

KVB GREEN DEPOSIT FRAMEWORK



Consumer Banking Department – Liabilities

KVB Green Deposits Scheme

The Reserve Bank of India (RBI) on April 11 issued a framework for banks to accept and promote green deposits vide Circular No. DOR.SFG.REC.10/30.01.021/2023-24 dated April 11, 2023

The RBI's framework is intended to encourage regulated entities (REs) to offer green deposits to customers, protect the interest of the depositors, aid customers to achieve their sustainability agenda and help augment the flow of credit to green activities/projects. Green deposits are sort of an Environment, Social, Governance (ESG) investment for those who wish to see their money being used by environmental-friendly companies.

'Green Fixed Deposits' are the term deposits where the deposit proceeds will be used to finance or re-finance assets supporting themes under United Nations Sustainable Development Goals (SDGs).

Green Deposits versus Fixed Deposits

A green deposit is an interest-bearing instrument received by banks for a fixed period, the proceeds of which are earmarked for green-financing, such as funding of renewable energy projects.

As per the RBI framework, banks will offer the deposits as cumulative/non-cumulative deposits. On maturity, the green deposits would be renewed or withdrawn at the choice of the depositor. The green deposits shall be denominated in rupees only.

While banks offer nearly similar interest rates on both green deposits and fixed deposit schemes, the end-use of the funds is different. Proceeds from green deposits must be lent/invested only for green financing.

Banks have to allocate the proceeds raised through green deposits towards green activities/projects which encourage energy efficiency in resource utilisation, reduce carbon emissions and greenhouse gases, promote climate resilience and/or adaptation and value and improve natural ecosystems and biodiversity.

Framework for Green Financing by allocation of Green Deposit

Introduction:

Recognizing that climate change is one of the most critical challenges in the present era, the Reserve Bank of India on April 11, 2023 issued a Framework for banks for acceptance of Green Deposits and Financing Framework (FF) vide Cir. No. DOR.SFG.REC. 10/30.01.021/2023-24 dated April 11, 2023. In the said circular they have advised that the individual banks should put in place a Board-approved Financing Framework for effective allocation of Green Deposits. This document sets out the policy and process as below for effective allocation of Green Deposits:

- (1) Use of Proceeds:
- (2) Project Evaluation and Selection:
- (3) Management of Green Deposits:
- (4) Reporting:

Framework for Green Financing is as below.

1. Use of Proceeds:

It involves identification of the eligible green activities/projects that could be financed out of proceeds raised through the green deposits

The allocation of proceeds raised from green deposits shall be based on the official Indian green taxonomy. Pending finalization of the taxonomy, as an interim measure, Bank shall be required to allocate the proceeds raised through green deposits towards the following list of green activities/projects which encourage energy efficiency in resource utilization, reduce carbon emissions and greenhouse gases, promote climate resilience and/or adaptation & value and improve natural ecosystems and biodiversity.

List of Green House Activities:

S.No	Sector	Description
1	Renewable Energy	<ul style="list-style-type: none"> • Solar/wind/biomass/hydropower energy projects that integrate energy generation and storage. • Incentivising adoption of renewable energy.
2	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.
3	Clean Transportation	<ul style="list-style-type: none"> • Projects promoting electrification of transportation. • Adoption of clean fuels like electric vehicles including building charging infrastructure.
4	Climate Change Adaptation	<ul style="list-style-type: none"> • Projects aimed at making infrastructure more resilient to impacts of climate change.
5	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
6	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. <p>Feedstock will primarily include: Sewage, manure, wastewater, bagasse, biomass, wood pellets, etc.</p>

7	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.
8	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.
9	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.
10	Exclusions: <ul style="list-style-type: none"> • 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. 	

Eligible financial products include:

The proceeds will be used for Bank loans and Investing in bonds which encourage energy efficiency.

The proceeds of Green Deposits will be used for new and expansion financing and refinancing of Eligible Projects or Assets. Bank shall allocate majority of the proceeds on the day of issue, and all proceeds will be allocated to projects during/after 12 months.

The proportion of re-financing vs. financing may be stated in the disclosure documentation, and any projects that may be refinanced may be indicated.

The Green Financing Framework covers both the Working Capital Limit and also TL Limits. The existing systems and policy guidelines with respect to Margin, Repayment Period, Security Coverage, ROI, and other terms and conditions as applicable to the other credit facilities shall be applicable to the nature of credit limits to be sanctioned under Green Financing.

The Bank shall ensure that the funds raised through green deposits are allocated to the eligible green activities/projects.

2. Project evaluation and selection:

It includes climate-related or environmental objectives including identifying the projects fit for lending/investing within the eligible categories, monitoring and validating the sustainability information provided by the borrower.

Green asset screening and pre-selection.

The asset screening and pre-selection of assets to be financed are to be in accordance with the guidelines outlined under the column "Use of Proceeds" and shall be based on the official Indian green taxonomy as per finalization of the taxonomy.

On-going Monitoring Mechanism

CBG will co-ordinate with all credit verticals, Treasury department & CBD for submitting the details of green deposits mobilized and the deployment under green finance avenues & investment made once in a quarter before the Green Finance Committee.

The projects will be evaluated according to the following criteria:

1. Financial due diligence

2. Environmental, Social and Governance (ESG) evaluation

- Counterparty evaluation.
- The evaluation will take into account assessments made by selected ESG ratings agencies if appropriate and appropriate industry standards or certification such as the Equator Principles.
- If the counterparty's business is diversified and includes activities that are not Eligible Projects or Assets, consideration will be given to the counterparty's whole business and to whether the investment will achieve a substantial positive impact on the environment.

- Asset-level evaluation.
- The evaluation will take into account information about environmental and social impacts of individual projects or assets.

3. Impact evaluation – The environmental benefit of each project or asset will be assessed against science-based climate targets and quantified if feasible. Social impacts will be evaluated to the extent appropriate. On the basis of the list the final selection of assets funded will be made by a Green Finance Committee comprising senior representatives from Bank.

The Eligible Projects and Assets may be listed and described in the relevant disclosure documentation.

4. Management of Green Deposits: It involves the allocation of proceeds of green deposits and its reporting, third-party verification/assurance of the allocation of proceeds and the impact assessment.

External Validation and Third Party Verification:

RBI, vide its Circular No. DOR.SFG.REC. 10/30.01.021/2023-24 dated April 11, 2023 vide Para E of Page 6, sets out the terms for External Validation and Third Party Verification as detailed below;

The allocation of funds raised through green deposits by our Bank 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 assessment would not absolve Our Bank responsibility regarding the end-use of funds, for which the laid down procedures of internal checks and balances would have to 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 would be the additional check points while ascertaining the end-use of funds.

The Third-Party Verification/Assurance Report shall, at the minimum, cover the following aspects:

(i) Use of the proceeds to be in accordance with the eligible green activities/projects as indicated above. Our Bank shall monitor the end-use of funds allocated against the deposits raised.

(ii) 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 Our Bank and Reporting and Disclosures.

Our Bank Commercial Banking Group, 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. An illustrative list of impact indicators is given **in Annex 2**. In case Our Bank is unable to quantify the impact of their lending/investment, they shall disclose, at the minimum, the reasons, the difficulties encountered, and the time-bound future plans to address the same. Considering the fact that impact assessment is an evolving area, it shall be undertaken on a voluntary basis for the financial year 2023-24. Banks shall have to mandatorily make an impact assessment from the financial year 2024-25 onwards. Banks shall place the report of the Third-Party Verification/Assurance and Impact Assessment Report on our Website.

4. Reporting: It includes reporting and the particulars of the temporary allocation which would only be in liquid instruments up to a maximum original tenure of one year, pending their allocation to the eligible activities/projects.

Our Bank Finance Control Department (FCD) shall make appropriate disclosures in Annual Financial Statements on the portfolio-level information regarding the use of the green deposit funds as per the proforma prescribed **in Annex 3**.

Annex 1

KVB Green Deposits Scheme

Product	KVB Green Deposits Scheme	
Deposit amount	Amount (In Rs)	
	Minimum	Maximum
	1,00,000	1,99,99,999
Tenure of Deposit	2345 Days	
Eligibility	Individuals Individuals jointly with other Individuals Minors HUF Sole Proprietary concerns Trusts, Associations, Clubs & Societies Partnership Firms Joint stock companies Any other entity not prohibited by RBI	
Rate Of Interest	General Public & NRIs - As per card rate Senior Citizens - As per card rate (Additional ROI over and above the card rates for regular term deposits as applicable to Senior Citizens and Staff deposits will be applicable for Green deposits also)	
Interest Payment	Interest pay-out and Cumulative Options available. Interest paid on monthly, quarterly and half yearly basis will be simple rate of interest.	
Deposit Loan	Loan against these Green fixed deposits can be availed.	
Auto Renewal option	No auto renewal. On maturity deposit amount will be credited to the linked account.	
Nomination	Nomination facility available.	
TDS	TDS will be deducted as per guidelines.	
Pre-Mature Withdrawal	Allowed. However, the status of such deposits will cease to be Green Fixed Deposits and will convert to a regular Fixed deposit. Interest will be paid for the run period at applicable rate and penalty if any.	
Penalty on Pre-closure	1% Pre closure penalty will apply, that is, interest will be paid at 1.00% less than the applicable rate (as on the date of opening of deposit) for the period for which the deposit has actually remained with the Bank.	
Terms and Conditions	Other terms and conditions are as applicable to the Regular Term Deposits.	

Annex 2**Illustrative list of impact indicators – (As per RBI Circular No. DOR.SFG.REC. 10/30.01.021/2023-24 dated April 11, 2023)**

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 3

Portfolio-level information on the use of funds raised from green deposits - (As per RBI Circular No. DOR.SFG.REC. 10/30.01.021/2023-24 dated April 11, 2023) (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 RE 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, REs 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".
