



Bank of Baroda

Framework for Green Deposits and associated Flow of Credit for Green Activities (FY24-FY26)

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1. Introduction

With a view to encourage banks to offer green deposits to customers, protect interest of the depositors, aid customers to achieve their sustainability agenda, address green washing concerns and help augment the flow of credit to green activities/projects, RBI had issued 'Framework for acceptance of Green Deposits' on April 11, 2023.

Over the years, India has taken steps, both at national and sub-national levels, to balance environmental sustainability with economic growth emphasizing special focus on green finance. As a populous, tropical developing country, India faces a bigger challenge in coping with the consequences of climate change than many other countries. Climate Change is a global phenomenon but with local consequences.

The climate crisis is one of the most critical challenges facing our global society and economy in modern times and the world's climate scientists agree that urgent action must be taken to address the current and potential impacts of climate change, including chronic changes to temperature and precipitation, rising sea levels, and more intense and frequent extreme weather events. These risks and impacts are exacerbated by inequality and unsustainable economic development, which put additional pressure on land, water, forests and other natural resources. These interconnected challenges endanger the vitality of communities and present a threat to prosperity if not managed properly.

The financial sector has an important role to play in addressing this crisis by supporting the transition to a sustainable, low-carbon economy that balances the environmental, social and economic needs of society.

The Bank understands the complexity of developing solutions to these challenges, which require a combination of strong government policy and regulatory frameworks, corporate leadership, investor engagement and individual actions.

India, a signatory to the Paris Agreement aims to limit global warming to 1.5 degrees Celsius as compared to pre-industrial levels, has made an ambitious pledge at the 26th Conference of Parties (COP26), termed as the '*Panchamrita*'. Green finance will play a critical role to achieve this feat. In alignment with the Paris Agreement/COP26 pledge, the Bank is ready to bring business and sustainable economy on the same page and accordingly, this Framework for Green Deposits and associated Flow of Credit for Green Activities (FY24-FY26) (hereinafter referred to as 'the Framework') is proposed.

2. Green Activities- Challenges & Opportunities

The Bank has released its "Business Responsibility and Sustainable Development Manual" in May 08, 2023 which elucidates how the Bank integrates ESG practices across its business

policies, strategy and procedures. Bank has published its ‘Code of Ethics’ on its website which is an important initiative underlining the Bank’s responsibility to protect the environment and play a part in transition towards a low carbon, green and resource efficient economy.

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

As per UN Environment Programme, green financing is to increase level of financial flows from the public, private and not-for-profit sectors to sustainable development priorities. A key part of this is to better manage environmental and social risks, take up opportunities that bring both a decent rate of return and environmental benefits, with greater accountability.

Green financing could be promoted through alignment of financing decision-making with the environmental dimension of the Sustainable Development Goals, increases in investment in clean and green technologies, financing for sustainable natural resource-based business like:-

- Clean Energy (Wind, Solar, Tidal, Geothermal, Biomass, Green Energy Corridor, Hydrogen Manufacturing, Energy Storage, etc.)
- Clean Transportation (Use of Electric Vehicle, EV Charging Infrastructure, Mass-Rapid Public Transportation, etc.)
- Energy Efficiency (Energy-efficient equipment, Process Efficiency, Bulk Energy Services, Green Building, Renovation of the existing building, etc.)
- Climate Adaptation (Disaster Monitoring and Emergency Response System, etc.)

Climate changes bring both opportunities and challenges to the banking industry. Some of the prominent opportunities/challenges are:

Opportunities	Challenges
1. Transformation of energy production towards renewables.	1. Real estate market collapse in low-lying areas/ vulnerable locality.
2. Plant refurbishments to avoid or capture and store carbon emissions.	2. Increased risk of major crop failures with implications for meat and dairy producers.
3. Electrification of transport and automation of mobility.	3. Closures of coal-powered power plants / other units emitting carbon, before end of useful life.

<ol style="list-style-type: none"> 4. Green-investment opportunities in oil and gas, power generation, real estate, automotive, and agriculture for transition and transformation. 5. Capital investment in energy storage, mobility, and recycling. 6. Meeting up of the growing demand from investors and customers for environmentally friendly products and services. 7. Improvement in bank's reputation amongst customers, investors, and other stakeholders due to its environmental stewardship and carbon footprint reduction initiatives. 8. Improvement in risk management practices by reducing banks' exposure to environmental and climate-related risks. 	<ol style="list-style-type: none"> 4. Other challenges like information asymmetry and inadequate analytical capacity. 5. The regulatory environment for green deposits is still evolving in the country. Banks are facing difficulty to comply with the evolving requirements and assess the risks associated with green deposits. 6. Higher collateral and strict lending terms associated with the green projects. 7. Lack of clear standards and guidelines for Measurement, Reporting and Verification (MRV aspects) of outcomes of the green deposits. 8. Limited data and standardized metrics for evaluating the creditworthiness/financial performance of the green projects.
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3. Objectives of the Framework

Bank's Framework is in compliance with the recent RBI guidelines on Green Deposits and lays down all aspects, in details, for the issuance and allocation of green deposits. It provides information on the acceptance of the green deposits and broadly outlines the allocation of the same as per the regulatory guidelines.

The objective of this framework is to promote sustainable finance, support environmental friendly projects, and contribute to the transition to a low-carbon economy. By implementing this Framework, the Bank aims to meet the growing demand for green investments and demonstrate its commitment to environmental stewardship.

The Bank will support responsible and interconnected actions on climate risk across the business and economic activities to support a low-carbon future.

In this journey of Low Carbon Transition, the Bank will test and examine the resilience of lending portfolios to transition and physical risks related to climate change. It will help improve the understanding of possible pathways for collective transition to a low-carbon economy.

We will explore opportunities to collaborate with our clients and peers to develop industry-wide methodologies for climate risk analysis and disclosure.

4. Scope of the Framework and Definitions

4.1 Scope of the Framework

The given framework will be used for offering green deposits for financing green activities and projects. Scope of this framework will cover domestic operations of the Bank.

4.2 Definitions

In this framework, unless the context states otherwise, the terms herein shall bear the meaning assigned to them as below:

- (a) **"Green Activities/Projects"** means the activities/projects meeting the requirements prescribed in paragraph 5.4 of this framework.
- (b) **"Green Deposit"** means an interest-bearing deposit, received by the Bank for a fixed period and the proceeds of which are earmarked for being allocated towards green finance.
- (c) **"Green Finance"** means lending to and/or investing in the activities/projects meeting the requirements prescribed in paragraph 5.4 of this framework that contributes to climate risk mitigation, climate adaptation and resilience, and other climate- related or environmental objectives - including biodiversity management and nature-based solutions.
- (d) **"Green Washing"** means the practice of marketing products/services as green, when in fact they do not meet requirements to be defined as green activities/projects.

5. Green Deposit Framework

Customer	Resident or Non-Resident Indian
Denomination	Minimum amount of Rs. 5000 and in multiples of Rs. 100. There will be no limit for maximum amount. In case of non-callable green deposits, minimum amount will be above Rs.100 Lakh. Green Deposit Account shall be denominated only in INR.
Tenor	Minimum 12 Months and Maximum 120 Months
Nature of Deposit	Interest bearing deposit received by the Bank for a fixed period and include Deposits such as Fixed Deposits/Callable/Non-Callable Deposits/Monthly Income/Quarterly Income.
Rate of interest	As decided by Asset-Liability Committee (ALCO) from time to time.
Renewal/Auto Renewal facility	<ul style="list-style-type: none"> • In case of Green Deposit, Renewal/Auto Renewal facility will be made available to the depositor as mandated by Reserve Bank of India (RBI). • If depositor requests for Renewal / Auto Renewal of green deposits, the same will be exercised by Bank based on depositor's explicit mandate/authority. A declaration will be added at the time of renewal, that proceeds will be re-invested in eligible green projects listed under this framework. • In case of non-renewal or withdrawal by depositor, the maturity proceeds will be credited in the depositor's operative account on its maturity.
Other terms & conditions (other than those specified in this policy)	<ul style="list-style-type: none"> • As prescribed in the Bank's Deposit Policy, as amended from time to time. • 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. As applicable in the case of scheme of Term Deposits of the Bank.

ALCO will be authorized to modify or bring in new scheme if and when required as per RBI guidelines as well as to meet the objective of the Bank to promote its sustainable agenda.

5.1 Green Finance Strategy

The Bank will strategize Green Finance through this framework as under:

- ❖ The financial sector has an important role to play in addressing the climate crisis by providing the capital needed to expedite the transition to a low-carbon economy that balances environmental, social and economic needs. Accordingly, the Bank will support the planned action/necessary changes triggered for industrial processes, land-use, buildings, transport and other infrastructure.
- ❖ The Bank will finance and facilitate a wide array of climate solutions, such as renewable energy, clean technology, water conservation and sustainable transportation.
- ❖ Further, the Bank will finance and facilitate low carbon solutions and support its customers in their de-carbonization and transition strategies. Financing and facilitating transactions towards this end is one facet. Working collaboratively with our customers in decarbonizing and helping them in their transitions is a central focus of the Bank in line with India's net zero plan.
- ❖ Going forward, the Bank will develop and offer customized products and services to support customers in their transition to more sustainable business models and practices that will advance progress toward a low-carbon future.

5.2 Criteria for Channelization of Credit to Green Activities

Bank of Baroda's Green Deposit Framework will strengthen its capacity to finance green and sustainable projects contributing to India's sustainability agendas and meet the targets of the Nationally Determined Contribution (NDC). This Framework aims to channelize investments for financing environmental projects. Green Deposits are tailored to support sustainable development through its application to projects deemed eligible as per this Framework.

For sustainable financing, Bank of Baroda's management commits to adopting the RBI guidelines for effective allocation of green deposits covering the following aspects:

(i) Eligible Green Projects: To prevent instances of Green washing, Bank of Baroda will allocate funds gathered through this framework as green deposits solely for financing or refinancing eligible green activities/projects outlined in the Bank's Green Deposit Framework and Framework for Sovereign Green Bonds, Government of India. The bank will implement a robust monitoring and reporting mechanism to ensure that the funds are utilized in accordance with the predefined guidelines.

Under this Financing Framework for Flow of Credit to Green Activities, the Bank will make available finance for following green activities/projects that will be financed or refinanced out of proceeds raised through the green deposits. Eligible Green Project Categories are listed below:

Sector	Description
Renewable Energy	<ul style="list-style-type: none"> • Solar/wind/biomass/hydropower energy projects that integrate energy generation and storage. • Incentivizing adoption of renewable energy.
Energy Efficiency	<ul style="list-style-type: none"> • Design and construction of energy-efficient and energy-saving systems and installations in buildings and properties. • Supporting lighting improvements (e.g. replacement with LEDs). • Supporting construction of new low-carbon buildings as well as energy-efficiency retrofits to existing buildings. • Projects to reduce electricity grid losses.
Clean Transportation	<ul style="list-style-type: none"> • Projects promoting electrification of transportation. • Adoption of clean fuels like electric vehicles including building charging infrastructure.
Climate Change Adaptation	<ul style="list-style-type: none"> • Projects aimed at making infrastructure more resilient to impacts of climate change.
Sustainable Water and Waste Management	<ul style="list-style-type: none"> • Promoting water efficient irrigation systems. • Installation/upgradation of wastewater infrastructure including transport, treatment and disposal systems. • Water resources conservation. • Flood defence systems.
Pollution Prevention and Control	<ul style="list-style-type: none"> • Projects targeting reduction of air emissions, greenhouse gas control, soil remediation, waste management, waste prevention, waste recycling, waste reduction and energy/emission-efficient waste-to-energy.

Green Buildings	<ul style="list-style-type: none"> Projects related to buildings that meet regional, national or internationally recognized standards or certifications for environmental performance.
Sustainable Management of Living Natural Resources and Land Use	<ul style="list-style-type: none"> Environmentally sustainable management of agriculture, animal husbandry, fishery and aquaculture. Sustainable forestry management including afforestation/reforestation. Support to certified organic farming. Research on living resources and biodiversity protection.
Terrestrial and Aquatic Biodiversity Conservation	<ul style="list-style-type: none"> Projects relating to coastal and marine environments. Projects related to biodiversity preservation, including conservation of endangered species, habitats and ecosystems.

Exclusions:

Bank has started exploring opportunities to reduce the carbon intensity of the portfolio and accordingly, exposure to following projects and activities will be excluded from this financing framework:

- Projects involving new or existing extraction, production and distribution of fossil fuels, including improvements and upgrades; or where the core energy source is fossil-fuel based.
- Nuclear power generation.
- Direct waste incineration.
- Alcohol, weapons, tobacco, gaming, or palm oil industries.
- Renewable energy projects generating energy from biomass using feedstock originating from protected areas.
- Landfill projects.
- Hydropower plants larger than 25 MW.

In terms of extant regulatory and/or GoI guidelines, financing and/or refinancing shall be considered with above criteria with appropriate due diligence. Other suitable sector(s) and activities as per guidance by regulator i.e. RBI and guidance by GoI will be added or deleted for financing out of the proceeds raised through the green deposits. Given the urgent challenges posed by climate change, Bank is looking to improve the climate responsiveness in its business plan keeping sustainability in mind. The list of eligible green projects will be periodically reviewed and revised to align to regulatory changes.

(ii) Project Evaluation and Selection:

The Bank will meticulously assess projects for eligibility as outlined in above-mentioned section (i). Bank of Baroda will assess project eligibility based on economic viability, technical feasibility, and eco-friendly characteristics, following the Green Deposit Framework and established risk management practices. The bank will develop comprehensive criteria to evaluate borrower adherence to Environmental and Social compliance. To ensure that all green loans included in the green financing framework meet the eligibility criteria and the bank's broader internal due diligence standards, all green loans will be subjected to Bank of Baroda's environmental and social risk management process and will be screened against this framework's eligibility criteria by BOB's business units. Final approval and oversight of this process will be provided by Bank of Baroda Business unit groups (C&IC, MSME, Retail, Rural and Agri) the group's financial resource management executive committees. Particularly for loans/investments exceeding the designated threshold of INR 100 crores, borrowers will be obligated to submit independent certificates affirming compliance with green/sustainability requirements.

(iii) Allocation of Proceeds:

The bank will manage the proceeds from green deposits by depositing them into general funding accounts. An equivalent amount will be earmarked for allocation to eligible projects as defined in the bank's Green Deposit Framework. The bank aims for optimum allocation within a year, though it acknowledges potential challenges and the possibility of stopping further green deposit acceptance if sufficient allocation proves difficult. An internal system will track the allocation details, including project names, descriptions, and specific allocation amounts.

Bank shall arrange verification/ assurance of allocation of fund raised through green deposits during financial year from the third-party verification agency at yearly interval. The Third-Party Verification/Assurance Report shall cover use of the proceeds in accordance with the eligible green activities/projects indicated in table 5.2 (i) of the Bank's GFF. The Bank shall monitor the end-use of funds allocated against the deposits raised. The third-party assessment would not absolve the Bank of its responsibility regarding the end-use of funds, for which the laid down procedures of internal checks and balances shall be followed as in the case of other loans. The related terms and conditions to be additionally fulfilled by the borrowers to meet the requirements of the framework laid out and would be additional check points while ascertaining the end-use of funds. The Bank shall monitor the end-use of funds allocated against the deposits raised for safeguarding from instances of green washing.

(iv) Temporary Allocation:

Any unallocated funds will be temporarily invested in Level 1 High Quality Liquid Assets (HQLAs) in compliance to the RBI guidelines. These investments will have a maximum tenure of one year until they are directed towards their intended green initiatives. The bank will use its internal system to track the balance of unallocated proceeds and details about temporary investments.

(v) Management of Proceeds:

Bank of Baroda's Business Unit (C&IC, MSME, Retail, Rural & Agri) team will manage the proceeds by depositing them into general funding accounts. An amount equivalent to the proceeds will be earmarked for allocation to Eligible Projects as per the Bank's Green Deposit Framework. The Bank will periodically review business plans of verticals (C&IC, MSME, Retail, Rural & Agri) ensuring implementation of the Bank's Green Financing Framework. Bank of Baroda will endeavor for full utilization of proceeds, to Eligible Projects, adhering to the evaluation and selection process outlined in the RBI's framework.

(vi) Monitoring of the Proceeds:

Bank will establish a robust monitoring and reporting mechanism to ensure that the funds are utilized as per the predefined guidelines. RMCB and Board of Directors will provide strategic directions and monitor the implementation of the Green Deposit policy and lending framework. The Activity/Project wise goals will be assigned to concerned Business Units and the outstanding position of Sources & Uses shall be updated on regular basis.

6 Internal Targets for Green Finance

With an endeavor to join 'Panchmitra journey' and contribute towards green finance, Bank will extend credit facilities to select business and activities, which qualify under this framework. Bank is establishing suitable mechanism to capture details of the project qualifying for Green Finance in Loan Life Cycle Processing System (LLPS). Individual facilities may be assessed on a case-to-case basis for whether the level of 'green' is sufficient, whether the borrower and the lenders have mutually agreed to classify such facilities as 'green' and also rule out possibilities of green washing/other similar instances.

Bank will endeavor to contribute in Panchamitra, with Green Finance addition in its annual plan, for their incremental loans and advances business unit wise, directed towards green finance from FY24 onwards.

7 Underwriting Criteria, Due Diligence, Credit Process (including Pricing), Credit Administration and Monitoring of the Credit to Green Activities

Guidelines stipulated in the bank's Global Credit Exposure Management Policy (GCEMP) will be, *mutatis-mutandis*, applicable in respect of the underwriting criteria, due diligence, credit process and monitoring for the flow of credit to green activities. An illustrative list of impact indicators which will be used and referred in the credit due-diligence exercise for eligible green activities is given in Annex 1.

Further, in terms of the bank's GCEMP, the Bank shall offer advances on fixed or floating interest rates as per the business requirement. Pricing of all floating rate rupee loans will be linked to the reference rates (internal / external) in terms of RBI guidelines, including Marginal Cost of funds linked Lending Rate (MCLR), rates linked to external benchmarks such as Repo linked rate, T-bill linked lending rate, etc.

8 Third-Party Verification/Assurance and Impact Assessment

The allocation of funds raised through green deposits during a financial year shall be subject to an independent Third-Party Verification/Assurance annually and the report shall cover:

- (a) Use of the proceeds to be in accordance with the eligible green activities/projects. The Bank will monitor the end-use of funds allocated against the deposits raised.
- (b) Policies and Internal Controls including project evaluation and selection, management of proceeds, and validation of the sustainability information provided by the borrower to the bank and its Reporting and Disclosures.
- (c) Bank 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.
- (d) The bank will quantify impact of green deposits to the extent possible and disclose challenges in quantification as may be applicable. Bank shall place the report of the Third-Party Verification/Assurance and Impact Assessment Report on its website.

Governance and Oversight

At the highest level of Bank of Baroda's Governance for Green Deposits, the Board of Directors oversees regulatory compliance, sets sustainability goals, and approves overarching policies and frameworks. The Risk Management Department ensures effective risk oversight and alignment of the bank's Green Deposit Framework with the vision of the bank. Business Units, comprising of experienced officials of the bank will take charge of fund generation and framework implementation.

This collaborative structure ensures that the bank not only adheres to regulatory guidelines but also actively promotes sustainability goals through its Green Deposit and Financing initiatives.

Strategic directives and monitoring of the Green Deposit policy will be done by Risk Management Department and implementation of this framework will be responsibility of the respective Business Units of the bank.

Stakeholder Engagement

Bank of Baroda is committed to active engagement with its customers, employees, shareholders, regulators, and other stakeholders to promote awareness of its Green Deposit Policy framework. The bank will actively encourage both customers and employees to participate in eco-friendly initiatives and adopt environmentally responsible practices. Furthermore, Bank of Baroda will foster collaborations with external stakeholders, including government agencies, non-governmental organizations, and industry bodies amongst others, to champion environmental sustainability and advocate for green financing.

9 Reporting and Disclosures

Bank of Baroda is committed to transparent and detailed reporting on the proceeds of its green deposits, utilization of related funds, and impact assessment. The bank will strictly adhere to all applicable regulatory and statutory requirements related to Green Deposits as per the following mechanism:

- (i) A review report shall be placed before Board of Directors within three months of the end of the financial year which shall, inter-alia, 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) Copy of the Third-Party Verification/Assurance Report and the Impact Assessment Report.
 - (e) The third-party verification/assurance report and impact assessment report shall be accessible on the bank's website.
 - (f) A separate reporting will be done annually to RBI in the Annex 2 format prescribed by RBI in its Framework.
- (ii) Bank shall make appropriate disclosures in its Annual Financial Statements on the portfolio-level information regarding the use of the green deposit funds as per the proforma prescribed in Annex 2.

10 Review and Sunset Clause

The Policy shall come into force from the date of approval by the Board / Committee approved by the Board and shall be valid up to March 2026. The directives/guidelines issued by RBI in this regard shall automatically become part of this Framework.

Review will be undertaken on due date or earlier due to change in Regulatory/ Bank's guidelines. The Managing Director & CEO of the Bank may allow continuation of the policy for a maximum period of six months from the due date of review in case the policy cannot be reviewed on or before due date.

Annex-1: List of impact indicators

Eligible Project Category	Impact Indicators – Examples
Renewable Energy	Total renewable capacity (in MWh)
	Energy generated per year (MWh)
	GHG emissions avoided per year (measured in tonnes CO ₂ equivalent, tCO ₂ e)
Waste Management	Waste diverted from landfill per year (tonnes)
Clean Transportation	GHG emissions avoided per year (tCO ₂ e)
	New clean transportation infrastructure built (km)
	Number of electric or low emission vehicles produced
Energy Efficiency	Energy savings per year (MWh)
	GHG emissions avoided per year (tCO ₂ e)
Afforestation/ Reforestation	GHG emissions reduced/Carbon Sequestration achieved (measured in tCO ₂ e)

Annex-2: Portfolio-level information on the use of funds raised from green deposits

(Amount in ₹ crore)

Particulars	Current Financial Year	Previous Financial Year	Cumulative*
Total green deposits raised (A)			
Use of green deposit funds**			
(1) Renewable Energy			
(2) Energy Efficiency			
(3) Clean Transportation			
(4) Climate Change Adaptation			
(5) Sustainable Water and Waste Management			
(6) Pollution Prevention and Control			
(7) Green Buildings			
(8) Sustainable Management of Living Natural Resources and Land Use			
(9) Terrestrial and Aquatic Biodiversity Conservation			
Total Green Deposit funds allocated (B = Sum of 1 to 9)			
Amount of Green Deposit funds not allocated (C = A – B)			
Details of the temporary allocation of green deposit proceeds pending their allocation to the eligible green activities/projects			

*This shall contain the cumulative amount since the Bank started offering green deposits. For example, if a bank has commenced raising green deposits from June 1, 2023, then the annual financial statement for the period ending March 31, 2025 would contain particulars of deposits raised and allocated from June 1, 2023 till March 31, 2025.

**Under each category, Bank may provide sub-categories based on the funds allocated to each subsector. For example, REs may provide sub-categories like solar energy, wind energy, etc. under “Renewable Energy”.