

# Second Party Opinion

Green Financing Framework  
State Bank of India

January 2024

Consulting

# Second Party Opinion

## Green Financing Framework

**Issuer's Name:** STATE BANK OF INDIA

**Issuer's Location:** Mumbai, India

**Evaluation Date:** January 8, 2024

### Summary of evaluation

This document outlines CRISIL Limited's ("CRISIL") limited opinion on the Green Financing Framework by State Bank of India (6<sup>th</sup> December 2023, version 1.0). The assessment is carried out by CRISIL strictly in the capacity of an external reviewer in line with the Framework for acceptance of Green Deposits as outlined in the Reserve Bank of India (RBI) Notification dated 11<sup>th</sup> April 2023<sup>1</sup> and other non-public information shared with CRISIL Limited and should be read in conjunction with the referred framework. Basis the information received from State Bank of India and approach prescribed under the RBI circular, CRISIL in its limited capacity of an external reviewer, is of the view that Green Financing Framework by State Bank of India is largely in alignment with the aforesaid circular. The above remains subject to the disclaimers here and it is clarified with that CRISIL shall have no liability whatsoever with regards to use or reliance on the contents of this evaluation.

This SPO remains effective under the condition of an unaltered framework. Any modifications to the framework and associated procedures and documents will render this SPO inapplicable.

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<sup>1</sup> <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12487&Mode=0>

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## Scope of work and limitations of CRISIL Limited's SPO

State Bank of India (hereinafter referred to as SBI or Bank) engaged CRISIL Limited to appraise the congruence between its Green Financing Framework and Reserve Bank of India (RBI) Notification pertaining to Framework for acceptance of Green Deposits dated 11<sup>th</sup> April 2023<sup>2</sup> (hereinafter referred to as RBI notification on Framework for acceptance of Green Deposits).

The Second-Party Opinion (SPO) document presents CRISIL Limited's independent opinion on the coherence of SBI Green Financing Framework (version 1.0 dated 6<sup>th</sup> December 2023) with RBI notification on Framework for acceptance of Green Deposits only and no other guidelines, principles, frameworks, and standards.

As a facet of this assessment, CRISIL Limited engaged in discussions with SBI to gain insights into the approach and practices to be implemented with respect to green deposits, the procedures for allocating funds raised through green deposits, and the governance and reporting aspects of this framework.

CRISIL Limited reviewed the internal documentation provided by SBI pertaining to use of proceeds, process for project evaluation and selection, management of proceeds and reporting mechanisms associated with this framework.

It has been affirmed by SBI's representatives that the information and documentation provided to CRISIL Limited is current, relevant, accurate and comprehensive. CRISIL Limited has not undertaken any independent verification or audit of documents and information provided by SBI.

This SPO does not provide assurance of the realised allocation of proceeds towards eligible activities and does not measure the actual impact due to use of proceeds. SBI is accountable for the reporting on use of proceeds and impact resulting from eligible activities.

Any information presented by CRISIL Limited within this Second-Party Opinion should not be construed as a declaration, depiction, warranty, or assertion, whether favourable or unfavourable, concerning the veracity, credibility, or entirety of any facts or statements, and their pertinent contextual circumstances, that SBI has provided to CRISIL Limited specifically for the intent of this Second-Party Opinion.

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<sup>2</sup> <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12487&Mode=0>

## Overview of SBI Green Financing Framework

SBI has established a Green Financing Framework under its 'Policy on Issuance and Allocation of Green Deposits'<sup>3</sup>, ensuring compliance with requirements set forth by RBI notification on Framework for acceptance of Green Deposits.

SBI's Green Financing Framework is designed to facilitate SBI in the effective allocation of green deposits.

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<sup>3</sup> Green deposit is 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.

## Assessment Summary

CRISIL Limited has assessed SBI Green Financing Framework's alignment with RBI notification on Framework for acceptance of Green Deposits. In our opinion, the SBI Green Financing Framework (Version 1.0, dated 6<sup>th</sup> December 2023) is aligned with RBI notification on Framework for acceptance of Green Deposits dated 11<sup>th</sup> April 2023.

Aspect	Remarks
<b>Denomination, interest rates and tenor of deposits</b>	SBI 'Policy on Issuance and Acceptance of Green Deposits' mentions that the deposits are denominated in Indian rupees only. These deposits, on maturity, shall be renewed or withdrawn at the discretion of the deposit holder. This adheres to the RBI notification on Framework for acceptance of Green Deposits.
<b>Policy on green deposits</b>	SBI has put in place a comprehensive Board-approved policy on laying down therein, all aspects in detail for the issuance and allocation of green deposits. This is in accordance with the RBI notification on Framework for acceptance of Green Deposits.
<b>Use of proceeds</b>	The eligible categories for use of proceeds are in alignment with the categories recommended in RBI notification on Framework for acceptance of Green Deposits. Additionally, SBI aligns its exclusion list in line with RBI notification.
<b>Process for project evaluation and selection</b>	<p>The Bank's Sustainability Committee (SC) (set up under its ESG Financing Framework<sup>4</sup>) will be responsible of determining the eligibility of project(s) to be considered as part of the green asset pool and for regular monitoring of this portfolio. The concerned departments/operating units will be responsible for project level evaluation and ESG risk assessment.</p> <p>Furthermore, the framework refers to the Bank's 'ESG risk rating model' used for assessment of borrowers (relevant projects) with proposed loans above INR 100 Crores (for listed borrowers) and INR 500 Crores (for unlisted borrowers). This model provides an ESG criteria to identify the Environmental, Social and Governance risks associated with borrowers (relevant projects). However, for loans (meeting the list of eligible activities defined in this framework) below INR 100 Crores (for listed borrowers) and INR 500 Crores (for unlisted borrowers), the Bank will develop a separate E&amp;S risk assessment methodology. Basis the discussions with Bank's stakeholders, it is understood that SBI will develop this mechanism within six months of issuance of green deposits. Putting such process in place is in line with market best practices.</p>
<b>Allocation and monitoring of proceeds</b>	Basis the discussions with Bank's stakeholders, it is understood that a separate labelling and tagging mechanism for management of proceeds is under development and is expected to be completed within six months from issuance of green deposits. Until such time that this mechanism is put in place, the Global IT Centre (GITC) of the Bank will generate an MIS report on a daily basis which will be circulated to the ESG & Climate Finance Unit (ESG & CFU) for monitoring. The Bank's SC will be responsible of determining the eligibility of project(s) to be considered as part of the green asset pool and for regular monitoring of this portfolio. Any project to be reckoned in the framework will have to be cleared by

<sup>4</sup> <https://sbi.co.in/documents/17836/3726866/ESG+Financing+Framework+2023.pdf/ab4d507d-c354-d4d0-b2e5-3cbb1f75e0a?t=1674120824966>

Aspect	Remarks
	<p>SC as per the eligibility criteria<sup>5</sup>. The SC will oversee the preparation and validation of relevant reporting for Green Deposit under this framework.</p> <p>These proceeds will be earmarked for lending to eligible projects. Unallocated proceeds will be temporarily allocated only in liquid instruments (Treasury bill, Overnight/ term placement under Triparty Repo Dealing System (TREPS)/ Clearcorp Repo Order Matching System (CROMS)/ Reserve Bank of India (RBI) Liquidity adjustment facility (LAF), Dated securities and other coupon-bearing Non-SLR (Statutory Liquidity Ratio) securities) having maximum original tenure of one year. CRISIL Limited notes that this is in line with market best practices.</p>
<b>Third party Verification/Assurance</b>	<p>The allocation of funds accumulated via green deposits during a fiscal year will be subjected to an annual verification/assurance by an independent third party. CRISIL Limited notes that these measures are consistent with the instructions provided in RBI notification on Framework for acceptance of Green Deposits.</p>
<b>Impact Assessment</b>	<p>SBI will engage external firms to conduct an annual impact assessment for the funds directed towards green finance activities/projects, culminating in an Impact Assessment Report. The report will be made accessible to the public through SBI's website. Additionally, SBI has outlined an illustrative list of impact indicators within the framework. This approach is consistent with RBI notification on Framework for acceptance of Green Deposits.</p>
<b>Reporting and Disclosures</b>	<p>A review report shall be placed by SBI before its Board of Directors within three months of the end of the financial year. The report shall cover amount raised under green deposits, list of green projects to which proceeds have been allocated, amount allocated, and copy of third-party verification/assurance report and impact assessment report. SBI shall also make appropriate disclosures in their Annual Financial Statements. CRISIL Limited notes that these measures conform to the RBI notification on Framework for acceptance of Green Deposits.</p>

<sup>5</sup> <https://sbi.co.in/documents/17836/3726866/ESG+Financing+Framework+2023.pdf/ab4d507d-c354-d4d0-b2e5-3cbb1f75e0a?t=1674120824966>

## CRISIL Limited's opinion on SBI Green Financing Framework

### Denomination, interest rates and tenor of deposits

The 'Policy on Issuance and Acceptance of Green Deposits' affirms that green deposits are denominated in Indian rupees only and these deposits, on maturity, shall be renewed or withdrawn at the discretion of the deposit holder. The tenor, size, interest rate and other terms and conditions (as applicable) 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.

#### CRISIL Limited's opinion

Disclosure on denomination, interest rates and tenor of deposits conforms to the RBI notification on Framework for acceptance of Green Deposits.

### Policy on green deposits

SBI has prepared a 'Policy on Issuance and Acceptance of Green Deposits' providing definition of green deposit and details of green deposit implementation mechanism including overview of use of proceeds, process for project evaluation and selection, management of proceeds, third party verification/assurance, impact assessment, reporting and disclosure, and external review of green financing framework. The policy is approved by the board and is available on the website of SBI.

#### CRISIL Limited's opinion

In accordance with the guidelines set forth by RBI notification on Framework for acceptance of Green Deposits, SBI has prepared a comprehensive Board-approved policy on green deposits. The policy outlines the aspects related to issuance and allocation of green deposits.

### Use of proceeds

SBI green financing framework describes eligibility criteria for following green categories:

#### Green categories from SBI's framework

1. Renewable energy
2. Energy Efficiency
3. Clean Transportation - Low carbon mobility solution
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



The framework also provides exclusion list for green finance.

## Exclusion list from SBI's framework

1. 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
2. Nuclear power generation
3. Direct waste incineration
4. Alcohol, weapons, tobacco, gaming, or palm oil industries
5. Renewable energy projects generating energy from biomass using feedstock originating from protected areas
6. Landfill projects
7. Hydropower plants larger than 25 MW

## CRISIL Limited's opinion

The eligible project categories for use of proceeds have been clearly defined and detailed. Moreover, the eligible projects are congruent with the list of green activities and projects delineated in RBI notification on Framework for acceptance of Green Deposits.

SBI has also provided an exclusion list in line with RBI notification on Framework for acceptance of Green Deposits. CRISIL Limited views excluding activities with adverse impacts on the environment and society as being aligned with the leading practices within the industry.

## Process for project evaluation and selection

The Sustainability Committee (SC), set up under the Bank's ESG Financing<sup>6</sup> will be responsible for determining the eligibility of project(s) to be considered as part of the green asset pool and for regular monitoring of this portfolio. The SC is a cross functional team and is chaired by Chief General Manager (Credit Policy & Procedures) (or alternatively by the Chief General Manager (Risk Management-1)). It also comprises senior representatives from Agriculture/NBFC Alliances business unit, Small and Medium Enterprise business unit, CSR & Sustainability department and Treasury Management Group. The framework outlines the designated authority for approving green deposits and green lending. The concerned departments/operating units will be responsible for project level evaluation and ESG risk assessment.

SBI will follow a structured process as laid down under its 'ESG risk rating model'. This model will be applicable for loans above INR 100 Crores (for listed borrowers) and INR 500 Crores (for unlisted borrowers). It provides an ESG criteria to identify the Environmental, Social and Governance risks associated with borrowers (relevant projects). In such instances, SBI will source data/ information (wherever data is not publicly available) from the borrowers through a questionnaire and score the borrowers basis the responses received. The concerned departments/operating units will carry out the risk assessment independently to arrive at a ESG rating. This rating will then be approved by the Bank's Credit Risk Assessment (CRA) Validation Committee.

SBI will develop a separate E&S risk assessment methodology for loans below INR 100 Crores (for listed borrowers) and INR 500 Crores (for unlisted borrowers). Basis the discussions with Bank's stakeholders, the bank will develop this mechanism within six months of issuance of green deposits.

The SC is accountable for ensuring that the capital raised through green deposit route is deployed in accordance with the framework and RBI guidelines for eligible green projects. Additionally, the existing general guidelines and

<sup>6</sup><https://sbi.co.in/documents/17836/3726866/ESG+Financing+Framework+2023.pdf/ab4d507d-c354-d4d0-b2e5-3cbbe1f75e0a?t=1674120824966>

laid down checks and balances for loans as prescribed under the Bank's loan policy and sector specific policies will be followed.

Internal Auditor (Risk Focused Internal Audit (RFIA)/ Credit Audit) will examine the compliance of the aforementioned laid down procedures of internal checks and balances.

The SC shall oversee the preparation and validation of relevant reporting for Green Deposit under this framework.

## **CRISIL Limited's opinion**

SBI's framework outlines a process for project evaluation and selection that corresponds to guidelines provided in RBI notification on Framework for acceptance of Green Deposits.

The framework provides for engagement of a cross functional team with clearly defined monitoring responsibilities and approval authority as well as concerned department/ operating units with risk assessment responsibilities. This is aligned with relevant internal expertise and is consistent with recognized best practices. Furthermore, the framework refers to the Bank's 'ESG risk rating model' implemented for loans above INR 100 Crores (for listed borrowers) and INR 500 Crores (for unlisted borrowers). SBI will develop a separate E&S risk assessment methodology for loans below INR 100 Crores (for listed borrowers) and INR 500 Crores (for unlisted borrowers). Basis the discussions with Bank's stakeholders, it is understood that SBI will develop this mechanism within six months of issuance of green deposits. Putting such process in place is in line with market best practices.

## **Allocation and monitoring of proceeds**

Until a separate labelling and tagging mechanism for green deposits is put in place, the Global IT Centre (GITC) of the Bank will generate an MIS report on a daily basis which will be circulated to the ESG & Climate Finance Unit (ESG & CFU) for monitoring. The MIS will facilitate monitoring of the green portfolio on a real time basis. The green portfolio will be monitored to track any repayment/refinancing in the asset portfolio and new loan portfolio earmarked for the proceeds. The Bank's SC will be responsible of determining the eligibility of project(s) to be considered as part of the green asset pool and for regular monitoring of this portfolio. Any project to be reckoned in the framework will have to be cleared by SC as per the eligibility criteria<sup>7</sup>. The SC will oversee the preparation and validation of relevant reporting for Green Deposit under this framework.

A total amount of eligible green assets larger than the total net proceeds of green deposits outstanding will be maintained. SBI will monitor the inventory to detect potential shortfalls. In case of shortfall, equivalent amount will be temporarily allocated only in liquid instruments from the green deposit pool.

The unallocated proceeds (pending allocation to the eligible activities/projects) will be temporarily allocated only in liquid instruments (Treasury bill, Overnight/ term placement under Triparty Repo Dealing System (TREPS)/ Clearcorp Repo Order Matching System (CROMS)/ Reserve Bank of India (RBI) Liquidity adjustment facility (LAF), Dated securities and other coupon-bearing Non-SLR (Statutory Liquidity Ratio) securities) having maximum original tenure of one year.

## **CRISIL Limited's opinion**

As per SBI framework, the proceeds of green deposits will be earmarked for lending to eligible projects. Basis the discussions with Bank's stakeholders, it is understood that a separate labelling and tagging mechanism for management of proceeds is under development and is expected to be completed within six months from issuance of green deposits. Until such time that this mechanism is put in place, the GITC of the Bank will generate an MIS report on a daily basis which will be circulated to the ESG & CFU for monitoring. The MIS will facilitate monitoring of the green portfolio on a real time basis. The Bank's SC will be responsible of determining the eligibility of project(s) to be considered as part of the green asset pool and for regular monitoring of this portfolio. Any project to be reckoned in the framework will have to be cleared by SC as per the eligibility criteria. The SC will oversee the preparation and validation of relevant reporting for Green Deposit under this framework. This is in line with market best practices.

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<sup>7</sup> <https://sbi.co.in/documents/17836/3726866/ESG+Financing+Framework+2023.pdf/ab4d507d-c354-d4d0-b2e5-3cbb1f75e0a?t=1674120824966>

Furthermore, adhering to the guidelines outlined in RBI notification on Framework for acceptance of Green Deposits, SBI will ensure that the unallocated proceeds (pending allocation to the eligible activities/projects) are temporarily allocated only in liquid instruments (Treasury bill, Overnight/ term placement under Triparty Repo Dealing System (TREPS)/ Clearcorp Repo Order Matching System (CROMS)/ Reserve Bank of India (RBI) Liquidity adjustment facility (LAF), Dated securities and other coupon-bearing Non-SLR (Statutory Liquidity Ratio) securities) having maximum original tenure of one year.

## Third party Verification/Assurance

The allocation of funds raised through green deposits during a financial year shall be subject to an independent Third-Party Verification/Assurance on an annual basis. The third-party assurance shall cover the following –

1. Use of the proceeds in accordance with the eligible activities/projects.
2. Project evaluation and selection, management of proceeds, and validation of the sustainability information provided by the borrower as per eligible activities/projects.

Internal Auditor (Risk Focused Internal Audit (RFIA)/ Credit Audit) will examine and validate the green classification of the exposure while auditing the account at the branch to ensure the end use of the funds.

### CRISIL Limited's opinion

The allocation of funds accumulated via green deposits during a fiscal year will be subjected to an annual verification/assurance by an independent third party. Furthermore, SBI has affirmed its commitment to vigilantly monitor the end use of funds, employing internal verification procedures akin to those employed for other loans. SBI will ensure that borrowers comply with the stipulations within SBI green financing framework and will establish suitable mechanisms to verify the end use of funds.

The third-party verification and assurance report will encompass the use of proceeds, process for project evaluation and selection, management of proceeds, and validation of the sustainability information provided by the borrower as per eligible activities/projects. CRISIL Limited notes that these measures are consistent with the instructions provided in RBI notification on Framework for acceptance of Green Deposits.

## Impact Assessment

With the assistance of external agencies/ firms, SBI will assess the impact of the green finance activities/projects funded by green deposits through an Impact Assessment Report on annual basis. The report will be published on SBI website.

### CRISIL Limited's opinion

SBI will engage external agencies/ firms to conduct an annual impact assessment for green finance activities/projects funded by green deposits, culminating in an Impact Assessment Report. The report will be made accessible to the public through SBI's website. Additionally, SBI has outlined an illustrative list of impact indicators within the framework. This approach is consistent with RBI notification on Framework for acceptance of Green Deposits.

## Reporting and Disclosures

SBI will place a review report before its Board of Directors within three months of the end of the financial year which shall, inter-alia, cover the following details:

1. Amount raised under green deposits during the previous financial year.
2. List of green activities/projects to which proceeds have been allocated, along with a brief description of the projects.
3. Amounts allocated to the eligible green activities/projects.

4. A copy of the Third-Party Verification/Assurance Report and the Impact Assessment Report.

SBI will arrange to make appropriate disclosures in the Annual Financial Statements on the portfolio-level information regarding the use of the green deposit funds as per the proforma prescribed in Annex 2 of RBI notification on Framework for acceptance of Green Deposits.

### **CRISIL Limited's opinion**

Reporting and disclosure provisions outlined within SBI framework conform to the RBI notification on Framework for acceptance of Green Deposits.

## Disclaimer

This Second Party Opinion (SPO) reflects our assessment of SBI Green Financing Framework's alignment only against Reserve Bank of India (RBI) Notification pertaining to Framework for acceptance of Green Deposits dated 11<sup>th</sup> April 2023<sup>8</sup>.

This SPO offers a limited, point-in-time opinion, based on the information available when the SPO was formulated and published, and it is not surveilled. The opinion is based on CRISIL Limited's judgment and comprehension of RBI notification pertaining to Framework for Acceptance of Green Deposits and associated risks and alignment of SBI Framework. The SPO relies on information provided by State Bank of India. CRISIL Limited ("CRISIL") has not undertaken any independent verification or audit of documents and information provided by SBI and does not warrant the completeness or accuracy or currency of the information presented in this SPO. This SPO remains valid as long as the framework remains unchanged. CRISIL is not obligated to update the SPO to reflect any facts or circumstances that may come to our attention in the future. CRISIL shall have hold no liability for the use of this SPO or any information provided therein.

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<sup>8</sup> <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12487&Mode=0>

## About CRISIL Market Intelligence & Analytics

CRISIL Market Intelligence & Analytics, a division of CRISIL, provides independent research, consulting, risk solutions, and data & analytics. Our informed insights and opinions on the economy, industry, capital markets and companies drive impactful decisions for clients across diverse sectors and geographies.

Our strong benchmarking capabilities, granular grasp of sectors, proprietary analytical frameworks and risk management solutions backed by deep understanding of technology integration, make us the partner of choice for public & private organisations, multi-lateral agencies, investors and governments for over three decades.

## About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

It is India's foremost provider of ratings, data, research, analytics and solutions with a strong track record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers through businesses that operate from India, the United States (US), the United Kingdom (UK), Argentina, Poland, China, Hong Kong, Singapore, Australia, Switzerland, Japan and the United Arab Emirates (UAE).

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visit [www.crisil.com](http://www.crisil.com)

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