transition to net zero are projected to have significant enhanced profit growth compared to banks that adopt a passive approach, due to revenues from green finance as well as stable returns from traditional asset portfolios.⁸ Proactively managing climate-related risks may no longer be optional for Nepali banks, but will be essential for long-term resilience. However, banks must also decide on their appetite for taking a pioneering approach to capturing the opportunities for a green transition.

⁵ UNEPFI

⁶ Idem

⁷ Sustainable Banking and Finance Network (SBFN) and International Finance Corporation (IFC), 2023

⁸ Bain & Company, n.d.



GLOSSARY

TERM	MEANING
BFIs	Banks and financial institutions (BFIs). Organisations that facilitate financial transactions.
Climate change	The United Nations Framework Convention on Climate Change (UNFCCC) defines climate change as: 'a change of climate which is attributed directly or indirectly to human activity that alters the composition of the global atmosphere and which is in addition to natural climate variability observed over comparable time periods.
Climate finance	Refers to local, national or transnational financing that seeks to support mitigation and adaptation action that will address climate change.
Climate-related risks	Refer to the potential adverse impacts and consequences arising from climate change and extreme weather events on various aspects of human society, the economy, and the environment.
CRO	Chief Risk Officer (CRO). This role focuses on identifying, assessing and mitigating risks within an organisation.
Development finance institution (DFI)	DFIs invest in private sector businesses, banks and projects in less economically developed countries to bring about positive economic, social and environmental change.
EDGE	Excellence in Design for Greater Efficiencies (EDGE) certification is a green building standard and certification system focused on making buildings more resource efficient.
EIA	An Environmental Impact Assessment (EIA) is a structured process used to evaluate the potential environmental effects of a proposed project, policy or programme before it is carried out.
Extreme weather⁹	Is unexpected, unusual or unforeseen weather and differs significantly to the usual weather pattern, such as droughts, floods, extreme rainfall and storms.
ESDD	Environmental and Social Due Diligence (ESDD) is a process used to assess the environmental and social risks and impacts of a business, serving as a key factor in investment decision-making.
ESG	Environmental, Social and Governance (ESG) is a framework used to evaluate an organisation's performance and impact on these three key areas.

⁹ GIZ, The Vulnerability Sourcebook. Gesellschaft für Internationale Zusammenarbeit, Bonn, Germany (2014)

TERM	MEANING
ESRM	Environmental and social risk management (ESRM) refers to a framework that assists organisations in identifying, assessing and managing environmental and social risks associated with their operations, supply chains and investments.
ESRR	Environmental and Social Risk Rating (ESRR) is a methodology that assigns a score to commercial clients, helping financial institutions assess and understand a client's capacity to manage actual and potential environmental and social risks.
Gross Domestic Product (GDP)	An economic indicator that measures the total monetary value of all final goods and services produced within a country during a specific period.
Glacial lake outburst floods (GLOFs)	A glacial lake outburst floods (GLOF) is a sudden release of a significant amount of water retained in a glacial lake.
IEE	Initial Environmental Examination (IEE) is a preliminary assessment of a project's potential environmental impacts to determine if a more extensive Environmental Impact Assessment (EIA) is required.
IFRS S2	IFRS S2 is the International Sustainability Standards Board's (ISSB) standard on climate-related disclosures. It requires companies to disclose information about their climate-related risks and opportunities.
IPCC	The Intergovernmental Panel on Climate Change (IPCC) is a United Nations body established to provide policymakers with regular scientific assessments on climate change and its impacts.
LEED	Leadership in Energy and Environmental Design (LEED) is a widely used green building rating system which provides a framework for healthy, efficient and cost-saving green buildings.
Multilateral Development Bank (MDB)	MDB is an international financial institution established by multiple countries to provide financing and advisory services to developing nations.
Nationally determined contribution (NDC)	Climate actions and targets that each country voluntarily commits to undertake to mitigate greenhouse gas emissions and adapt to the impacts of climate change.
NGFS	The Network for Greening the Financial System (NGFS) is a coalition of central banks and financial supervisors committed to advancing green finance and providing guidance on how central banks can support the global response to climate change.
NGFT	Nepal Green Finance Taxonomy is a framework established by Nepal Rastra Bank (NRB) to classify economic activities as "green", "amber" or "non-compliant"



TERM	MEANING
NRB	Nepal Rastra Bank (NRB) is the central bank of the Federal Democratic Republic of Nepal, established in 1956 under the Nepal Rastra Act, 1955.
Paris Agreement	Legally binding international treaty on climate change, adopted by 195 Parties at the UN Climate Change Conference.
PCAF	The Partnership for Carbon Accounting Financials (PCAF) is an initiative that offers financial institutions a standardised methodology for measuring and disclosing the greenhouse gas (GHG) emissions linked to their loans and investments.
Resilience¹⁰	The capacity of interconnected social, economic and ecological systems to cope with a hazardous event, trend or disturbance, responding or reorganising in ways that maintain their essential function, identity and structure.
Sensitivity	Sensitivity determines the degree to which a system is adversely or beneficially affected by a given climate change exposure and is a function of the natural and socio-economic context of a particular site.
SMEs	Small and Medium-sized Enterprises (SME) are independent businesses with a certain number of employees and/or turnover, typically smaller than larger corporations.
The Task Force on Climate-related Financial Disclosures (TCFD)	The TCFD provides a framework to help public companies and other organisations more effectively disclose climate-related risks and opportunities.
Transition Plan Taskforce (TPT) Disclosure Framework	The Transition Plan Taskforce (TPT) Disclosure Framework provides guidance for organisations to report on their net-zero transition plans, aiming to promote transparent, robust and credible disclosures.
United nations framework convention on climate change (UNFCCC)	International environmental treaty adopted at the Earth Summit in Rio de Janeiro in 1992. The treaty provides the overarching framework for international cooperation on climate change and serves as the foundation for subsequent agreements and protocols, including the Kyoto Protocol and the Paris Agreement.
Vulnerability¹¹	Vulnerability is defined as the degree to which a system is susceptible to, and unable to cope with, adverse effects of climate change, including climate variability and extremes.

¹⁰ IPCC, 'Annex VII: Glossary' [Matthews, J.B.R and others (eds.)]. In: Climate Change 2021: The Physical Science Basis. Contribution of Working Group I to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change [Masson-Delmotte, V. and others (eds.)]. Cambridge University Press, 2021, pp. 2215-2256. doi:10.1017/9781009157896.022.

¹¹ H.-O. Pörtner, 2022

1. INTRODUCTION

► 1.1. Background

With the impacts of climate change growing ever more severe, the need for clear, actionable strategies has become more urgent than ever. As temperatures rise across South Asia, climate and disaster risks in Nepal are expected to increase, impacting people, the economy and the environment, and threatening development gains. Nepal experiences severe climate-related hazards, including floods, landslides, avalanches, wildfires, droughts and extreme temperatures, all of which continue to grow in frequency and magnitude. Further, average maximum one-day precipitation levels are projected to exceed 60 mm by 2040-2059, which underscores the increasing risks of flooding and landslides in the coming decades.¹²

In 2023, heavy rainfall in eastern Nepal damaged hydropower infrastructure, causing an estimated NPR 8.5 billion (\$63 million) in losses. Snow levels across Hindu Kush Himalaya were a fifth below normal, threatening downstream water security.¹³ At the same time, accelerated glacial melting and the risk of glacial lake outburst floods (GLOFs) are rising – Nepal has over 2,000 glacial lakes, some of which have already triggered disasters, including the Bhote Koshi (2016) and Barun Khola (2017) glacial lake outburst floods and the Melamchi (2021) flood and landslide, which severely disrupted the water supply to Kathmandu.

These hazards damage infrastructure, reduce labour productivity and lower agriculture yields. The World Bank estimates that climate impacts could lead to cumulative losses of up to 7% of GDP.¹⁴ NDC 3.0 reports the total estimated costs of the quantified mitigation targets are USD 73.74 billion until 2035 with an expected USD 10.824 billion (14.68%) contribution from Nepal and USD 62.916 billion(85.32%) contribution from international climate finance and support. Also, the total cost of NDC's adaptation priorities from 2025 to 2035 are estimated to be in the range of USD 18 to 20 billion dollars, which are expected to be met from international climate finance and support. The Government of Nepal forecasts that Nepal will require \$47.4 billion (133 percent of FY21 GDP) for adaptation and \$196.1 billion (552 percent of FY21 GDP) for mitigation from 2021 to 2050.¹⁵ There is a significant investment gap to mobilise Nepal towards the goals of the Paris Agreement, with an urgent need to scale up financing for the global transition towards low greenhouse gas emissions and a resilient economy.

As key intermediaries financing the real economy, the banking sector plays a vital role in advancing the goals of the Paris Agreement. However, climate-related risks also pose complex and significant challenges to banks' portfolios, requiring careful assessment and management. They not only have to support their clients in navigating the transition to a low-carbon economy but must also prioritise financing sustainable solutions and collaborating with clients to manage climate risks while also safeguarding their own portfolios against climate-related risks.

The environmental and social risk management (ESRM) guidelines introduced by Nepal Rastra Bank (NRB) in 2018¹⁶ provide specific guidelines for financial institutions to ensure climate change considerations are integrated in their environmental and social management systems, so that environmental and social (E&S) risks, including climate-related risks, are incorporated into the lending

¹² Nepal – Climate and Health Vulnerability Assessment, 2024

¹³ SNOW UPDATE REPORT 2024: Water shortages feared as Hindu Kush Himalaya sees "extraordinary below normal snow year" – second-lowest snow persistence on record, 2024

¹⁴ World Bank, Country Climate and Development Report, 2022

¹⁵ Country Climate and Development Report: Nepal, 2022

¹⁶ Nepal Rastra Bank – Environmental & Social Risk Management (ESRM) for Banks and Financial Institutions, 2022

process. Additionally, to further align the financial sector with Nepal's climate change policy and net-zero target, the Nepal Green Finance Taxonomy was introduced in 2024 (See section 1.4 below). To effectively address climate-related risks, financial institutions are key to supporting the private sector in developing adaptation and mitigation strategies that strengthen the resilience of people, sectors and the broader economy during the transition to a low-carbon future.

► 1.2. Objective

The primary objective of this study is to assess the maturity of the climate transition in Nepal's commercial banking sector, and to analyse the current state and future ambitions of commercial banks regarding climate-related issues. The study also aims to offer actionable recommendations for banks to further their progress in climate transition.

► 1.3. Methodology

1.3.1. Maturity matrix development

To evaluate the level of maturity of the climate transition of Nepalese banks, a climate maturity matrix was developed, drawing on several key reference frameworks. These include the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), the IFRS S2 Climate-related Disclosures, the Transition Plan Taskforce (TPT) Disclosure Framework, Nepal Rastra Bank's guidelines on environmental and social risk management (ESRM) and the Nepal Green Finance Taxonomy. These frameworks were used as they form the global baseline for disclosure requirements to help companies and organisations effectively disclose climate-related information, and they ensure alignment with climate-related requirements and Nepalese frameworks for the local context.

The matrix is based on the four core pillars of the TCFD framework and the IFRS S2 disclosure recommendations: governance, strategy, risk management, and metrics and targets (Figure 1), with each pillar comprising a set of questions drawn from the requirements of the frameworks. To assess

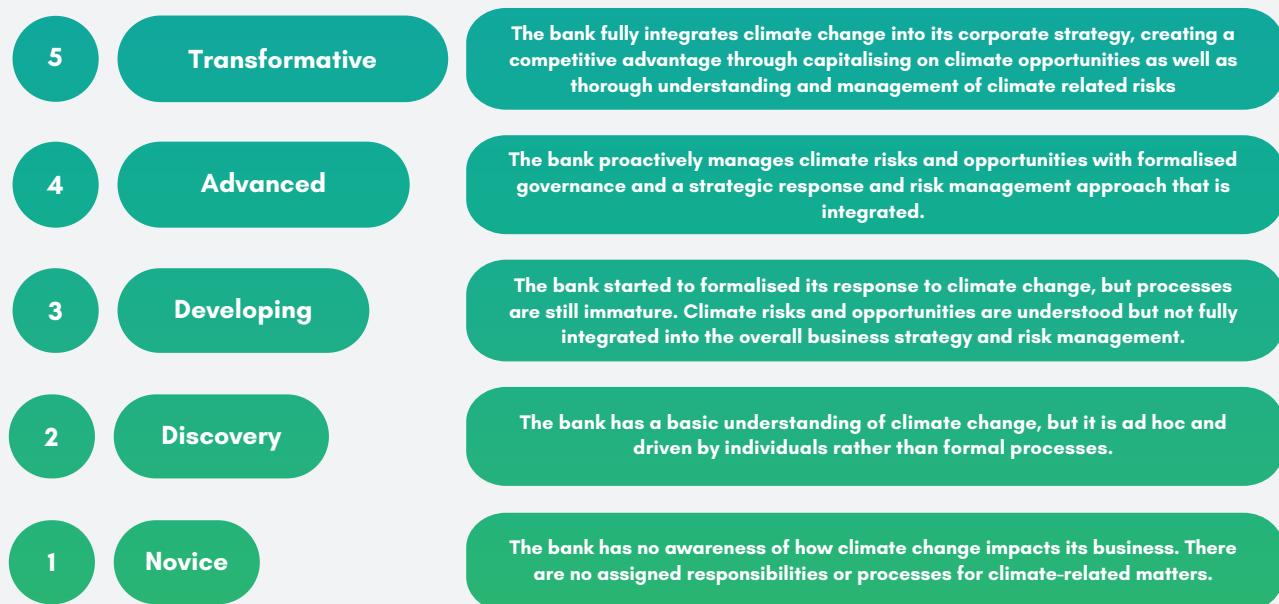
Figure 1: Assessment areas (pillars)

Governance	Strategy	Risk Management	Metrics and Targets
Governance structure, processes and capabilities through which the objectives related to climate change response of the organisation are set, progress against performance is monitored, and results are evaluated.	<p>Resilience of an organisation to actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.</p> <p>Transition plan, which is an aspect of an organisation's overall business strategy that lays out a set of targets and actions supporting its transition toward a lowcarbon economy.</p>	<p>Processes of an organisation in identifying, assessing and managing climate-related risks including consideration in credit approval process and how they're integrated into overall portfolio management system.</p>	Metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material, such as scope 1, 2 and 3 GHG emissions , use of internal carbon price in decisionmaking and targets used to manage CRO and to measure performance.
Disclosure			
External publication of climate-related disclosure			

if the banks have a transition plan in place, additional transition plan questions derived from the TPT were included. These questions only required responses if the bank indicated that it had a climate strategy or was planning to develop one.

The matrix consisted of 25 questions, with responses selected from a five-tier scale: novice, discovery, developing, advanced and transformative (Figure 2). The tiers were designed to be appropriate and relevant to an emerging market context. Detailed considerations and a suggested evidence base were provided to help banks determine their current level of maturity accurately. Each bank gave its current ranking and a ranking for where it aims to be in two to three years, along with a justification for why it selected these rankings.

Figure 2: Five-tier scale of maturity level



1.3.2. Data collection

The self-assessment maturity matrix was distributed to all 20 Class A banks. To support them in completing the assessment effectively, a workshop was conducted on how to interpret the matrix. Other than the explanation required in the self-assessment to explain their scoring, no separate evidence was collected to justify the banks' assessment. However, interviews were conducted with 11 of the 20 banks to gather further insights into current practices, clarify the information submitted and offer support in ensuring the information reported was accurate and complete. The banks selected for interview were a mix of the population, including market leaders as well as banks that reflected the average current state. Lastly, a calibration process was applied to validate and standardise the results to ensure consistency in scoring across the sample.

1.3.3. Limitations

The banks rated their own climate maturity levels, which could lead to bias. To reduce this risk, the team hosted a workshop ahead of the self-assessment, conducted interviews and reviewed the reasoning provided by the banks in their assessments. Where material gaps were noted, the scores were adjusted. As noted above, not all banks were interviewed. Banks were not required to provide evidence or documentation to justify their rating responses, for reasons of confidentiality.

► 1.4. Climate finance landscape in Nepal

Given emerging climate-related risks, the Government of Nepal has formulated national and sectoral policies and regulatory frameworks to advance climate action and a green economy. It has released a long-term strategy aiming to achieve net-zero emissions by 2045, five years earlier than in their previous Nationally Determined Contribution (NDC).¹⁷ Key frameworks such as the National Climate Change Policy and the National Adaptation Plan (NAP) direct Nepal's adaptation and mitigation efforts. However, Nepal needs significant financial resources to meet its climate and environmental ambitions. Beyond government leadership, Nepal's climate finance landscape is shaped by a network of key actors – including Nepal Rastra Bank (NRB), commercial banks and industry bodies such as the Nepal Bankers' Association (NBA) – which collectively drive progress towards a resilient, low-carbon future.

1.4.1. Nepal Rastra Bank (NRB)

Nepal Rastra Bank is the central regulatory authority for Nepal's financial sector, overseeing commercial banks, development banks, finance companies and microfinance institutions. In 2018, the bank issued a guideline on E&S risk management (ESRM) for banks and financial institutions, an E&S due diligence checklist and E&S risk rating tool, and an annual reporting template that was mandated for banks by 2020. In 2022, the bank updated its guideline on ESRM to include consideration of climate-related risks. The updated guideline outlines climate-related risks and their implications for financial institutions, with a supporting question added to the environmental and social due diligence checklist to assess whether clients' operations involve any climate-related risks or opportunities. Banks and financial institutions are required to assess whether the project site in question lies in an area prone to natural disasters, and whether the client has a disaster management system or business continuity plan in place to mitigate the impact. Additionally, there is a requirement to check processes to measure greenhouse gas (GHG) emissions. Clients emitting more than 25,000 tCO₂e have to report this fact, and should ideally have an emissions reduction plan in place.

NRB has mandated that by Mid July 2027 for the energy sector and Mid July 2028 for the Agriculture Sector, commercial banks must allocate at least 15 percent of their total credit to the agriculture sector and 10 percent to the energy sector.¹⁸ Together, this 25% exposure to the hydropower and agriculture sectors represents a significant and systemic risk. Both sectors are highly sensitive to climate issues: agriculture is vulnerable to rainfall variability and drought, while hydropower faces risks from changing river flows, glacial retreat and extreme weather. This concentration of risk underlines the urgent need for the banking sector to prioritise climate-related risk assessment and management.

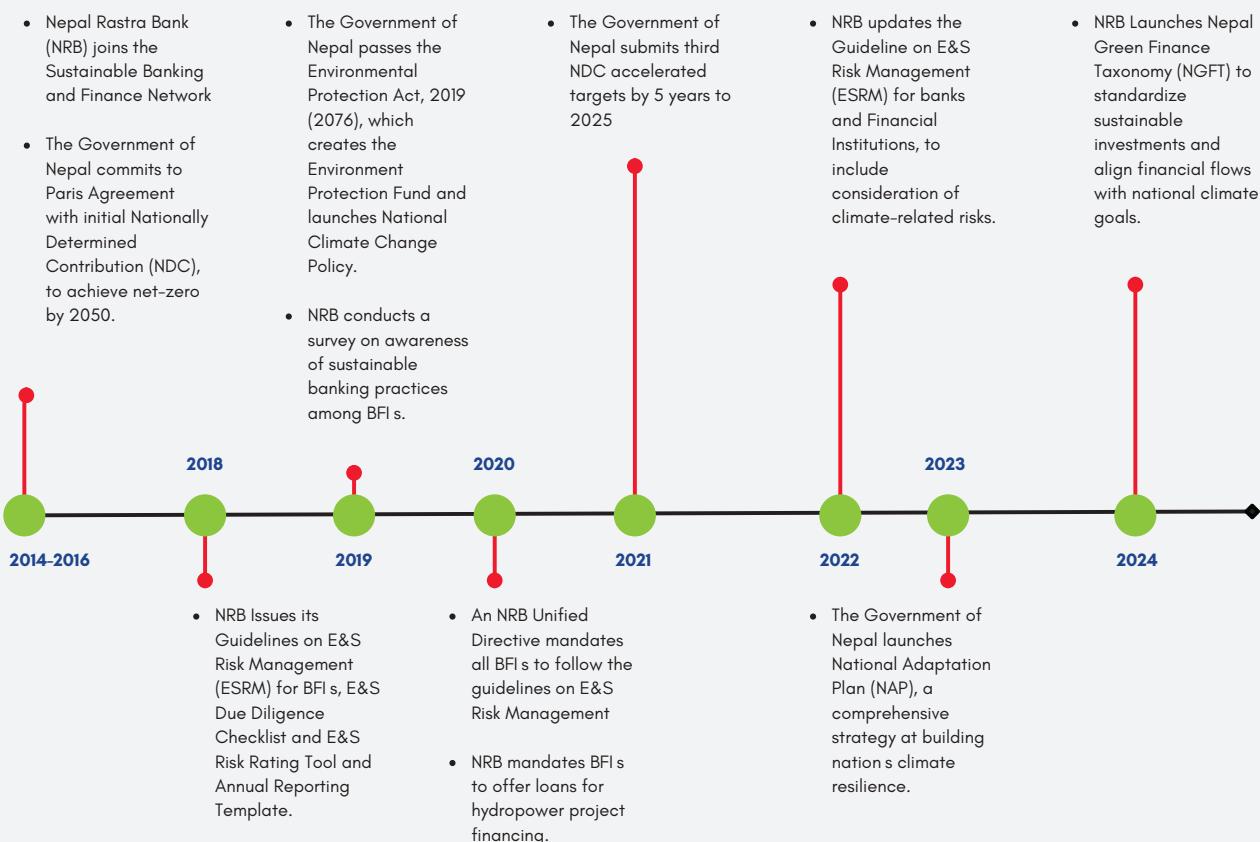
The Nepalese Green Finance Taxonomy 2024 was introduced to support Nepal's Climate Change Policy and NDC by encouraging banks and investors to align financial flows with climate and environmental goals, and to enhance transparency by defining what qualifies as "green". The taxonomy will help banks determine which activities align with the requirements of the Paris Agreement, thus creating a more resilient portfolio.

¹⁷ Third Nationally Determined Contribution (NDC) Under the United Nations Framework Convention on Climate Change (UNFCCC), 2025

¹⁸ Monetary Policy for FY 2020-21



Figure 3: Timeline of climate and broader sustainability-related regulatory milestones



1.4.2. Commercial banks

Commercial banks dominate the banking and financial institution sector in Nepal, and represent 89% of total assets in the capital market. These banks are classified as 'A' Class financial institutions by Nepal Rastra Bank, Nepal's central bank and regulator of the banking sector. Twenty licensed commercial banks operate across the country, with an extensive network of The branches reported at Ashoj End, 2082 were 5101 covering all 77 districts. These banks serve corporate clients as well as individual customers, offering comprehensive banking services including deposits, loans, trade finance, remittances and, increasingly, sustainable finance products. They play a critical role in mobilising finance for climate adaptation and mitigation, and are increasingly required to integrate climate and environmental risk assessments into their lending decisions, reflecting the growing importance of sustainability in Nepal's financial landscape.

1.4.3. Nepal Bankers' Association

Nepal Bankers' Association (NBA) is dedicated to promoting efficient and modern banking practices in Nepal. Its primary objective is to develop and enhance the banking sector through contemporary principles and prudent practices.

NBA has played a central role in advancing environmental, social and governance practices and sustainable finance in Nepal through various capacity-building, policy advocacy and knowledge-sharing initiatives. It has a dedicated sustainable finance department to lead and coordinate ESG-related initiatives in the banking sector, and has created a community-of-practice (CoP) for continuous learning and peer exchange between banking professionals around ESG practices. NBA has partnered with the Barcelona School of Management to deliver a certified ESG course as well as leadership masterclasses for board members and CEOs. To decentralise ESG knowledge and build local capacity, NBA has launched province-level training programmes across all seven provinces.

In addition to the present study, NBA has published several studies to identify gaps and areas for improvement in sustainable finance in Nepal's banking sector. One of these was an environmental, social and governance (ESG) landscape analysis of financial institutions in Nepal, evaluating internal environmental and social risk management systems and their maturity in selected banks in Nepal.¹⁹ The report identifies best practices among banks, offers peer comparisons, and highlights implementation experiences and challenges. It found that there was a mostly even spread between low, intermediate and high levels of E&S maturity among banks, although none had a fully established and functional ESRM system.

Through these ongoing initiatives and its role in ESRM assessment, NBA has established itself as a key driver in advancing the integration of ESG issues and addressing climate risks within Nepal's banking industry.

► 1.5. Key opportunities and challenges for the climate transition

The transition to a low-carbon and resilient economy comes with a number of opportunities for the commercial banking sector in Nepal. Banks with a high ambition that seek to make climate change a strategic priority can play a transformative role in building a more sustainable and resilient financial system, one that not only mitigates climate risks but also capitalises on emerging opportunities.

1.5.1. Opportunities

1. Increased investment from MDBs and DFIs: As the world transitions to a low-carbon economy, multilateral development banks (MDBs) and development finance institutions (DFIs) commit to providing financing to low-income and middle-income economies to assist in the transition. At COP29, developed nations committed to mobilise \$300 billion annually by 2035 to help developing countries tackle climate change.²⁰ Several banks in this study are already receiving capital linked to climate objectives, predominantly in the form of capacity-building, product development and readiness grants and investments, and debt and bond transactions primarily targeted at climate-related interventions.

2. Increased portfolio resilience: Climate shocks will impair borrowers' ability to repay debt. Integrating climate change-related risks into decision-making processes will allow banks to incorporate climate risks into credit risk, and to understand material risks and their likely impacts. Integrating corrective actions as part of lender agreements will help banks improve their clients' resilience to climate hazards, and thus the resilience of their loan portfolios.

3. Satisfying demand for climate solution products: Developing climate-focused products allows banks to tap into growing demand for sustainable finance while future-proofing their portfolios. By expanding their product offering to include climate products such as green bonds, disaster-resilient loans and other sustainable finance instruments, banks can diversify revenue streams, enhance the value and quality of their loan portfolios and position themselves as market leaders, setting them apart from competitors for clients that wish to further their own climate transitions.

1.5.2. Challenges

The banking sector has an essential role to play in driving adaptation and mitigation measures to address climate change-related risks. However, the transition also presents numerous challenges for

¹⁹ NBA – Environmental, Social and Governance Landscape Analysis of Financial Institutions in Nepal, 2024

²⁰ COP29 UN Climate Conference Agrees to Triple Finance to Developing Countries, Protecting Lives and Livelihoods, 2024



banks. This is even more evident for banks in growing economies such as Nepal, which are just starting to address climate issues. Based on the present assessment and responses, key challenges include the following:

- 1. Data availability:** Banks have insufficient access to data on climate and environmental risks in Nepal for robust risk assessments on vulnerability and exposure to climate change. Specifically, they lack reliable and location-specific data on physical risks, resulting in challenges in quantifying risks, determining likely impacts on credit risk, and informing decision-making. Challenges were also reported in measuring Scope 3 financed emissions, with many customers not measuring emissions, resulting in low confidence in estimated emission calculations.
- 2. Capacity shortage:** Many banks noted the need to further develop capacity in technical climate areas. Gaps were identified in the specialist and sectoral knowledge required to conduct robust climate risk assessments or to challenge specialist assessments; in identifying adaptation or mitigation measures in response to risk assessments; and in carbon accounting to support Scope 3 calculations.
- 3. Engagement with customers:** One of the key challenges highlighted by the banks was in securing buy-in from clients on climate change issues. Obtaining the information necessary to fulfil ESRM requirements remains a significant hurdle, as does implementing the corrective actions needed to mitigate the risks identified. Banks noted that stronger support mechanisms and targeted incentives for the private sector could encourage clients to invest more actively in mitigation and resilience initiatives.

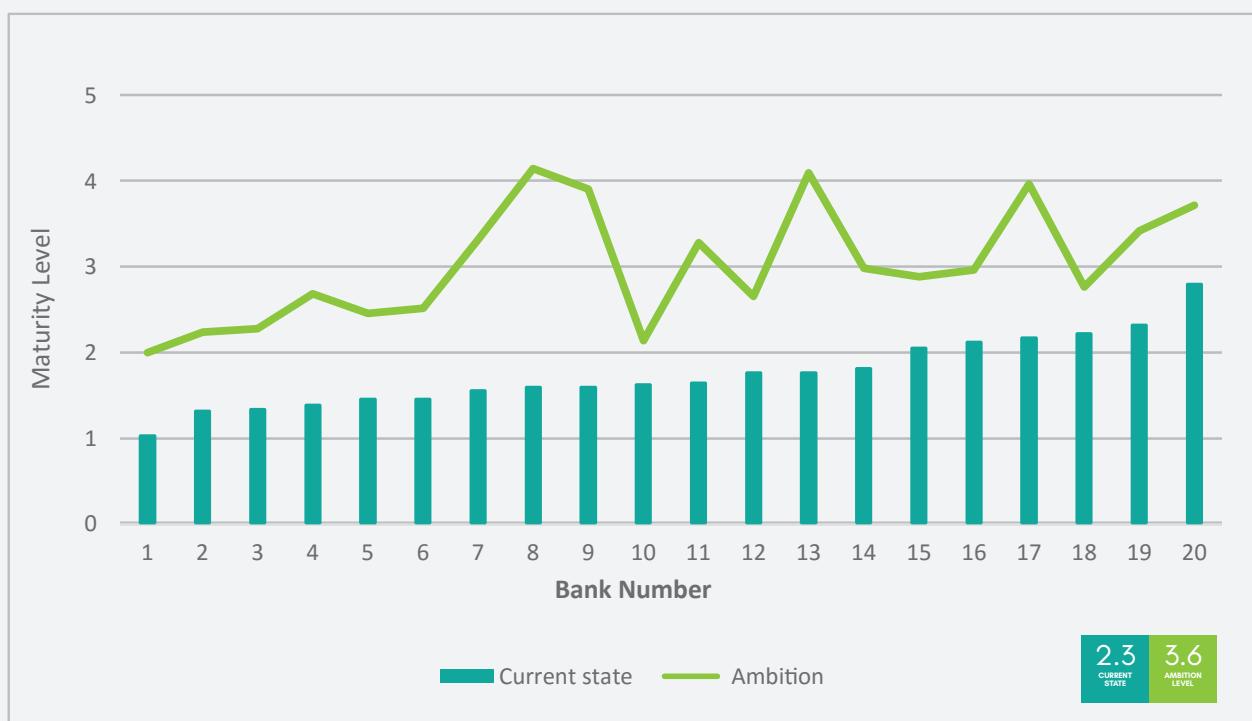
2. MARKET ASSESSMENT

► 2.1. Overview of results

Based on the banks' responses to the maturity matrix, it is evident that the Nepal commercial banking sector is at the beginning of its transition process, with the overall average rating for the current state of maturity being the novice phase, approaching the discovery phase (Figure 4). Moving from novice phase to developing phase will be a significant undertaking, requiring significant investment and resources. Most banks wish to progress towards the developing phase within the next two to three years. Some banks wish to move to the advanced stage, with proactive and strategic management of both risks and opportunities, and supporting targets to drive performance.

Key observations and recommendations are given by theme for each pillar. Each recommendation has been assigned a priority level (high/medium/low) and time horizon to guide structured execution.

Figure 4: Average current state and ambition score of across the pillars



► 2.2. Governance

Climate change poses financial, operational and reputational risks to businesses, making it a strategic governance issue that requires board-level and senior management oversight. As key stewards of Nepal's economic infrastructure, bank boards must not only develop appropriate climate strategies but also ensure their effective execution. Strong governance is the foundation of sound climate risk and opportunity management. With robust climate governance structures and knowledgeable leaders in place, banks will be able to make climate-informed strategic decisions, manage climate-related risks, and establish and track climate-related metrics.²¹ In this pillar, banks were assessed on whether they demonstrated the following key aspects of climate governance:

²¹ How to Set Up Effective Climate Governance on Corporate Boards Guiding principles and questions In collaboration with PwC., 2019

Incorporating climate-related issues into the board's remit

Board or board-level committees provide clear leadership on climate change, with regular and structured updates on climate-related issues to steer decision-making.

Setting roles and responsibilities within management

Clearly defined and documented roles and responsibilities for managing and assessing climate-related risks and opportunities at transaction and portfolio level, with oversight by the credit committee.

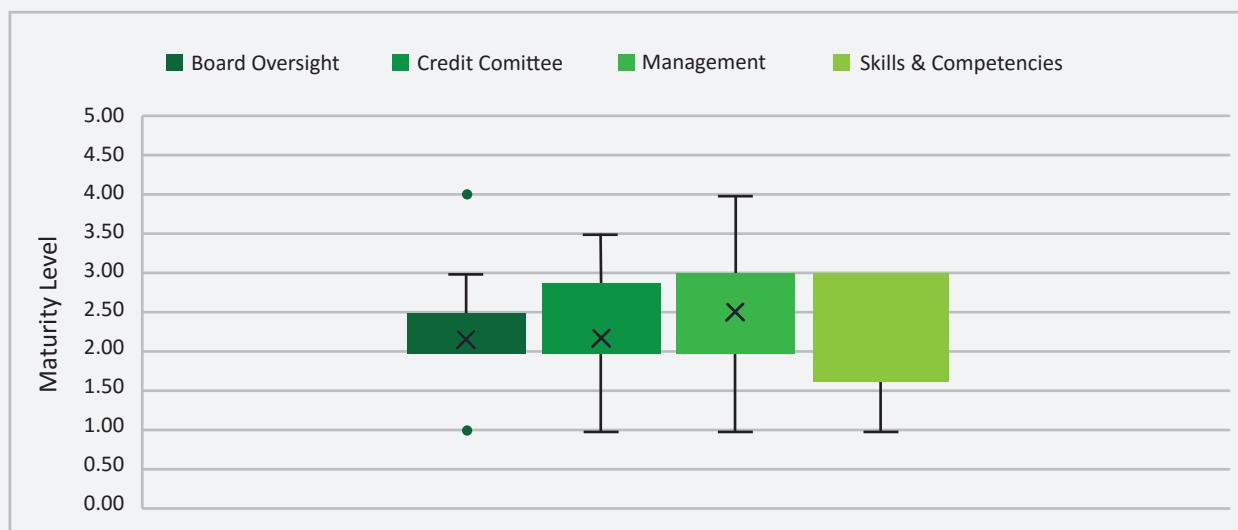
Developing the right skills to address climate issues

The board and management have sufficient expertise to address climate change issues and broader environmental and social considerations. Regular training and capacity-building initiatives are in place to educate leadership and staff across the organisation, and gaps in the bank's internal capability on climate-related issues are regularly assessed.

2.2.1. Market assessment of climate-related governance

Governance was the highest performing pillar, with most banks at the discovery phase (average score: 2.24), with 13 banks (65%) at this level while five banks (25%) were at novice level, and two (10%) at developing level. This suggests that in general the banks have started to incorporate climate matters into their governance structures, but it is currently on an ad hoc basis and driven by individuals. Most banks have started reporting basic climate-related information to executive management and the board, although mostly related to ESRM implementation.

Figure 5: Governance (current score)



NRB's ESRM guideline requires an E&S officer to be nominated, which all banks have complied with. Generally, governance of climate matters fell within their remit, rather than being a distinct topic with separate responsibilities. Overall governance of climate matters was most embedded at management levels, including credit committees, rather than at board-level. NRB monitors implementation of the ESRM guideline, with banks reporting data on those trained in ESRM, which likely contributed to the higher scores for skills and competencies in this pillar. Showing a similar trend to governance as the highest scoring pillar among current practices, the banks also had the highest ambition for future improvement (average score: 3.60), aspiring to implement practices in the next two to three years. This signals an appetite to formalise climate-specific roles and responsibilities and to view climate as a strategic issue.

2.2.2. Inclusion of climate-related issues as part of the board's remit

Key observations

For most banks, the board receives ad-hoc information on climate-related issues, primarily through the risk categorisation of E&S risks, and particularly for high-risk sectors such as hydropower and heavy industries. This indicates that climate-related updates are passed on when they are considered material and relevant, and are often part of broader E&S risk discussions. Three banks (15%) explicitly reported that there is no oversight on E&S risks by the board or board-level committees, although all banks reported that their ESRM policy (or equivalent), which includes climate within its remit, was approved at board level. The banks that scored higher reported regulatory updates to the board and escalation procedures for credit proposals, and outlined the appropriate expertise of the board. Overall, while most banks integrate climate-related issues into broader risk frameworks rather than addressing them separately, some are beginning to develop standalone climate policies or more explicit reporting mechanisms.

In the wider Asia region, the vast majority of banks reported that the board had oversight of sustainability. The most common practice was for sustainability to be included among the board's other duties, although there was little transparency regarding board discussions around climate.²²

Recommendations

Priority	Time horizon	Recommendation
High	1-2 year	Banks should formalise board-level oversight of climate-related issues. This should define and include regular reporting, regulatory updates and progress on climate initiatives. Additionally, banks should embed climate into existing board duties such as strategy, budgeting and risk policy reviews via a standing agenda item for climate/ESG. This ensures systematic linkage without requiring separate processes.

²² Banking Asia's Future: How to Align with National Climate Plans, 2022

Priority	Time horizon	Recommendation
High	1-2 years	Banks should strengthen credit committee responsibilities to explicitly review climate risk exposure in lending decisions. Climate-related considerations should be added to the template credit proposal, to provide the credit committee with information such as material risks, corrective measures for mitigation or adaptation and their estimated financial impact, greenhouse gas emissions and climate opportunities.
Medium	2-3 years	Banks with higher ambition should consider establishing a dedicated ESG/sustainability committee (or sub-committee) with cross-functional representation (e.g., risk, credit, strategy) to drive accountability. Cross-committee coordination and dedicated structures reflect higher climate governance maturity.
Medium	2-3 years	Banks should consider climate-related and ESG expertise as a factor in board composition and nomination processes. This would include updating the board's skills matrix, requiring candidates to demonstrate relevant experience and expertise, and evaluating candidates based on their understanding and ability to manage climate-related issues.

Leading practice

One bank has a plan for climate-related risks and opportunities as part of its five-year strategic plan, which heightens its priority for the board. It also has a capacity-building plan that includes the board and ensures the organisation has the necessary expertise to effectively address climate change matters. The bank has an appointed climate champion on the senior management team who liaises with the board as the strategy is implemented.

2.2.3. Setting roles and responsibilities within management

Key observations

At most Nepalese banks, climate-related responsibilities are typically integrated into broader E&S risk roles rather than as separate climate-related responsibilities. Most banks assign these duties to E&S risk officers, who often report to the chief risk officer (CRO) as part of the risk function. Operational tasks such as due diligence and portfolio monitoring are usually carried out by relationship managers and staff at the branch level, with oversight from the ESRM officer. However, several leading banks now have dedicated green and sustainable banking units that go beyond basic compliance. These specialised teams focus on developing climate-aligned financial products, proactively identifying transition opportunities and implementing targeted sustainable banking initiatives.

For climate risk monitoring, most banks report regularly to senior management and the credit committee on high/medium/low E&S classified risks in their portfolios. Five banks (25%) reported that climate risk oversight fell under existing risk or credit management committees, while two banks indicated plans to establish a board-level committee for climate (including broader E&S).

Recommendations

Priority	Time horizon	Recommendation
High	1-2 years	There should be a clear commitment from senior management, ideally the CEO, regarding the importance and active management of sustainability and climate issues, to signal the tone from the top and demonstrate it is a strategic priority.
High	1-2 years	Banks should have a clear organisational structure to detail how climate-related issues are managed and assessed by specific roles within the bank, and how they are documented in ESRM policy and environmental and social management systems. Climate-related responsibilities should be delegated to a range of functions to align with the breadth of the climate policy, with dedicated working groups or units consisting of diverse expertise. This needs to come with education on how their role contributes to the overall strategic objective. Reporting lines, flows of information and frequency of updates should be defined.

Leading practice

A bank's CEO has issued a commitment to embed sustainability-driven principles across the bank's operations. This directive has been institutionalized via two dedicated units: the green and sustainable banking team, which designs sustainable financial products, and the environmental and social risk management (ESRM) unit, which integrates climate risk assessments into credit approvals. Oversight is reinforced through a structured reporting framework, with E&S officers in the integrated risk management department directly reporting to the chief risk officer and having input on lending decisions. Quarterly portfolio-level risk reports to the risk committee and annual account-level monitoring ensure ongoing accountability. To further strengthen governance, the board is evaluating the possibility of a standalone sustainability committee. Strategic execution is advanced through four prioritised workstreams developed with the support of international commercial lending partners. These workstreams focus on a green banking roadmap, sector-specific impact assessments under an MRV framework, the development of NGFT-aligned green products, and institution-wide capacity-building



2.2.4. Developing the right skills and competencies to address climate issues

Key Observations

While 10 banks (50%) reported that they had conducted staff-level training on general E&S topics, these programmes often lacked a specific focus on climate-related risks and opportunities, such as risk assessments and decarbonisation strategies. Of these, four banks (20%) reported that the trainings were specific to relationship managers, credit officers/analysts or risk officers for ESRM implementation. Three banks (15%) reported that senior management or CEOs had received external climate-specific trainings – some of which was provided through technical assistance from the DFI the bank collaborated with, or from industry bodies such as the Nepal Bankers' Association. Five banks (25%) said that they had initiated plans to train board members on climate competency, indicating an acknowledgement of the need to build capacity at senior management level. No banks reported that they considered climate-related or ESG expertise to be a factor in board nominations.

Among banks across the wider Asia region, board-level expertise on climate-related matters – a critical factor for effective supervision – remains one of the weakest areas. In a recent study, only around 20% of the 32 banks surveyed reported having board training on climate-related topics.²³ Some banks mention general 'sustainability' or 'ESG' expertise' among the criteria for board nomination, and most banks do not highlight climate expertise in the public profiles of their board members.

Recommendation

Priority	Time horizon	Recommendation
High	1 year	Banks should perform a gap assessment for expected future knowledge and skills required at different levels within the bank. Banks can adopt a tiered training approach to address gaps, ensuring alignment of all levels, from leadership to frontline staff. Knowledge can be built through internal training programmes, which should have a clear linkage to the implications for the banking sector and how to integrate climate considerations into their specific roles.

Leading practice

One bank has established a capacity-building programme supported by technical assistance from an international DFI. This started with a comprehensive assessment of training needs to identify critical knowledge gaps across all levels of the organisation. Based on these findings, the DFI is implementing tailored training programmes designed to strengthen expertise in climate finance, gender-inclusive lending and environmental risk management for both senior leadership and frontline staff. The bank has also aligned its financing activities with capacity-development objectives. Its external borrowing arrangements with various international DFIs incorporate specific requirements for climate finance and renewable energy financing, creating practical opportunities for staff to apply their enhanced knowledge.

²³ Banking Asia's Future: How to Align with National Climate Plans, 2022

► 2.3. Strategy

1.9
CURRENT STATE
3.3
AMBITION LEVEL

Identifying material climate-related risks and opportunities is an essential step for developing a strategy to mitigate risks and capitalise on opportunities. Banks should develop strategies to improve resilience in both their organisations and their portfolios under different climate scenarios – particularly as physical risks become increasingly intense in Nepal. More advanced banks should outline a transition plan that addresses risks and opportunities, charts a path to decarbonisation and focuses on mitigation and resilience. In this pillar, banks were assessed on whether they demonstrated the following key aspects of robust strategy:

Understanding the impacts of climate risks and opportunities, and scenario analysis

Identifying climate-related risks and opportunities and how they affect the bank's portfolio and strategy, with consideration of time horizons and whether the bank has conducted climate scenario analysis to assess the resilience of the business model.

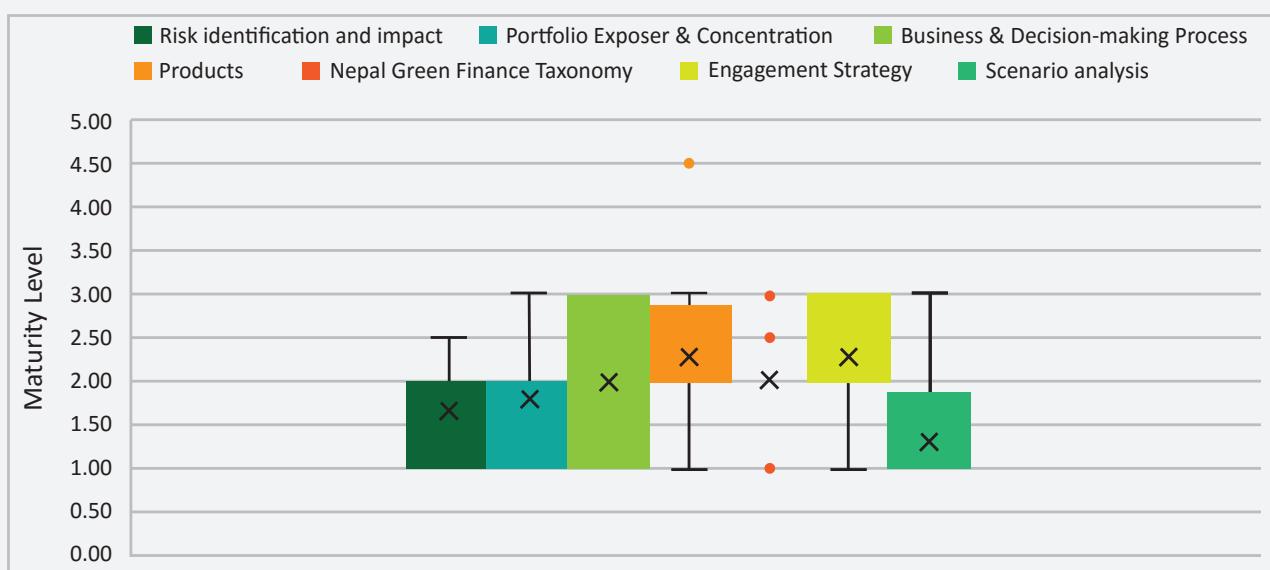
Climate strategy and greening their portfolio

Developing a climate strategy to manage risks and capitalise on opportunities, including whether there is a transition plan or roadmap; evaluating alignment of the portfolio with the Nepal Green Finance Taxonomy (NGFT); and developing green or climate-related products (e.g. green bonds, sustainability linked-loans).

2.3.1. Market assessment on climate strategy

The majority of Nepalese banks are currently at the novice phase for climate strategy (average score: 1.85), with 12 banks (60%) at this level, while eight banks (40%) have progressed to the discovery phase. Additionally, four banks (20%) reported having a climate strategy in place or in development. Most banks have identified climate risks at transaction level, through the ESRM process, rather than at overarching portfolio level. However, some early adopters focused the assessment on particular sectors or asset classes that are more vulnerable.

Figure 6: Strategy (current state scoring)



The banks' responses indicated that their performance in client engagement (score: 2.23) was the highest among all criteria in this pillar. This is attributed to relationship managers collecting data from clients to complete an environmental and social due diligence (ESDD) checklist and assigning a high/medium/low environmental and social risk rating (ESRR) and ESRM for every loan application above NPR 10 million, as per NRB's ESRM guideline. Banks also showed relatively higher performance in green product development (score: 2.18), though market appetite remained mixed. Notably, strategy is the pillar in which the gap between banks' current state (average score: 1.85) and ambition (average score: 3.27) is the widest. This suggests that banks have strong motivation to progress to the developing phase within the next two to three years, aiming to integrate climate considerations into their corporate strategy and key decision-making.

2.3.2. Understanding the impacts of climate risks and opportunities, and scenario analysis

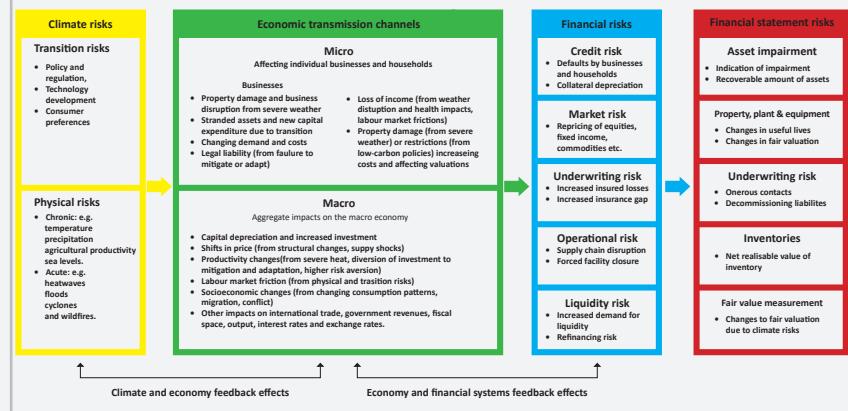
Key observations

Identifying climate-related risks remains largely transaction-driven, with banks primarily focused on physical rather than transition risks. Material physical risks were noted to be predominantly in the hydropower and agriculture sectors, while transition risk were predominantly in heavy industry such as cement, steel and brickmaking, or for customers with international operations or exports. However, structured assessments at a holistic portfolio level to analyse and document these risks thoroughly were limited. While many banks are considering climate risks within ESDD, several banks highlighted low confidence that climate-related risks were being priced into credit proposals for decision-making, due to insufficient data for risk assessments, as well as lack of training.

Several banks noted that they required analysis on how extreme weather events such as floods disrupt credit cycles and cause repayment delays or default in vulnerable sectors such as agriculture and hydropower, which generally have higher percentages of non-performing loans. Given NRB's requirement mandating continued lending exposure to these high-risk sectors, reducing exposure is not a feasible solution. One bank confirmed they had conducted a physical risk portfolio assessment under different scenario futures that also considered the average loan tenor, which was the most advanced practice observed for scenario analysis. A few other banks had identified relevant climate scenarios but noted limitations in capability to conduct the analysis. In the broader East and Southeast Asian markets, banks in the region have shown comparatively more progress in analysing transition risks than physical risks. While they have made some progress on physical risk analysis, most advances come from developed markets and vary in the scope of the assessments and the breadth of climate hazard types.

Recommendations

Priority	Time horizon	Recommendation
High	1 year	Banks should conduct a structured portfolio-level climate risk and opportunity assessment across time horizons. Banks should form a cross-functional working group or taskforce to identify material risks, including the most material physical hazards affecting sectors and geographies as well as transition risks, to determine exposure to carbon-intensive sectors. Banks should set specific parameters such as time horizons and sector classifications to determine exposure.

Priority	Time horizon	Recommendation
High	1-2 years	<p>It is critical that banks make the connection between identifying climate-related risks and their financial impact, to improve the quality of information for evaluating credit proposals. Banks should map the connection between climate risks and the business risk to determine how climate will impact the financial position and performance of organisations and projects. Analysis of which financial aspects are affected by material climate risks should be undertaken for key material risks and included in the credit proposals for evaluation.</p> <p>Figure 7: Transmission channels of climate risks to financial im-</p> 
Medium	2-3 years	<p>Banks should conduct scenario analysis to assess material climate risks under future climate scenarios, and to evaluate their resilience. In selecting appropriate scenarios, they should identify options that align with both physical and transition risk narratives, while tailoring them to their specific business context using reputable sources such as IPCC and NGFS. This process should be led by a dedicated working group with clearly defined roles and responsibilities to determine data requirements, establish feasible time horizons and oversee the analysis. The resulting outputs should then be assessed and leveraged to inform business strategy.</p>

Leading practice

One bank stated that it has completed a portfolio heat map and risk sensitivity analysis to understand physical risk exposure relevant to the geographies where it operates. This was conducted in collaboration with a global development partner. Results from the analysis form part of a climate strategy of the bank which is in development.

2.3.3. Climate strategy and greening the portfolio

Key observations

Only a minority of banks have approached climate change as a strategic topic that creates opportunities rather than being solely a question of risk management. More mature banks view their climate efforts



as a long-term investment, offering favourable rates for green products at their own cost. Only a few banks have initiated work on a holistic climate strategy linked to corporate strategy in the form of a transition plan or roadmap. This plan or roadmap encompasses risk management, decarbonisation and developing a product offering, but most are still in the development stage. Twelve banks (60%) expressed their intention to develop a climate strategy within 2-3 years. Seven banks (35%) have already launched sustainable or green products, while a few additional banks have board-approved plans to roll out a green financing strategy. Most banks discussed electric vehicle (EV) loans as a product, following a government initiative to introduce EVs. Other products included green mortgages and deposits, although those banks which had pursued these noted mixed market appetite and uptake, and some products were discontinued.

Engagement with customers on climate-related issues is mostly limited to implementing the ESRM guideline to assess climate-related risks and identify mitigation measures. Most banks reported that they advised clients to make corrective actions. Five banks (25%) said that they incorporated relevant covenants before loan disbursement, applied case-by-case. Banks frequently cited challenges in securing client cooperation for corrective measures, noting that this resistance created potential risks of loss of business.

Given the recent implementation and voluntary status of the Nepal Green Finance Taxonomy, no bank had carried out an initial assessment of its portfolio against the taxonomy, due to data constraints and technical capacity to map portfolios or to define eligibility criteria. Two banks (10%), however, stated that they were planning to conduct an assessment in the near term and were mapping out the process to do so.

Across East and Southeast Asia, most net-zero commitments come from developed-market banks in Japan, South Korea and Singapore.²⁴ Regarding sustainable debt issuance in the region, China accounted for 85% of the total, while ASEAN economies and India contributed nearly 15%.²⁵ Green bonds represent the largest share of this issuance across all markets, followed by sustainability-linked loans.²⁶

Recommendations

Priority	Time horizon	Recommendation
High	2-3 years	<p>The Government of Nepal has submitted a long-term strategy for emissions to achieve net-zero by 2045. Banks should align with the national commitment, align portfolio emissions with the 2045 goal, and include the Paris Agreement in a position statement. The long-term commitment should be supplemented by timebound interim targets and sectoral plans to reach the targets, which can broadly be considered a transition plan. The transition plan should include the bank's ambition and the action required to achieve it, and should define accountabilities in the bank.</p>

²⁴ Banking Asia's Future: How to Align with National Climate Plans, 2022

²⁵ Cheng Hoon Lim, 2024

²⁶ Idem

Priority	Time horizon	Recommendation
Medium	1 year	As part of the transition plan, banks should canvas options for developing green or climate-related products to support their customers' mitigation and adaptation efforts. Products and services could include using additional climate-related conditions/ covenants in existing products or services to incentivise customers, providing advisory services on climate-related risks and opportunities, changing products and services to consider climate risks (e.g. green mortgages for energy efficient homes, or green bonds) or changing products and services at retail and SME banking level to support climate-vulnerable clients. Banks should describe the underlying taxonomy, tools, methodologies and definitions used to classify products as climate or sustainability linked.
Medium	2-3 years	Banks should use the Nepalese Green Finance Taxonomy to conduct an assessment to determine alignment of their portfolio with a low-carbon future, to help determine exposure to transition risk. Banks should implement a tagging system to the credit process at transaction-level against the NGFT to build data that will support the overarching assessment.
High	1-2 years	Banks should develop a structured client engagement strategy to lead engagement with clients, particularly those in high GHG-emitting sectors or climate vulnerable sectors. The strategy should include how it engages with clients on their transition priorities and mitigation measures, how clients are engaged with climate or sustainability-linked products, and any escalation processes where engagement doesn't lead to the desired change.

Leading practices

One bank has taken steps to develop a climate strategy to align its operations and financing activities with Nepal's Nationally Determined Contribution (NDC) to achieve net-zero emissions by 2045. While still in its early stages, the bank has implemented a transition plan focused on client engagement, green product innovation and public-private collaboration. The bank focuses engagement on emission-intensive sectors to reduce their environmental footprint and impact. It has launched innovative green financial products that were among the earliest of their kind in the market.

One bank has become a Green Climate Finance-accredited financing facility in Nepal as part of its mission to implement innovative and transformative climate change projects.



► 2.4. Risk Management

2.0
CURRENT STATE
3.1
AMBITION LEVEL

Risk management is particularly important in the Nepal context, where extreme weather events and chronic changes are already having a notable impact on banks' portfolios. Climate risks should be taken into consideration when the bank determines its risk appetite and the interplay with traditional risk categories such as credit risk and market risk. At a transaction and portfolio level, risk management should be in place to identify, assess and manage climate risks. Advanced banks embed these climate risk management systems into existing processes, and develop strategies to manage risk on an ongoing basis. Banks were assessed based on whether they demonstrated the following key aspects of climate-related risk management:

Assessing transaction-level climate risks across all credit application and review processes

Evaluation of climate-related risks to be factored into decision-making processes for transactions and credit approval, through screening and due diligence.

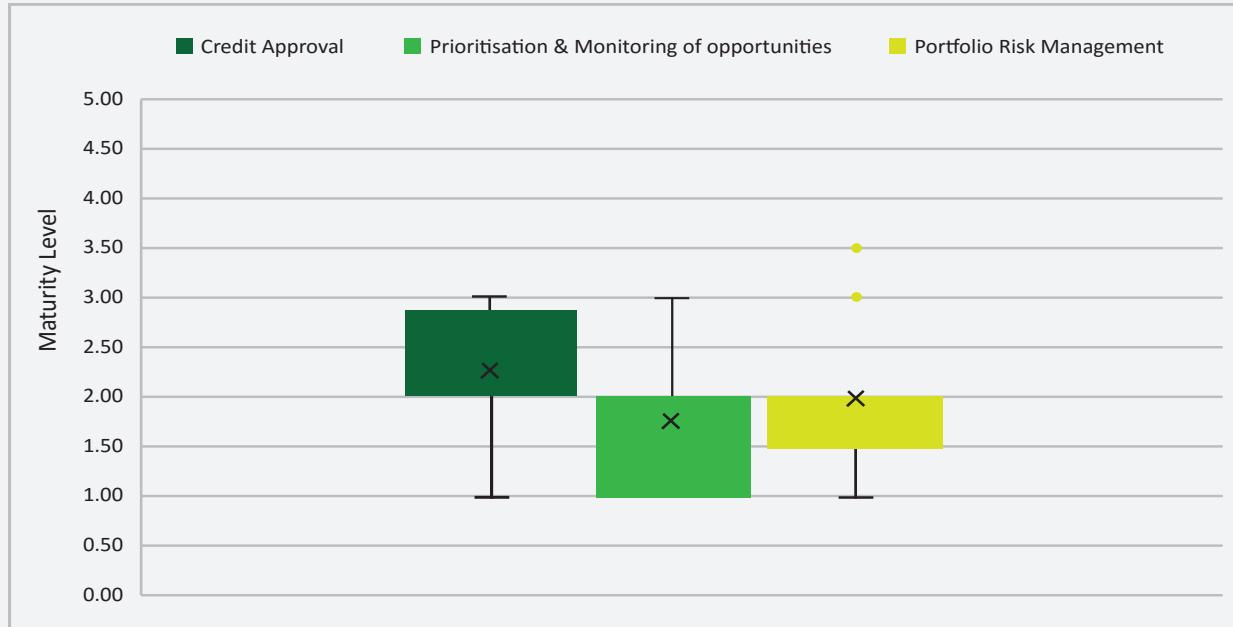
Embedding climate into portfolio risk management

Determining risk appetite for climate-related risks and embedding analysis of physical and transition risks within ongoing portfolio risk management.

2.4.1. Market assessment of climate-related risk management

Risk management was the second highest performing pillar. Nine banks (45%) were at the 'discovery' phase (average score: 2.00), nine (45%) at 'developing' and two at 'novice'. The ESRM guideline has driven up performance in this pillar, following the introduction of climate to the guideline in 2022 and the requirement to categorise the portfolio into high, medium and low E&S risk.

Figure 8: Risk management (current state scoring)



Most banks have started to consider climate-related risks in transactions where it is material, as per the ESRM guideline. However, more work is required to ensure that structured assessments are developed, with a consistent methodology to evaluate risks. Most banks have not started formally incorporating climate-related information in managing their portfolio or embedding climate risks into their enterprise

risk management systems. The banks showed an ambition (average score: 3.27) to implement practices in the next two to three years to bring the market to a developing state.

2.4.2. Assessing transaction-level climate risks across all credit application and review processes

Key observations

Where loans are above the relevant thresholds set for different transaction types, E&S due diligence is triggered per the ESRM guideline and a climate risk assessment is embedded within the broader E&S assessment. The climate risk assessment is performed without standardised methodologies, templates or guidance, and the banks rely heavily on third-party assessment from Initial Environment Examination (IEE) or Environmental Impact Assessment (EIA) for project finance. For medium and high E&S risk, the ESRM guideline requires corrective actions to be identified. Only five banks (25%) reported that corrective actions were included in deal structuring as covenants, with most other banks including corrective actions as optional recommendations. In these cases, there is limited client willingness to adopt the recommendations for adaptation or mitigation. For high-risk sectors such as hydropower, the credit proposals are reviewed at board level.

Post-disbursement monitoring practices varied between banks, with most banks only monitoring climate-related risks where they were identified as a key contributor to the high or medium ESRR classification and there were associated corrective actions. One bank had processes in place for ongoing monitoring of the high and medium risk sections of its portfolio by its ESRM officers, and aims to downgrade to lower risk once corrective actions were implemented, with quarterly management reporting. Overall, while climate is embedded into the ESDD as a separate question, banks lack specific methodologies, templates and guidance to perform thorough and standardised assessments.

Most banks in the wider Asia region similarly conduct a differentiated risk assessment when higher E&S risks are identified, driven by the adoption and advance of ESRM processes required by recent regulations within jurisdictions.²⁷ However, banks do not specify whether environmental risks include climate risks.

Recommendations

Priority	Time horizon	Recommendation
High	1-2 years	Banks should develop a methodology and guidance to support preparations for evaluating climate-related risks for transactions. This should include guidance on material risks for highly climate-sensitive sectors, a template and methodology to assess climate risks, and guidance on corrective actions. Highly sensitive sectors may include agriculture, hydropower, heavy industry, transportation and real estate. The methodology should be aligned with industry-leading practice on assessment of hazard, exposure and vulnerability and should include recommendations for publicly available sources on physical and transition risks, to support the assessment. Capacity-building should be implemented, plus guidance to ensure the methodology and templates are well understood by ESRM officers and those involved in preparations.

²⁷ Banking Asia's Future: How to Align with National Climate Plans, 2022

Priority	Time horizon	Recommendation
High	2-3 years	<p>To strengthen climate risk management, banks should embed climate-specific considerations throughout the entire transaction lifecycle and institutionalise them within environmental and social management systems, moving beyond current ESDD and ESRR practices aligned with ESRM guidelines:</p> <ul style="list-style-type: none"> • Origination and screening: Early-stage deal screening should be employed to exclude certain activities, such as in high-emitting sectors. • Appraisal and due diligence: Climate risk assessments for transactions should be made, using a methodology as recommended above. • Climate risk assessment criteria: This could be accomplished in several ways, including by adjusting financial scores to reflect the costs of adaptation or transition; assigning a weighting to climate-related factors; or a qualitative override for high-risk sectors or activities. • Deal structuring and approval: Climate-related covenants should be incorporated into lending agreements, where material. • Monitoring and reporting: Climate considerations should be included in regular reporting to the bank, including energy reduction initiatives, emissions reporting (where relevant and material), reporting of climate-related incidents, and progress on corrective actions.
Medium	1-2 years	<p>Banks should develop a system to identify or incorporate within existing risk management processes instances when climate risk has been a key cause for a loan to become non-performing. Once collected, data could be disaggregated by sector and region to identify hotspots within the portfolio, and to inform future credit decisions.</p>

Leading practice

One bank assesses climate-related physical risks using third-party data to assess a range of risks such as floods, landslides, rainfall patterns, glacial lake outburst floods and rising temperatures, particularly for hydropower projects and agriculture-related businesses, going beyond the ESDD process required by NRB.

2.4.3. Embedding climate into risk management systems

Key observations

Transactions are classified as high, medium or low for E&S risk, as per the ESRM guideline, as described in Section 2.3. above. Most banks referenced this classification for portfolio-level risk management of climate-related risks. Some banks noted that climate-related risks were starting to be considered

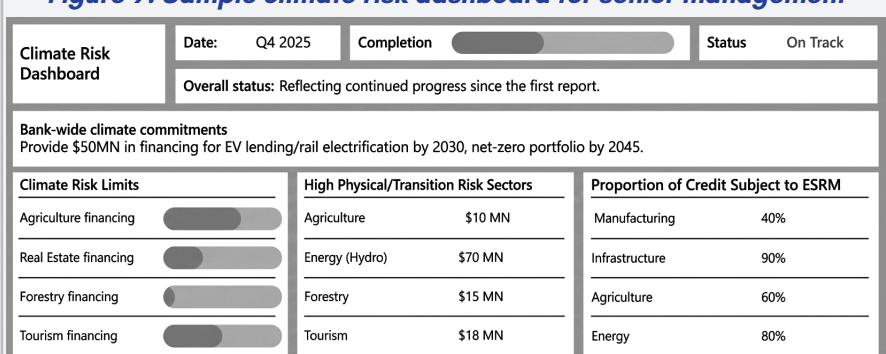
more specifically as part of portfolio risk management, although these processes were not embedded in risk management systems. One bank had conducted a portfolio-wide physical risk assessment, as described in section 2.3.2.1., although this was a one-off assessment with an international partner using ThinkHazard! rather than part of a routine risk management process. No banks reported assessing or agreeing the risk appetite or thresholds to guide portfolio risk management in relation to climate.

Similarly in the wider Asia content, few banks incorporate climate-related risks in their main risk management processes.²⁸ Sustainability teams identify material risks but these are not reflected in central risk planning functions such as being included in the risk register.²⁹

Recommendations

Priority	Time horizon	Recommendation
High	1-2 years	<p>Risk appetite refers to the level of climate-related risk that a bank is willing to accept or tolerate in pursuit of its strategic objectives. Proactively setting a risk appetite enables the bank to make informed decisions about the types and levels of climate risks they are prepared to take on in their operations, loan portfolios and investments, and to incorporate them into their overall risk appetite framework. Banks can incorporate risk appetite by having a risk appetite statement of the acceptable risk level. More advanced banks may set metrics that allow the bank to monitor the risk level in line with the risk appetite statement.</p>
High	2-3 years	<p>The bank should conduct a structured portfolio-level climate risk assessment and a scenario analysis against material risks. The assessment should be conducted on a continuous basis, annually or bi-annually, and institutionalised in the bank's risk management processes. Climate risk should be included within the corporate level risk register to provide the same level of oversight as other key company-wide risks, rather than in isolated discussion in E&S forums.</p>
Medium	2-3 years	<p>Following implementation of a structured portfolio-wide assessment of physical and transition risk, the bank may consider developing a climate-risk dashboard to use for board-level or senior management oversight. Information to be monitored should provide an overview of physical and transition risks, ESRM compliance, and performance against internal or public commitments.</p>

Figure 9: Sample climate risk dashboard for senior management



^{28/29} Banking Asia's Future: How to Align with National Climate Plans, 2022

Priority	Time horizon	Recommendation
High	2-3 years	<p>Once the bank has considered climate-related matters as part of the risk appetite statement, it should implement practices to manage climate-related risks within these tolerance thresholds as part of loan portfolio management. To lay the basis for a comprehensive approach to managing climate risks and to define some concrete risk management measures, banks are advised to classify their loan portfolio management into four key categories:</p> <ol style="list-style-type: none"> 1. Accept: Absorb climate-related losses due to credit defaults or delinquencies on its own balance sheet. 2. Avoid: Withdraw from certain communities or regions that are highly vulnerable to physical climate risks, either temporarily or permanently. This is an effective approach, although it can result in significant reputational risk. 3. Adapt: Enhance resilience to specific natural hazards, either through community infrastructure or site-specific adjustments (i.e., nature-based solutions, early warning systems, capacity-building). 4. Transfer: Hedge potential losses from loan defaults or delinquencies to safeguard the balance sheet, while also offering financial relief services to borrowers. Motivation for transfer will depend on the exposure of the risk.

► 2.5. Metrics and Targets

1.3 CURRENT STATE 2.6 AMBITION LEVEL

To ensure the effective monitoring of material climate-related risks and opportunities, climate-related metrics need to be developed, followed by performance targets to drive positive action. Climate-related metrics allow relationship managers and ERSM officers to evaluate climate-related risks at the transaction level and enable the board and the credit committee to effectively manage risks and opportunities at portfolio level. Banks were assessed based on whether they demonstrated the following key aspects of climate-related metrics and targets:

Adopting climate-related metrics

Adoption of key metrics to measure and manage climate-related risks and opportunities, including Scope 1, 2 and 3 emissions. Whether the bank uses an internal carbon price for decision-making.

Setting climate-related targets

Whether climate-related targets and information about the objectives of such targets have been set, and an indication of interim targets to monitor progress.

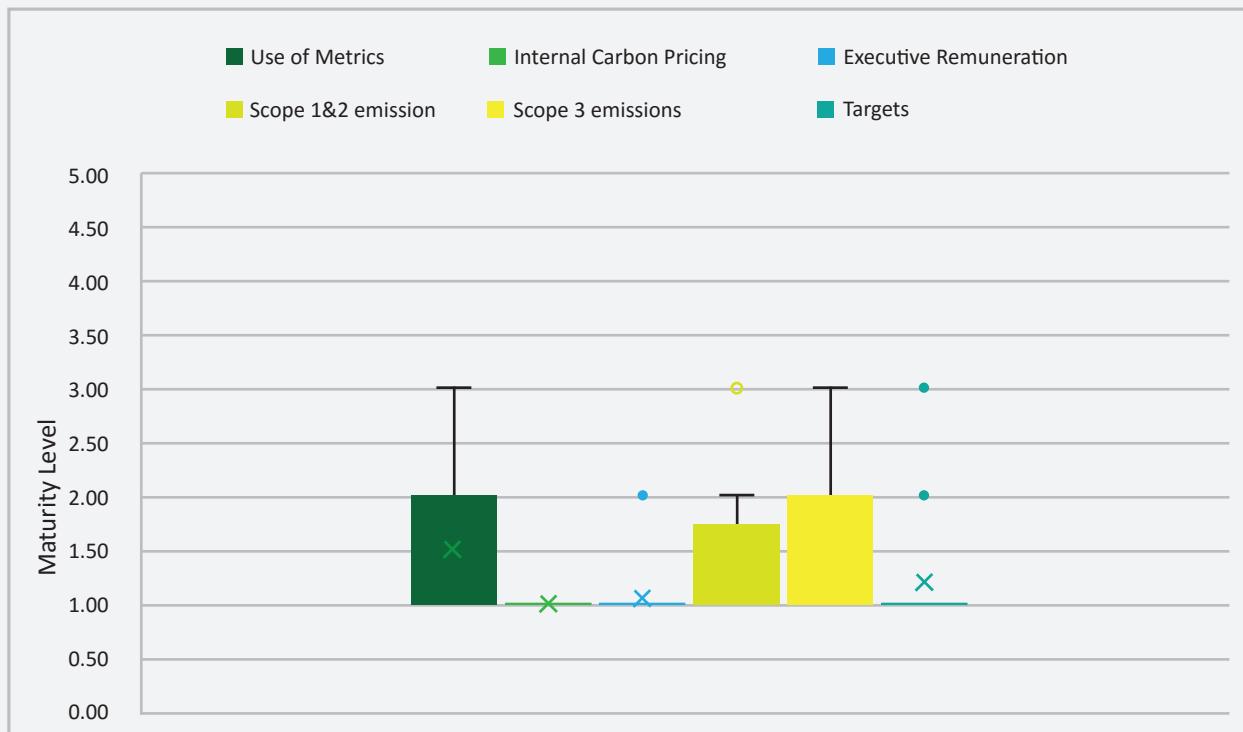
Incorporating climate-related considerations in executive remuneration

Whether climate-related considerations are factored into executive remuneration through performance discussions or performance metrics on scorecards.

2.5.1. Market assessment for climate-related metrics and targets

Metrics and targets was the weakest pillar (average score: 1.30), with thirteen banks (85%) at the novice stage, while only two (10%) were at the discovery level and one (5%) at the developing level. This pillar was expected to be less advanced than other areas, as there are no climate-specific metrics enforced by the ESRM guideline.

Figure 10: Metrics and Targets (current state scoring)



Most banks do not yet actively measure their Scope 1, 2 and 3 financed emissions, and have not set climate-specific targets. Ambition for this pillar was also the lowest (average score: 2.50), remaining at the discovery stage. Most banks have the appetite to implement basic climate-related metrics such as reporting on GHG emissions within the next two to three years, with some more advanced banks also considering other climate-related metrics.

2.5.2. Adopting climate-related metrics

Key observations

Banks are mostly using environmental and social risk rating (ESRR) or GHG emissions as the primary metric to monitor climate-related risks, rather than creating tailored metrics for material identified risks, although some stated an intent to create additional metrics in the near future. NABIL, SANIMA, NMB, Laxmi, NIC can been seen publishing the PCAF reports. Four banks (20%) are measuring financed emissions, with an additional two banks (10%) intending to start this in the near future. For those banks reporting financed emissions, the asset classes being considered varied between banks, with only some asset classes being considered, suggesting that reporting is at an early stage. Some banks have joined as signatories to the Partnership for Carbon Accounting Financials (PCAF), the internationally accepted standard for measuring financed emissions.

Early adopters cited various challenges, particularly regarding data availability and insufficient internal capabilities. No banks expressed an intention to adopt internal carbon pricing in the next 2-3 years.

By comparison, central banks in India and Bangladesh introduced standards aligned with TCFD in 2024 and 2025 respectively. A 2023 assessment of the progress of climate preparedness among 34 major banks in India found that 10 had begun disclosing Scope 1 and 2 emissions and eight were reporting on Scope 3 emissions.³⁰ In the broader Asian market, more than a quarter of the 31 banks assessed in 2022 reported on financed emissions – although most were from developed markets such as Japan, Korea and Singapore.

In the broader Asian market, more than a quarter of the 31 banks assessed in 2022 reported on financed emissions – although most were from developed markets such as Japan, Korea and Singapore.³¹

Recommendations

Priority	Time horizon	Recommendation
High	1-2 years	<p>Banks should establish metrics to monitor material climate-related risks across the portfolio. Established metrics should be relevant and clear, and allow for ongoing trend analysis. Specific metrics should be tailored to the portfolio, but may include:</p> <ul style="list-style-type: none"> • Physical risk: Mortgages in 100-year flood zones, % of portfolio in high-risk ZIP codes (e.g., top quartile of physical risk scores) • Transition risk: Scope 3 financed emissions, % of portfolio in high-transition risk sectors • Climate opportunities: green financing ratio (e.g., % of total portfolio allocated to green, amber and red activities)
High	1 year	<p>Banks should start to measure Scope 3 financed emissions in accordance with the PCAF Standard. Banks can become members of PCAF by submitting a commitment letter and beginning to assess and disclose financed emissions. They should begin by assessing which asset classes have the biggest impact on their business, using available data to determine which to prioritise for calculation. PCAF members are encouraged to improve data quality and increase coverage in the years after adoption.</p>
Medium	1-2 years	<p>Banks should include energy consumption and GHG emissions data in their customer monitoring and information request procedures. Where data is unavailable, methodologies should be developed to enable estimations to be made.</p>

2.5.3. Setting climate-related targets

Key observations

No banks have set public climate-related targets for GHG emissions or energy usage, though early progress is emerging. A few leading banks have begun voluntarily disclosing Scope 1 and 2 emissions, with three evaluating potential net-zero targets for operations, two of which plan to include Scope 3 emissions within their transition plans over the next 2-3 years.

³⁰ IFRS Foundation, 2024

³¹ Banking Asia's Future: How to Align with National Climate Plans, 2022

One bank has set internal targets to align the portfolio with sustainable activities, although it uses its own methodology and definitions, with plans to align with the NGFT. However, many banks face internal capacity gaps to measure and set relevant climate metrics and associated targets.

In the broader Asian region, banks in developed markets, particularly in Japan, Korea and Singapore, are increasingly setting net-zero financed emission targets aligned with national policies. Closer to Nepal's market context in South Asia, no Indian bank had established net-zero targets that covered all three scope emissions.³²

Leading practice

One bank has developed an initial transition plan to align with Nepal's 2045 net-zero NDC, using its own metrics. It has disclosed Scope 3 Category 15 emissions, covering financed emissions from three asset classes. The bank has also implemented processes to collect and report Scope 1 and 2 emissions data. Internally, it has designated E&S champions in each branch and department to gather E&S data, which are consolidated by a dedicated sustainability and environmental impact department for monitoring. Key metrics – including internal GHG emissions and financed emissions – are reviewed regularly by the E&S champions for each of the bank's branches and business units.

Recommendation

Priority	Time horizon	Recommendation
High	1-3 year	<p>Banks should consider the following elements when setting climate-related targets:</p> <ul style="list-style-type: none">• Alignment with the Nepal NDC for net zero by 2045, with a focus on achieving real impact on the economy• Including Scope 1, Scope 2 and Scope 3 emissions in targets, where relevant and where data allow, with growing coverage as data availability improves• A phased approach using interim targets; once the target year elapses, the next interim target should be set, with regular reviews• Approval by the highest executive level at the bank and by the board• Annual reporting on progress against targets

Leading practice

One bank has set an internal target for sustainable financing in its portfolio by supporting sustainable projects such as solar energy, green tech, climate-ready infrastructure, and by continuing to launch green products for retail clients. The bank tracks and discloses its Scope 1 and 2 emissions and is working to measure its full carbon impact, as part of its 2030 roadmap. Within its own operations the bank is progressively adding EV chargers, launching rainwater collection systems and implementing energy-saving upgrades at branches.

³² IFRS Foundation, 2024



2.5.4. Incorporating climate-related considerations in executive remuneration

Key observations

Due to the early stage of this pillar, no banks were linking climate to executive remuneration. This is a powerful tool to align governance to climate objectives, so it is encouraging that a few banks intend to incorporate climate metrics into performance scorecards in the new few years.

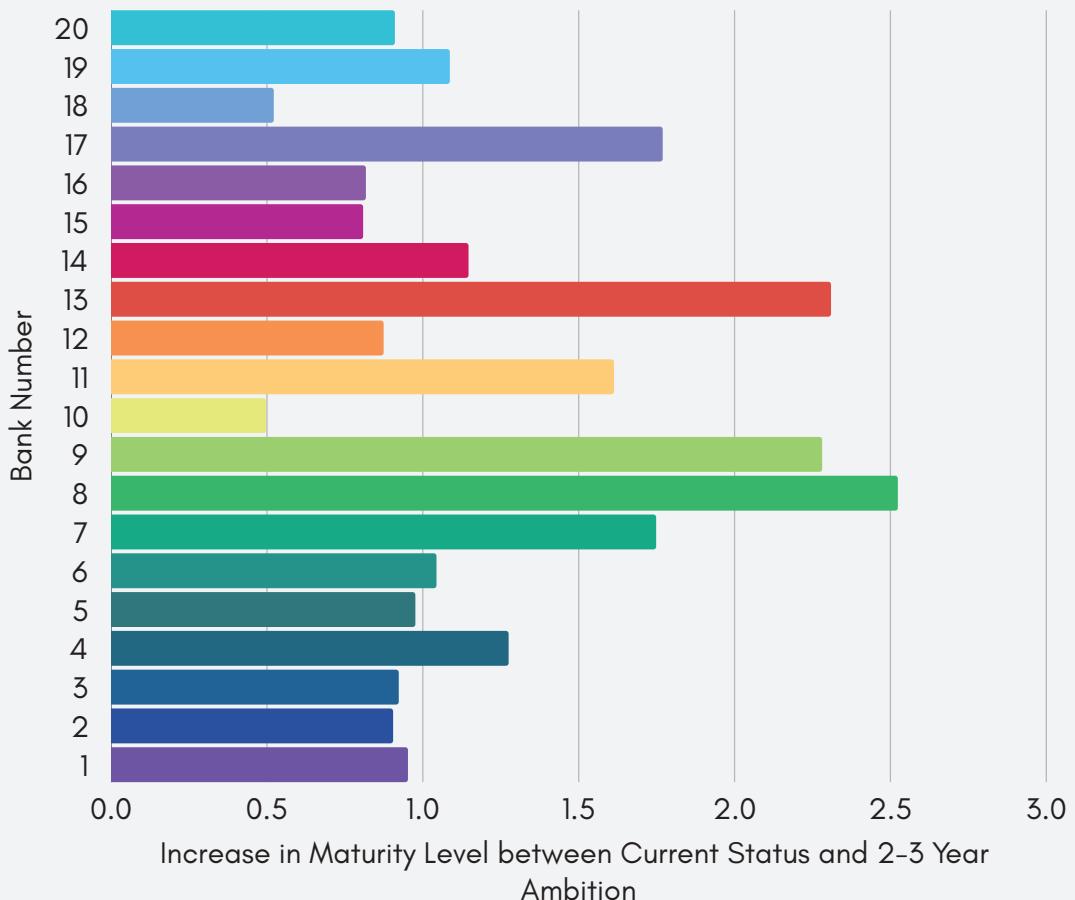
Recommendation

Priority	Time horizon	Recommendation
High	2-3 years	Banks should align their remuneration programme with climate objectives, particularly once targets have been set. Performance metrics should be aligned to climate strategy and be relevant, measurable, transparent and appropriately demanding.

3. RECOMMENDATIONS AND THE WAY FORWARD

Given Nepal's urgent need for climate finance to fund the investment gap for mitigation and adaptation, it is essential that banks, industry bodies and development partners can work together to accelerate green investment. Most Nepali banks are currently in the discovery phase, and are aiming to advance at least one maturity level in climate transition capability over the next two to three years, with some targeting even greater progress (Figure 11). This ambition highlights a strong sector-wide commitment but also underscores the gap between current practice and future goals.

Figure 11: Anticipated maturity levels of the banks in the next 2-3 years



Achieving Nepal's climate objectives will require collective action, not just from banks but also from industry bodies such as the NBA, IIN and other key organisations, as well as DFIs and regulators. This section offers strategic recommendations for stakeholders within the wider banking ecosystem to enable the transition.

► 3.1. Commercial banks

To realise their ambitions, banks should prioritise three key recommendations.

1. Identify possible climate-related opportunities in addition to continuing to develop risk management practices.

Currently, banks are focusing on the risks associated with climate change rather than exploring possible opportunities arising from it. The results of the survey show that no bank has conducted a structured assessment of climate-related opportunities. It is recommended that banks should

conduct an assessment, overseen by senior management, to identify possible climate-related opportunities, using the NGFS to identify sectors and activities to prioritise that are aligned with a low-carbon and resilient economy. Using these insights, banks can work with customers to tailor green finance products and financing solutions, ultimately leading to a more resilient portfolio. A more proactive stance on climate opportunities will not only diversify revenue streams but also enhance banks' resilience and relevance in a rapidly changing market. However, it is important that banks strike a balance between managing climate-related risks and pursuing climate-related opportunities, and that they remain transparent in communicating opportunities and key assumptions in setting climate-related targets.

2. Make the connection between climate risk assessments and financial impact

There was generally low confidence by banks that climate-related risks were being priced into transactions. To effectively manage this issue, banks must better understand how climate risks are transmitted and how they affect traditional risks such as credit risk and market risks. Once banks understand the transmission channels of climate-related risk and gather the relevant information, they can begin to incorporate climate criteria into assessment criteria to determine internal credit ratings and to price-in the risk. To build a resilient portfolio, banks need to make the connection between climate events and expected credit losses, ensure that climate risks are not underestimated in future cash flows, and engage with customers to implement mitigation and adaptation measures.

3. Build institutional capacity across all levels to support the climate transition

The average score for skills and competencies relating to climate issues placed banks at the discovery level. The key to unlocking banks' ambitions will be investing in institutional capacity. Personnel at all levels should be empowered to deepen their understanding of climate change and how it should be factored into their roles and responsibilities. Capacity-building should be a multi-stakeholder effort, involving the regulator, industry bodies and DFIs to support banks. Stakeholders should undertake a gap assessment to identify the right competencies, knowledge and expertise required within the organisation ahead of developing programmes to address gaps. The training should be as practical as possible, focusing on implementation of key recommendations made within the report, with suggested items including:

- Practical case studies for key sectors, and toolkits for climate risk assessment and for mitigation or adaptation projects
- Training in climate-related tools/databases tailored to Nepal and how to incorporate resources into risk assessments
- Guidance on climate finance, highlighting Nepal's bankable green projects, in partnership with international partners
- Setting up working groups for peer-to-peer learning to share best practices and support pilot projects

3.2. Regulators

- Regulators should join climate-related regulatory initiatives such as the Network for Greening the Financial System (NGFS). The NGFS is a coalition of central banks and supervisory authorities that provides guidelines, tools and best practices for integrating climate risks

into financial supervision. By joining NGFS, Nepal's financial regulators can access global knowledge-sharing platforms on climate risk management, align with international standards for sustainable finance, and strengthen supervisory frameworks using NGFS-developed scenarios and stress-testing methodologies.

- The Central Bank should develop further supervisory guidance to deepen climate-related risk assessments with supporting guidance. Such measures could include:
 - Sector guidance to supplement the E&S due diligence questionnaire to identify common material risks and corresponding mitigation actions, particularly in sectors such as energy and agriculture that have directed lending requirements.
 - Establish a climate-related data repository at a national level for easy access by banks to support climate risk assessments, including information such as temperature, atmospheric conditions, precipitation and glacial lake outburst floods.
 - Practices from other regulators: Japan's Asia-Pacific Climate Change Adaptation Information Platform (AP-PLAT) is a publicly accessible portal developed by the National Institute for Environmental Studies (NIES) which offers a suite of climate risk data tools and downscaled modelling for Japan. Bank Indonesia is establishing a comprehensive data repository on green financial instruments, including green mortgages, electric vehicle loans and sustainable bond holdings. This repository supports banks' climate risk assessments by providing access to granular data on sectoral exposures and climate-related financial flows, and is used to monitor the development of sustainable finance and to inform supervisory tools such as green loan-to-value ratios.³³ Additionally, it should be noted that regulators that conduct climate stress testing also typically provided country-specific climate risk data and models to support the assessment.
- Supervisors should strengthen the availability of climate-related information by establishing climate-related financial disclosure requirements, as Nepal's regional neighbours such as India and Bangladesh do. The Central Bank could consider adopting ISSB reporting standards to ensure international comparability and to leverage global best practices. To support banks in preparing for these disclosures, a phased roadmap should be developed. For example, many jurisdictions have adopted a "climate-first" approach and have provided transition relief for more challenging aspects of disclosure, such as scenario analysis and Scope 3 emissions. This would allow banks to gradually build capacity and ensure high-quality, reliable reporting over time.
 - Practices from other regulators: Bangladesh and India have introduced mandatory climate disclosures, with India adopting a phased approach and Bangladesh providing reporting templates for consistency and comparability.^{34,35}
- The Central Bank can consider its own assessment of climate-related risk to determine material physical and transition risks for the financial sector. This can be the first step in developing a national-wide stress testing exercise that will provide relative magnitudes of

³³ Bank for International Settlements, 2025

³⁴ GUIDELINES ON SUSTAINABILITY AND CLIMATE RELATED FINANCIAL DISCLOSURE for Banks and Financial Institutions, 2023

³⁵ Draft Disclosure framework on Climate-related Financial Risks, 2024



these risks and allow the Central Bank to assess the impact of climate shocks on financial stability. Learnings from the assessment can be integrated to develop future climate stress testing.

- Practices from other regulators: Central banks in Hong Kong³⁶ and Malaysia have completed or are conducting similar climate stress tests to gauge sectoral vulnerabilities.³⁷
- Many banks in the study highlighted the desire for financial incentives to accelerate the climate transition. Effective use of financial incentives such as subsidies and guarantee schemes are essential to reduce financial barriers and promote green investments.
- Practices from other regulators: In Bangladesh, the government has offered subsidies to lower the cost of financing for green projects³⁸ and requires a portion of all term loans to be allocated to green and sustainable finance, with compliance affecting banks' supervisory ratings.³⁹ India's green deposit framework⁴⁰ and Vietnam's priority lending for green sectors demonstrate how targeted incentives can mobilise private sector participation in sustainable finance.⁴¹

► 3.3. Industry Bodies

- To further enhance access to climate finance from international development partners, industry bodies should support policy alignment between development partners and the Government of Nepal to close any gaps, the prioritisation and simplification of the processing of global funds, and improving capacity to access such funds.
- Several banks noted that there can be difficulties in persuading the private sector to participate in climate initiatives. Industry bodies can play a key role in developing specific policies for private sector participation and capacity-building, and can consider setting up committees and consultation processes to promote investment in priority sectors such as agriculture, renewable energy and forestry. The sharing of successful pilot projects, technologies and opportunities should be prioritised in these forums.
- There is a critical need to identify and showcase bankable projects that are credible, risk-proofed and resilient, in order to attract financing for climate action. Industry bodies play a pivotal role in demonstrating the pathway for green and sustainable lending by highlighting climate projects that align with international climate funds and frameworks. This can be achieved through thought leadership initiatives and developing practical toolkits for banks, enabling them to better identify, structure, and finance climate-aligned projects.
- Many banks raised the need to strengthen Nepal's sustainability ecosystem in order to deliver green activities aligned with NGFT taxonomy. Industry bodies should advocate for wider policy updates and support, to bring additional capabilities in Nepal and address current gaps in advancing climate financing. Gaps cited by several banks include classifying financial activities as green and aligned with the NGFT, and the absence of in-country certifying bodies and frameworks such as green building certification (e.g. LEED, EGDE).

³⁶ Opening Remarks at the Climate Risk Stress Test Forum, 2025

³⁷ 2024 Climate Risk Stress Testing Exercise – Discussion Paper, 2024

³⁸ Roadmap for Inclusive Green Finance Implementation – Country Case Studies on IGF Policy Implementation

³⁹ Quarterly Review Report on Sustainable Finance of Banks & Finance Companies, 2024

⁴⁰ RBI Announces Framework for Green Deposits to Foster Sustainable Finance in India, 2023

⁴¹ Bank for International Settlements, 2025

► 3.4. DFIs

- To achieve Nepal's climate objectives requires substantial financing, estimated at nearly \$73.74 billion to 2035 for mitigation and \$47.4 billion to 2050 for adaptation^{42,43}. DFIs play a critical role in de-risking investment and providing concessional capital to mobilise finance to support emerging markets. DFIs should prioritise innovative financial instruments such as blended finance, credit enhancement and others targeted at reducing risk to maximise access to green and climate finance, while ensuring finance reaches the most vulnerable.
- DFIs should work with the government and relevant industry bodies to develop standard operating procedures and implementation arrangements for regulating foreign direct investment, drawing on experiences from other markets.
- The market assessment lays out the current state of the sector and identifies the focus areas that commonly require assistance, such as strategy development, carbon accounting and climate risk assessment. DFIs should bring expertise from more developed markets to deliver targeted technical assistance to the banking sector and demonstrate the pathway towards bankable climate projects. DFIs should develop capacity-building projects targeted at both the financial sector and the private sector to further foster collaboration.
- DFIs should facilitate peer-to-peer learning with those in similar markets, to share experiences of supporting the low carbon transition, such as successful market interventions or climate technologies.

⁴² Third Nationally Determined Contribution (NDC) Under the United Nations Framework Convention on Climate Change (UNFCCC), 2025

⁴³ Government of Nepal, 2023



4. CONCLUSION

Nepal's commercial banking sector stands at a critical juncture, as climate-related risks intensify and threaten both financial stability and broader society. The sector has made notable progress in embedding sustainability, driven by regulatory mandates and the introduction of frameworks such as the ESRM guideline and the Nepal Green Finance Taxonomy. However, for most banks climate considerations remain at an early and largely unstructured stage. Governance structures and risk management approaches are emerging, but strategic integration of climate issues, robust climate risk methodologies and the development of climate-specific metrics and targets are still needed.

This assessment reveals that while banks recognise the urgency of climate challenges, their focus is predominantly on risk mitigation rather than seizing the full spectrum of climate-related opportunities. Most banks aspire to rapidly advance their maturity in climate integration over the next few years, contingent on targeted capacity-building and stronger collaboration with regulators, industry bodies and international partners. Ultimately, proactive and holistic management of climate risks and opportunities will be essential for the sector's long-term resilience, profitability and contribution to Nepal's net-zero ambitions. The transition to a low-carbon, climate-resilient banking sector will require decisive leadership, strategic investment and sustained multi-stakeholder collaboration.

NOTES





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