



Utkarsh Small Finance Bank
Aapki Ummeed Ka Khaata



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Green Deposit Policy

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Preamble

Climate change has been recognized as one of the most critical challenges faced by the global society and economy in the 21st century. Globally the efforts to address climate change have been growing across jurisdictions and an increasing number of central banks are either contemplating or are in the process of acting on this aspect as part of their mandates.

The financial sector can play a pivotal role in mobilizing resources and their allocation thereof in green activities/projects. The global banking landscape has initiated efforts to align strategy with the universal sustainable developmental goals (SDGs) and ambitions to help create long term, positive impacts across society through their banking and lending activities. Green finance is also progressively gaining traction in India.

We recognize that India has ambitious plans and as a responsible financial institution, we have a role in helping the Indian economy move forward on its net zero emissions pathway. Utkarsh Small Finance Bank (hereinafter referred to as “USFBL”) remains cognizant of the criticality of adopting the principles of ESG (Environmental, Social and Governance) into its business strategy and conduct and is working towards strengthening the pillars to build a future-proof and high-impact ESG strategy.

The system for integrating the Environmental, Social and Governance (ESG) aspects at USFBL business operations consists of the following:

1. Environmental, Social & Governance (ESG) Policies[^]
2. Environmental, Social & Governance Management System (ESG-MS) Manual

Further, climate change also possesses threats to the financial stability across advanced and emerging economies, there is an increasing need for the financial system to move towards green financing, keeping in mind the social and developmental objectives of the country.

Therefore, keeping in view our national commitments and as per the RBI directive on ‘Framework for acceptance of Green Deposits’, USFBL presents its Green Deposit Policy.

This policy document on green deposits is a demonstration of USFBL’s intent to integrate environmental aspects into its business.

[^]The ESG policy of the bank is available on <https://www.utkarsh.bank/>



Objective of the policy

As a financial institution, we remain committed to actively financing sectors that contribute to India's growth in an equitable, sustainable manner and support India's commitments towards the Sustainable Development Goals and climate action under the Paris Agreement.

The objective of the policy is to demonstrate commitment and establish a structured methodology for the classification and reporting of financial products and services as 'Green'. For effective implementation of the policy, a comprehensive Sustainable Finance Framework has been formulated. The policy will be regularly reviewed and expanded as required to amend or incorporate additional qualifying activities and/or criteria, and to comply with prevailing regulatory requirements. All Green deposits issued henceforth will be governed under this policy.

Definitions

Under this policy, unless the context states otherwise, the terms herein shall bear the meaning assigned to them below:

Green Finance: Green finance means lending to and/or investing in the activities/projects that contribute to climate risk mitigation, climate adaptation and resilience, and other climate-related or environmental objectives - including biodiversity management and nature-based solutions.

Green Deposit: Green Deposit is an interest-bearing deposit, received by USFBL for a fixed tenor and the proceeds of which are earmarked for being allocated towards green finance.

Green Activities/Projects: Green activities/projects include those activities/projects meeting the requirements prescribed in the "Use of Proceeds" section of Green Finance Framework document.

Denomination, interest rates and tenor of deposits

USFBL shall issue green deposits as cumulative/non-cumulative deposits. On maturity, the green deposits would be renewed or withdrawn at the option of the depositor. The green deposits shall be denominated in Indian Rupees only. The tenor, size, interest rate and other terms and conditions as defined in the Master Direction - Reserve Bank of India (Interest Rate on Deposits) Directions, 2016 dated March 03, 2016, as amended from time to time, shall also be applicable to green deposits *mutatis mutandis*.

Policy Implementation

Transparency and disclosure underpin the integrity of this policy. Therefore, a robust process is proposed to ensure compliance, communication & third-party verification. The bank intends to disclose and report to stakeholders through core components and as per recommendations from the Reserve Bank of India. The core components for ensuring transparency, accuracy, and integrity of the information provided are:

1. Use of Proceeds



The allocation of proceeds raised from green deposits shall be in line with RBI's guidelines on accepting green deposits. USFBL shall allocate the proceeds raised through green deposits towards the eligible green activities/projects which encourage energy efficiency in resource utilization, reduce carbon emissions and greenhouse gases, promote climate resilience and/or adaptation and value and improve natural ecosystems and biodiversity.

2. Process for project evaluation and selection

USFBL shall follow a comprehensive process for project evaluation and selection (i.e., projects which have climate-related or environmental objectives) for use of proceeds as outlined in its Sustainable Finance Framework. This shall also include identifying the projects fit for lending/investing within the eligible categories, monitoring, and validating the sustainability information provided by the borrower. The bank shall ensure that all the identified projects qualify under the 'Eligible Activities/Projects' as illustrated in its Sustainable Finance Framework. The bank shall also ensure that these transactions align with the bank's broader internal due diligence standards and clear the environmental and social risk assessment.

3. Management of Proceeds

The bank shall establish a formal process for tracking and management of green deposit proceeds. In case of any unallocated proceeds from green deposits, the Bank shall arrange for temporary allocation (which would only be in liquid instruments up to a maximum original tenure of one year, as specified under the Sustainable Finance Framework) of green deposit proceeds, pending their allocation to the eligible activities/projects. If, for any reason, a green loan no longer aligns with the 'Eligible Activities/Projects' enlisted in the Bank's Sustainable Finance Framework, it shall be withdrawn from the portfolio as part of the periodic review process and corresponding amount shall be allocated to 'Eligible Activities/Projects' as per Bank's Sustainable Finance Framework.

4. Third Party Verification/ Assurance and impact assessment

The allocation of funds raised through green deposits by USFBL during a financial year shall be subject to an independent Third-Party Verification/Assurance which shall be done on an annual basis. The Third-Party Verification/Assurance Report shall, at the minimum, cover the following aspects:

- a. Use of the proceeds to be in accordance with the eligible green activities/projects as indicated above. USFBL will monitor the end use of funds allocated against the deposits raised.
- b. Policies and Internal Controls including, inter-alia, project evaluation and selection, management of proceeds, and validation of the sustainability information provided by the borrower to USFBL and Reporting and Disclosures.

USFBL, with the assistance of external firms, shall annually assess the impact associated with the funds lent for or invested in green finance activities/projects through an Impact Assessment Report. The Bank shall place the report of the Third-Party Verification/Assurance and Impact Assessment Report on its website.



5. Reporting and Disclosure

USFBL shall make appropriate disclosures in their Annual Financial Statements on the portfolio-level information regarding the use of the green deposit funds. The bank shall also present before the Board a review report comprising use of funds including all other guidelines set by the regulator. The report will cover the following details:

- a. Amount raised under green deposits during the previous financial year.
- b. List of green activities/projects to which proceeds have been allocated, along with a brief description of the projects.
- c. The amounts allocated to the eligible green activities/projects.
- d. A copy of the Third-Party Verification/Assurance Report[^] and the Impact Assessment Report.

6. External Review

The Bank shall engage a third party to provide an external review on its Sustainable Finance Framework. The opinions from the external reviewer shall be made available on its website before implementation of the Sustainable Finance Framework.

7. Policy Revision

The Bank reserves the right to modify and update the policy and the framework as per business suitability & regulatory requirement.

**All the Disclosures & Reports will be made available on <https://www.utkarsh.bank/>*