

Second Party Opinion

Sustainable Finance Framework

Utkarsh Small Finance Bank Limited

May 2025

Second Party Opinion

Sustainable Finance Framework

Issuer's Name: Utkarsh Small Finance Bank Limited

Issuer's Location: Varanasi, India

Evaluation Date: May 2025

Summary of evaluation

This document outlines Crisil's limited opinion on the Sustainable Finance Framework by Utkarsh Small Finance Bank Limited (version 1.0, May 2025). The assessment is based on the framework and other non-public information shared with Crisil Limited by Utkarsh Small Finance Bank Limited and should be read in conjunction with the referred framework.

Basis the information received from Utkarsh Small Finance Bank Limited (USFBL) and the stakeholder discussions with the USFBL team, Crisil in its limited capacity of an external reviewer is of the view that Sustainable Finance Framework by Utkarsh Small Finance Bank Limited is largely in alignment with the following:

- Green Bond Principles (GBP) 2021 as administered by ICMA¹
- Social Bond Principles (SBP) 2023 as administered by ICMA¹
- The Sustainability Bond Guidelines (SBG) 2021 as administered by ICMA¹
- Green Loan Principles (GLP) 2025 as administered by LMA, APLMA and LSTA²
- Social Loan principles (SLP) 2025 as administered by LMA, APLMA and LSTA²
- Framework for acceptance of Green Deposits as outlined in the Reserve Bank of India (RBI) Notification dated 11th April 2023³

Our opinion is subject to the disclaimers mentioned in this opinion statement and Crisil shall have no liability whatsoever with regards to use or reliance on the contents of this opinion.

This SPO remains effective under the condition of an unaltered Sustainable Finance Framework. This SPO is contingent on Utkarsh Small Finance Bank Limited's internal documents and procedures. In the event of internal changes that may happen, this may not hold true. Any modifications to the Sustainable Finance Framework and associated procedures and documents will render this SPO inapplicable.

¹ International Capital Market Association (ICMA)

² Loan Market Association (LMA), Asia Pacific Loan Market Association (APLMA) and Loan Syndications & Trading Association (LSTA)

³ <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12487&Mode=0>

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Scope of work and limitations of Crisil's SPO

Utkarsh Small Finance Bank Limited (hereinafter referred to as USFBL) engaged Crisil to appraise the alignment of its Sustainable Finance Framework with current market standards and provide a second party opinion on the framework's alignment with Green Bond Principles (GBP), Social Bond Principles (SBP), the Sustainability Bond Guidelines (SBG), Green Loan Principles (GLP), Social Loan principles (SLP) as well as the Reserve Bank of India (RBI) Notification dated 11th April 2023⁴ (hereinafter referred to as RBI notification on Framework for acceptance of Green Deposits).

The Second-Party Opinion (SPO) document presents Crisil's independent opinion on the coherence of USFBL's Sustainable Finance Framework (version 1.0 dated May 2025) with the current market standards. This document should be read in conjunction with USFBL's Sustainable Finance Framework (version 1.0 dated May 2025).

The opinion is based on Crisil's assessment of the Framework's alignment with the Green Bond Principles (GBP) 2021, Social Bond Principles (SBP) 2023, and the Sustainability Bond Guidelines (SBG) 2021 as administered by ICMA⁵, Green Loan Principles (GLP) 2025, and Social Loan Principles (SLP) 2025 as administered by LMA, APLMA and LSTA⁶, and RBI's notification on Framework for acceptance of Green Deposits.

This SPO reflects alignment of USFBL's Sustainable Finance Framework (version 1.0 dated May 2025) with above mentioned versions of market standards. This SPO does not guarantee any alignment with future versions of relevant market standards

As a facet of this assessment, Crisil was engaged in discussions with USFBL to gain insights into the approach and practices to be implemented with respect to sustainable finance, the procedures for allocating funds raised through sustainable finance instruments, and the governance and reporting aspects of the Sustainable Finance Framework.

Crisil sought internal documentation from USFBL pertaining to the Sustainable Finance framework. It has been affirmed by USFBL's representatives that the information and documentation provided to Crisil is current, relevant, accurate and comprehensive. Crisil has not undertaken any independent verification or audit of documents and information provided by USFBL.

Crisil reviewed the internal documentation provided by USFBL and interacted with key stakeholders at USFBL to discuss aspects pertaining to use of proceeds, process for project evaluation and selection, management of proceeds and reporting mechanisms associated with the Sustainable Finance Framework.

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. USFBL is accountable for the reporting on use of proceeds and impact resulting from eligible activities.

Any information presented by Crisil 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 USFBL has provided to Crisil specifically for the intent of this Second-Party Opinion.

⁴ <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12487&Mode=0>

⁵ International Capital Market Association (ICMA)

⁶ Loan Market Association (LMA), Asia Pacific Loan Market Association (APLMA) and Loan Syndications & Trading Association (LSTA)

Overview of Utkarsh Small Finance Bank's Sustainable Finance Framework

USFBL has developed the Sustainable Finance Framework (version 1.0 dated May 2025)⁷ articulating its approach towards sustainable finance. The eligible project categories, process of project evaluation and selection, management of proceeds, third-party verification/assurance and impact assessment, and reporting are outlined in this Sustainable Finance Framework developed with the objective of reinforcing USFBL's capabilities in financing green and social projects as well as offer green deposits. Through this Sustainable Finance Framework, USFBL aims to mobilize investors to contribute capital towards sustainable development.

USFBL's Sustainable Finance Framework has been developed by referencing the following guidelines:

- International Capital Market Association (ICMA) Guidelines:
 - The Green Bond Principles ("GBP") 2021
 - The Social Bond Principles ("SBP") 2023
 - The Sustainability Bond Guidelines ("SBG") 2021
- Loan Market Association (LMA), Asia Pacific Loan Market Association (APLMA) and Loan Syndications & Trading Associations (LSTA) guidelines:
 - Green Loan Principles ("GLP") 2025
 - Social Loan Principles ("SLP") 2025
- RBI notification on Framework for acceptance of Green Deposits dated 11th April 2023
- This Sustainable Financing Framework has been developed by referencing various other national and international frameworks stated below:
 - UN Sustainable Development Goals (SDGs)
 - Disclosure requirements from the Securities and Exchange Board of India ("SEBI") regarding the issuance and listing of green debt securities as well as related guidelines of Reserve Bank of India ("RBI")

Sustainable Finance Transactions ("SFTs") will include bonds, loans, and deposits, tailored to contribute to sustainable development by allocation of the proceeds to eligible green projects and/ or eligible social projects.

SFTs do not place restrictions on the tenor and currency⁸, and can include other terms and conditions including covenants, to reflect the financing strategy and plans of USFBL as well as the outcome of the commercial discussions between the Issuer/Borrower and Manager/Arranger/Lender.

This Sustainable Finance Framework governs the issuance of any instruments by USFBL and its banking subsidiaries, and includes the following:

- Green Bonds/ Loans/ Deposits to finance and/or refinance eligible green activities/ projects
- Social Bonds/ Loans to finance and/or refinance eligible social activities/ projects
- Sustainability Bonds/ Loans to finance and/or refinance mix of eligible green and social activities/ projects

⁷ All the Disclosures & Reports will be made available on <https://www.utkarsh.bank/>

⁸ Green Deposit to be issued in INR only as per RBI's framework for acceptance of Green Deposits dated 11th April 2023

USFBL's Sustainable Finance Framework is largely aligned with the four core pillars of the ICMA, LMA, APLMA, and LSTA principles:

1. Use of Proceeds
2. Process for project evaluation and selection
3. Management of Proceeds
4. Reporting

USFBL's Sustainable Finance Framework also aims to align with the framework for acceptance of Green Deposits as established by the Reserve Bank of India (RBI)⁹. Green Deposits¹⁰ offered by USFBL are largely aligned with the core components recommended by RBI:

- A. Denomination, interest rates and tenor of deposits
- B. Policy on green deposits
- C. Use of Proceeds
- D. Process for project evaluation and selection
- E. Allocation/Management of proceeds
- F. Third party Verification/Assurance
- G. Impact Assessment
- H. Reporting and Disclosures

⁹ <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12487&Mode=0>

¹⁰ Green Deposit is an interest-bearing deposit, received by RE, for a fixed tenor, proceeds of which will be exclusively applied to finance green activities with clear environmental benefits

Assessment Summary

Crisil has assessed USFBL's Sustainable Finance Framework's (Version 1.0, dated May 2025) alignment with the Green Bond Principles (GBP) 2021, Social Bond Principles (SBP) 2023, and the Sustainability Bond Guidelines (SBG) 2021 as administered by ICMA¹¹, and Green Loan Principles (GLP) 2025, and Social Loan principles (SLP) 2025 as administered by LMA, APLMA and LSTA¹².

Crisil has also assessed USFBL's Sustainable Finance Framework's alignment with RBI's framework on acceptance of Green Deposits dated 11th April 2023¹³

Alignment with ICMA's SBP, SBP, SBG and LMA's GLP and SLP

In our view, the USFBL's Sustainable Finance Framework (Version 1.0, dated May 2025), is largely aligned with:

- ✓ Green Bond Principles (GBP) 2021 as administered by ICMA
- ✓ Social Bond Principles (SBP) 2023 as administered by ICMA
- ✓ The Sustainability Bond Guidelines (SBG) 2021 as administered by ICMA
- ✓ Green Loan Principles (GLP) 2025 as administered by LMA, APLMA and LSTA
- ✓ Social Loan principles (SLP) 2025 as administered by LMA, APLMA and LSTA
- ✓ Framework for acceptance of Green Deposits as outlined in the Reserve Bank of India (RBI) Notification dated 11th April 2023

Alignment with RBI's framework for acceptance of green deposits

In our opinion, the USFBL's Sustainable Finance Framework (Version 1.0, dated May 2025) is aligned with RBI's framework for acceptance of green deposits dated 11th April 2023.

Assessment of alignment with ICMA's GBP, SBP, SBG; LMA's GLP, SLP; and RBI's notification on Framework for acceptance of Green Deposits

| Aspect | Remarks |
|---|--|
| Denomination, interest rates and tenor of deposits | USFBL's Sustainable Finance Framework 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. |
| Policy on green deposits | USFBL 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's notification, dated 11 th April 2023, on Framework for acceptance of Green Deposits. |
| Use of proceeds | The net proceeds of the SFTs will be used to finance or refinance, in whole or in part, new or existing eligible Green & Social Projects, as per eligibility criteria. For refinancing, eligible projects include the projects USFBL funded during the 24 months prior to the issuance or signing date of the respective SFTs and during the life of the SFTs. |

¹¹ International Capital Market Association (ICMA)

¹² Loan Market Association (LMA), Asia Pacific Loan Market Association (APLMA) and Loan Syndications & Trading Association (LSTA)

¹³ <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12487&Mode=0>

| Aspect | Remarks |
|---|--|
| | <p>The eligible project categories for use of proceeds are aligned with ICMA GBP, ICMA SBP, LMA GLP, LMA SLP and RBI's framework for acceptance of green deposits.</p> <p>USFBL has also mapped the eligible activities/projects to UN SDGs. This is in line with ICMA recommendations.</p> <p>The eligible categories for use of proceeds are also in alignment with the categories recommended in RBI notification on Framework for acceptance of Green Deposits.</p> <p>Additionally, Crisil views the exclusion list provided in the USFBL's Sustainable Finance Framework to be in line RBI notification and with industry practices</p> |
| Project evaluation and selection process | <p>The involvement of a cross functional team with clearly defined roles, responsibilities, and approval authority at USFBL follows industry best practices. Furthermore, USFBL has implemented and maintained systems for assessing and managing E&S risks and opportunities to ensure compliance as well as add value through appropriate procedures, resource allocation, monitoring, and reporting.</p> <p>USFBL performs the credit assessment and due diligence of projects/ assets in accordance with its routine processes already laid down. All credit portfolios, recognized by the sales team, under this Sustainable Finance framework will go through the Bank's regular due diligence structure and credit process and only upon being sanctioned by the Credit Team, will be reckoned for allocation under green/social/sustainable project portfolios.</p> <p>Projects/ Activity list is evaluated by the credit team. The team undertake a preliminary assessment for inclusion of projects based on Sustainable Finance Framework criteria to ensure that the projects will comply with the use of proceeds and process of project evaluation and selection, as well as with USFBL's ESG Policy & ESG-MS Framework. If the criteria are met, the respective project/ asset are be nominated for allocation.</p> <p>USFBL has also developed an ESG Policy that states its commitment to integrating ESG considerations in its business operations.</p> <p>For all loan transactions, the E&S Policy and its requirements are implemented in compliance to Indian regulations.</p> <p>Putting such a process in place is in line with industry's best practices.</p> |
| Allocation/ Management of proceeds | <p>The Bank shall establish a process wherein the net proceeds from the SFTs will be managed by the Credit Department and credited to a designated sub-account. This sub-account will be earmarked for allocation to eligible projects/activities in alignment with USFBL's Sustainable Finance Framework.</p> <p>To enable effective tracking of the use of proceeds, the Bank shall develop a loan tagging mechanism. This system will facilitate the identification and monitoring of key details within the sustainable finance portfolio, such as borrower account number, borrower name, use of proceeds, sanctioned amount, disbursed amount, loan maturity, and other relevant information, ensuring that the aggregate allocation of proceeds can be accurately recorded.</p> <p>USFBL will allocate all proceeds from the SFTs to eligible Projects on a best effort basis within 24 months of the SFT issuance in accordance with the evaluation and selection process. Unallocated proceeds will be temporarily allocated only in liquid instruments such as in cash or cash equivalents, as well as short term deposits and money market</p> |

| Aspect | Remarks |
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| | <p>funds, having a maximum original tenure of one year. Crisil notes that this is in line with market best practices.</p> <p>Crisil considers process for allocation of proceeds to be aligned with ICMA GBP, ICMA SBP, LMA GLP and LMA SLP.</p> <p>Crisil also notes that the Bank's intended process for the management of proceeds to be aligned with the principles set out in the ICMA Principles, LMA Principles, as well as the guidelines provided in the RBI's Framework for Acceptance of Green Deposits.</p> |
| Third party Verification/ Assurance | <p>The allocation of funds accumulated via SFTs during a fiscal year will be subjected to an annual verification/assurance by an independent third party.</p> <p>The estimated/actual impact of eligible Projects that are disclosed in the Annual Reporting will also be subjected to the verification/assurance by an independent third party. A review report shall be placed by the ESG-SC of USFBL before its Board of Directors within three months of the end of the financial year.</p> <p>Crisil notes that these measures are consistent with the instructions provided in RBI notification on Framework for acceptance of Green Deposits.</p> |
| Impact Assessment | <p>USFBL has outlined an illustrative list of impact indicators within the Sustainable Finance Framework. USFBL will engage an external auditor, or other third party, to verify the allocation/environmental and/or social impact of eligible Green/Social Projects funded by SFTs.</p> <p>Crisil notes that the RBI notification on Framework for acceptance of Green Deposits recommends taking assistance of external firms to annually assess the impact associated with the funds lent for or invested in green finance activities/projects through an Impact Assessment Report.</p> <p>Basis the discussions with Bank's stakeholders, it is understood that USFBL will engage external firms to conduct an annual impact assessment for the funds directed towards activities/projects financed through instruments raised under the Sustainable Financing Framework and the report on the same will be placed before its Board of Directors within three months of the end of the financial year.</p> <p>The details will be released through an Impact Assessment Report as per ICMA GBP, ICMA SBP, LMA GLP, LMA SLP and RBI guidelines. The report will be made accessible to the public through USFBL's website.</p> |
| Reporting and Disclosures | <p>A review report will be placed by USFBL before its Board of Directors within three months of the end of the financial year which shall, inter-alia, cover the following details:</p> <ol style="list-style-type: none"> 1. Amount raised under SFTs during the previous financial year. 2. List of green and/or social activities/projects to which proceeds have been allocated, along with a brief description of the projects. 3. The amounts allocated to the eligible green and/or social activities/projects. 4. A copy of the Third-Party Verification/Assurance Report and the Impact Assessment Report. The details shall be released through an Impact Assessment Report as per ICMA GBP, ICMA SBP, LMA GLP, LMA SLP and RBI guidelines. |

| Aspect | Remarks |
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| | <p>USFBL will make appropriate disclosures in their Annual Financial Statements on the portfolio-level information regarding the use of proceeds from SFTs.</p> <p>USFBL has also outlined the template to manage the portfolio-level information regarding the use of the green deposit funds within the Green Finance Framework. This approach is in consistent with RBI notification on Framework for acceptance of Green Deposits.</p> <p>The report will be made accessible to the public through USFBL's website.</p> |

Crisil's opinion on USFBL's Sustainable Finance Framework

Denomination, interest rates and tenor of deposits

USFBL's Sustainable Finance Framework 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's opinion

Disclosure on denomination, interest rates and tenor of deposits conforms to the RBI notification on Framework for acceptance of Green Deposits. The same has been mentioned in USFBL's Sustainable Finance Framework.

Policy on green deposits

USFBL has prepared a Green Deposit policy 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 deposit framework.

Crisil's opinion

USFBL has prepared a comprehensive Board-approved Policy on Green Deposits that outlines the aspects related to issuance and allocation of green deposits.

Basis the discussions with Bank's stakeholders, it is understood that USFBL, with the assistance of external firms, will mandatorily conduct an annual impact assessment of proceeds from green deposits from 2024-25 onwards as per RBI notification on Framework for acceptance of Green Deposits and the same has been mentioned in the USFBL's Sustainable Finance Framework.

Use of proceeds

The net proceeds of the SFTs will be used to finance or refinance, in whole or in part, new or existing eligible green and/or social projects. For refinancing, eligible projects include the projects USFBL has funded during the 24 months prior to the issuance or signing date of the respective SFTs and during the life of the SFTs.

The proceeds of a Green Bond/Loan/Deposit issued under the USFBL Sustainable Finance Framework will be applied to projects that fall under the eligible Green Project Categories. The proceeds of a Social Bond/Loan issued under the USFBL Sustainable Finance Framework will be applied to projects that fall under the eligible Social Project Categories. The proceeds of a Sustainability Bond/Loan issued under the USFBL Sustainable Finance Framework will be applied to both eligible Expenditures with Green focus, and eligible Expenditures with Social focus set out in the Sustainable Finance Framework.

Eligible Green Projects/activities

These green activities/projects encourage energy efficiency in resource utilization, reduce carbon emissions and greenhouse gases, prevents and controls pollution, promote climate resilience and/or adaptation and value and improve natural ecosystems and biodiversity






Table 1. List of Eligible Green Projects/activities

| Sr. No. | Eligible Green Project Categories | Description | Linkage with UNSDGs |
|---------|---|--|---|
| 1 | Renewable Energy (including production, transmission, and distribution) | <p>Investments, expenditure and financing/ refinancing related to projects including renewable energy such as:</p> <ul style="list-style-type: none"> ❖ Ground-mounted solar power and grid connected rooftop solar power (photovoltaic and concentrated solar power)¹⁴ ❖ Wholly dedicated transmission infrastructure for solar electricity generation facilities (Manufacturing of components such as Modules, Ingots-Wafers, Solar Cells, Polysilicon) ❖ Wind energy (The development, construction, and operation of onshore and offshore projects) ❖ Dedicated transmission infrastructure and support facilities (e.g., transformers, backbone, transmission terminus, grid connections, dedicated facilities for support vessels and vehicles) ❖ Hydro energy (generating less than 25MW, or run-of-river projects without artificial reservoir)¹⁵ ❖ Waste-to-energy projects that recover energy from Agri/forestry waste or Municipal Solid Waste (MSW) with the condition that majority of recyclables (especially plastics) are segregated before energy conversion. ❖ Geothermal energy for electricity generation (limited to direct emissions of <100g CO₂e/KWh) ❖ Bioenergy¹⁶ (e.g., oil seed crops, sugar crops, wood pellets, excluding peat and palm oil) for electricity generation (limited to life-cycle emissions of <100g CO₂e/KWh) ❖ Projects that integrate energy generation and storage |       |

¹⁴ At least 85% of the electricity generated from the facility will be derived from solar energy resources, and non-renewable energy back up will be limited to 15% of the facility's electricity production



¹⁵ Regardless of the size, an environmental and social impact assessment done by a credible body be required per project, and there should be no significant risk or expected negative impact identified. The eligible projects operational after 2019 will have a power density greater than 10W/m², whereas for projects operational before 2019, a power density greater than 5 W/m² will be ensured.

¹⁶ Biomass/fuel that is derived from sources of high biodiversity, that competes with food sources or that depletes carbon pools is excluded

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| 2 | Energy Efficiency | <p>Investments, expenditure and financing/ refinancing related to projects and technologies that are designed to enable energy and emissions reductions that aim to achieve energy savings. Examples include:</p> <ul style="list-style-type: none"> ❖ To include projects bringing energy efficiency relating to battery storage for renewable energy sources ❖ Smart grids technologies¹⁷ ❖ Building technologies such as LED lighting, smart meters for households and replacement of boilers to improve energy performance ❖ Supporting construction of new low-carbon buildings as well as energy-efficiency retrofits to existing buildings ❖ Energy management systems (upgrades, modifications, service and improvements to industrial and manufacturing processes that result in an increase in energy efficiency, decrease in Specific Energy consumption due to Technological upgradation including product design, service, redesign, addition and modification of features that have specific purpose of increasing energy efficiency)¹⁸ |    |
| 3 | Clean Transportation | <p>Investments, expenditure and financing/ refinancing related to projects aiming at developing/ manufacturing low-carbon passenger and freight transportation or related infrastructure, including:</p> <ul style="list-style-type: none"> ❖ For passenger non-public transportation (e.g., passenger cars and commercial vehicles), either zero direct emissions (fully electric or hydrogen) or with tailpipe emissions of below 75g CO₂e/km until 2025 (non-eligible thereafter) ❖ For passenger public transportation (e.g., light rail transit, metro, tram, trolleybus, bus and rail), either zero direct emissions (fully electric or hydrogen) or with tailpipe emissions of below 50g CO₂e/km per passenger until 2025 (non-eligible thereafter) ❖ Projects related to capacity or energy efficiency improvement (e.g., station upgrade, improved signaling equipment), electric vehicle charging stations, battery swapping stations, hydrogen- |   |

¹⁷ Development, Manufacturing, Installation of technologies/components that enable more efficient transmission and distribution under smart grid technologies category. This includes SCADA system, communications, and sensors technologies such as Wide Area monitoring System (WAMS), advance/smart meters, monitoring and control automation devices, big data or computing platforms





¹⁸ Expenditures within this category exclude energy-efficient technologies designed or intended for processes that are inherently carbon intensive, primarily driven or powered by fossil fuels, such as: Oil or gas-fired boilers, cogeneration and CHP units as well as production processes in heavy industries, such as steel, cement, aluminum

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| | | <p>fueling stations, and electricity grid connection upgrade</p> <ul style="list-style-type: none"> ❖ For freight rail¹⁹ (trains), either zero direct emissions (fully electric or hydrogen) or with tailpipe emissions at or below (\leq) 25g CO₂e/t-km (tonne-kilometer), ❖ For road freight, zero direct emissions (electric or hydrogen). <p>Investments, expenditure and financing/ refinancing related to development, manufacturing and recycling of rechargeable batteries and fuel cells for clean transportation.</p> <p>Investments, expenditure and financing/ refinancing related to consumer loans towards electric vehicles and electric rickshaws</p> | |
| 4 | Climate Adaptation Change | <p>Investments, expenditure and financing/ refinancing related to projects including data driven systems for monitoring and / or forecasting:</p> <ul style="list-style-type: none"> ❖ Temperature related climate hazards, ❖ Wind related climate hazards, ❖ Water related climate hazards, and/or ❖ Land related climate hazards for reducing or avoiding weather-related damage and/or disruption <p>Investments, expenditure and financing of Climate change adaption activities related projects:</p> <ul style="list-style-type: none"> ❖ Infrastructures for reducing/avoiding weather related damages/ disruption²⁰ |  |
| 5 | Sustainable Water and Waste Management | <p>Investments, expenditure and financing/ refinancing related to projects, including, developing/ manufacturing infrastructure, equipment and technology for activities that improve water quality²¹:</p> <ul style="list-style-type: none"> ❖ Water treatment facilities including water recycling systems, sewer networks and manure and slurry treatment facilities |  |

¹⁹ Fossil fuel freight must not be more than 25% of the freight transported (in tonne/km)

²⁰ Activities that increase resilience of ecosystems such as integrated watershed management. Projects to improve water resilience to climate change may include construction of climate resilient water tanks that are used to store water in buildings, roofing structure improvements, rainwater harvesting facilities, Heavy rain drainage systems, flood prevention projects, flood defense systems, sluice gates, tunnels and channels and elevation of existing infrastructure Use of climate resilient crops (e.g. drought resistant seeds), drip irrigation technology, stormwater storage, grain storage, soil rehabilitation), etc.

²¹ All the projects related to water and wastewater infrastructure will exclude integrated water and power plant (IWPP) with fossil fuel power







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| | | <ul style="list-style-type: none"> ❖ Upgrades to wastewater treatment plants to remove nutrients ❖ Wastewater discharge infrastructure ❖ Desalination plants powered by electricity with an average carbon intensity at or below 100gCO₂e/kWh over the residual asset life or desalination plants²² primarily powered by low-carbon sources, such as renewables <p>Investments, expenditure and financing/ refinancing related to projects, including, developing/ manufacturing infrastructure, equipment and technology for activities that improve water-use efficiency:</p> <ul style="list-style-type: none"> ❖ Water recycling and reuse ❖ Rainwater harvesting systems and development of ponds ❖ Horticulture (drip and sprinkler irrigation methods development of water monitors and taps with fixed with low-flow water fixtures) ❖ Sanitation infrastructure projects |   |
| 6 | Pollution Prevention and Control | <p>Investments, expenditure and financing/ refinancing related to projects including:</p> <ul style="list-style-type: none"> ❖ Waste Management Projects (waste collection/ processing/recycling)²³ ❖ Pollution Control Projects. (projects that are approved by India's Commission for Air Quality Management (CAQM) related to reducing air emissions through installation of smoke-stack scrubbers, or process upgrades, installation of sensors to monitor/test emission control/compliance)²⁴ ❖ 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-energy²⁵ ❖ Development of recycling facilities that process |   |

²² Expenditure within this category exclude desalination projects without appropriate waste management plans for brine disposal and desalination plants with dedicated on-site fossil fuel power

²³ For waste collection activities, source segregation will be ensured. For recovery and processing, segregation of recyclables for waste to energy facilities will be ensured. The activity will exclude chemical recycling of plastics. In case of e-waste recycling, robust waste management plan to be in place to mitigate associated risks.

²⁴ Financing will exclude air pollution prevention from fossil fuel production; and prevention of air pollution that results directly from technologies that are inherently reliant on fossil fuels as an energy source

²⁵ Feedstock will primarily include Sewage, manure, wastewater, bagasse, biomass, wood pellets, etc.

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| | | <p>i) recyclable waste into secondary raw material,</p> <p>ii) mixed residual waste to produce feedstock for waste to energy plants,</p> <p>iii) food and/or green/ garden/yard waste to produce compost</p> |  |
| 7 | Green Buildings | <p>Investments, expenditure and financing/ refinancing related to projects including green buildings²⁶ certified under:</p> <ul style="list-style-type: none"> ❖ EDGE, BREEAM, IGBC, LEED, Green Mark, GRIHA²⁷ ❖ Building renovation which have achieved or will achieve any green building certifications with corresponding levels that ensure building energy efficiency gains of at least 30% over the ASHRAE 90.1 or local building codes and meeting carbon hurdles set in the IFC EDGE tool²⁸ |   |
| 8 | Sustainable Management of Living Natural Resources and Land Use | <p>Investments, expenditure and financing/ refinancing related to projects including:</p> <ul style="list-style-type: none"> ❖ Programs encouraging sustainable land use and sustainable agriculture, including climate-smart agriculture which considers climate mitigation and adaptation measures ❖ Sustainable aquaculture and fisheries²⁹ ❖ Investment in integrated cropland-livestock³⁰ forestry systems and agroforestry systems targeted at smallholder farmers with sustainable forestry management plans in place such as FSC or PEFC³¹ |    |

²⁶ Development or acquisition of new buildings or retrofit/upgrade/renovation of existing buildings provided such retrofit/upgrade/renovation leads to at least 30% improvement in energy efficiency, or results in improving building certification levels






²⁷ Edge – Certified or higher; LEED – Gold or Platinum; BREEAM – Excellent or above; IGBC – Gold or above; Green Mark – Gold plus and above, GRIHA – 4 to 5-star rating

²⁸ <https://edgebuildings.com/certify/>

²⁹ Sustainable aquaculture and fisheries projects - Certified by a recognized and credible third-party standard and have achieved the minimum rating requirement. (for e.g. ASC for farm level certification, Global G.A.P for Aquaculture.)

³⁰ Exclusion - Livestock management projects for industrial-scale meat processors or producers

³¹ FSC: <https://fsc.org/en/find-the-right-certification-or-licence>; PEFC: <https://www.pefc.org/standards-implementation>

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| 9 | Terrestrial and Aquatic Biodiversity Conservation | Investments, expenditure and financing/ refinancing related to projects including: <ul style="list-style-type: none"> ❖ Preserving terrestrial / marine natural habitats³² ❖ Landscape conservation/restoration Including Reducing Emissions from Deforestation and Forest Degradation (REDD)³³ |   |
| 10 | Circular Economy and/or Eco-Efficient Projects | Investments, expenditure and financing/ refinancing related to projects including, environmental and sustainability benefits of circular economy and/or eco-efficient projects: <ul style="list-style-type: none"> ❖ Production of bio-based resource-efficient/ low-carbon products that are RSB certified ❖ Production of products using recycled/waste products³⁴ |    |

Eligible Social Projects/activities

These social activities/projects aim to address or mitigate a specific social issue and/or seek to achieve positive social outcomes especially but not exclusively for a targeted population(s).

Table 2. List of Eligible Social Projects/activities

| Sr. No. | Eligible Social Project Categories | Description | Linkage with UNSDGs |
|---------|--|--|--|
| 1 | Access to Essential Services³⁵ | Investments, expenditure and financing/ refinancing related to projects including: <p>Healthcare</p> <ul style="list-style-type: none"> ❖ Financing related to the construction, equipment or operation of activities that expand access to healthcare³⁶ ❖ R&D, manufacture, logistics and distribution of medical products and supplies (including masks, |   |

³² Restoration, preservation or conservation of natural habitats and landscapes likes marshes, creeks and coastal ecosystem; restoration or preservation of biological diversity in urban areas such as parks. Such activities are expected to use only local tree-species well adapted to the site conditions and a sustainable management plan in place certified to FSC/PEFC







³³ For afforestation / reforestation activities, projects financed should use tree species that are well adapted to the site condition and there should be a sustainable management plan in place certified to FSC or PEFC

³⁴ Recycling of plastic except chemical recycling. Only recycled plastic will be used for manufacturing of these products with below criteria:

- At least 90% of the recycled plastic will be considered for production using plastic.
- At least 90% of the final product is not intended for single use product and final product is recyclable.

³⁵ In financing the eligible projects/ entities, the Bank shall require a confirmation of accessibility to all, including those from economically weaker sections (as defined by Government of India)

³⁶ Including loans up to a limit of ₹10 crore per borrower for building health care facilities including under 'Ayushman Bharat' in Tier II to Tier VI centers. up to a limit of ₹10 crore per borrower for building health as specified in PSL

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| | | <p>respirators, medicines, etc.) essential to emergency medical response, support for natural disaster (including pandemic) and vaccinations</p> <ul style="list-style-type: none"> ❖ Healthcare facilities which are exclusively towards treatment of Cancer ❖ Healthcare facilities which derive at least 50% of their revenue from Government funding (either through direct subsidies or through various insurance schemes - CGHS / ESI etc.) ❖ Healthcare facilities / hospitals which operate on a "not for profit" basis ❖ Public healthcare facilities, facilities primarily serving the Economically Weaker Sections (EWS), Lower Income Group (LIG) the elderly/disabled <p>Education</p> <ul style="list-style-type: none"> ❖ Education loans to individuals including vocational courses up to ₹20 lakh³⁷ ❖ Loans for building social infrastructure (e.g.: construction of Schools) up to a limit of ₹5 crore per borrower ❖ Loans qualifying under Central Government Interest Subsidy Schemes ❖ Educational loans to EWS or SC/ST/OBC Loans qualifying under Central Government Interest Subsidy Schemes <p>Financing</p> <ul style="list-style-type: none"> ❖ Loans to NBFCs for on-lending to MSMEs as per RBI's definition ❖ Loans to housing finance companies as per affordable housing criteria mentioned in "Affordable Housing" category ❖ Loans to registered NBFC-MFIs³⁸ and other MFIs (Societies, trusts etc.) which are members of RBI recognized Self- Regulatory Organization for the sector, for on-lending to low-income individuals³⁹ and households and also to members of Self-help groups (SHGs) and Joint liability groups (JLGs), primarily comprising of women |       |
|--|--|---|--|

³⁷ Special emphasis will be given to students coming from Low-Income / Economically Weaker Sections

³⁸ Non-banking Financial Company - Microfinance Institution (NBFC-MFI) is required to have minimum 85 per cent of its net assets as 'qualifying assets'. NBFC-MFIs must lend at least 75 per cent of the total assets as microfinance loans

In order to be classified as a 'qualifying asset', a loan is required to satisfy the following criteria:

(i) Loan which is disbursed to a borrower with household annual income not exceeding ₹1,25,000 and ₹2,00,000 for rural and urban/semi-urban households, respectively

(ii) Loan amount does not exceed ₹75,000 in the first cycle and ₹1,25,000 in subsequent cycles

(iii) Total indebtedness of the borrower does not exceed ₹1,25,000 (excluding loan for education and medical expenses)










(iv) Minimum tenure of 24 months for loan amount exceeding ₹30,000

(v) Collateral free loans without any prepayment penalty

(vi) Minimum 50 per cent of aggregate amount of loans for income generation activities; and

(vii) Flexibility of repayment periodicity (weekly, fortnightly or monthly) at borrower's choice

³⁹ A microfinance loan is defined as a collateral-free loan given to a household having annual household income up to ₹3,00,000. For this purpose, the household shall mean an individual family unit, i.e., husband, wife and their unmarried children. All collateral-free loans, irrespective of end use and mode of application/ processing/ disbursement (either through physical or digital channels), provided to low-income households, i.e., households having annual income up to ₹3,00,000, shall be considered as microfinance loans. To ensure collateral-free nature of the microfinance loan, the loan shall not be linked with a lien on the deposit account of the borrower

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| 2 | Affordable basic Infrastructure (Water, electricity and transportation) | <p>Investments, expenditure and financing/ refinancing related to projects including:</p> <p>Water</p> <ul style="list-style-type: none"> ❖ Construction, maintenance and equipment for water supply infrastructure⁴⁰ ❖ Water, Sanitation and Hygiene (WaSH) projects will be limited to providing potable water and not industrial water <p>Electricity</p> <ul style="list-style-type: none"> ❖ Development of transmission and distribution infrastructure aimed at improving access to electricity to areas where there is no access or access is substantially inadequate⁴¹ (e.g. projects under the National Energy Policy addressing access to electricity for all households, including in rural areas) <p>Transportation</p> <ul style="list-style-type: none"> ❖ Development of roads in areas that lack connectivity, or in areas lacking infrastructure in underdeveloped regions⁴² ❖ Vehicles including buses that enables mobility for public in rural and underserved areas with no access or inadequate access to transportation⁴³ |       |
| 3 | Affordable Housing | <ul style="list-style-type: none"> ❖ Loans to individuals for purchase or construction of their houses⁴⁴ ❖ Loans to individuals for renovation of an existing house⁴⁵ ❖ Loans for construction and development of affordable housing projects⁴⁶ including individual loans ❖ The individual loans will be prioritized to EWS, LIG and first-time home buyers in case of MIG⁴⁷ |   |
| 4 | Employment Generation including through SME Financing/Microfinance | Investments or projects related to providing employment generation, including: |  |

⁴⁰ Framework will include "Loans up to a limit of ₹5 crore per borrower for building social infrastructure for drinking water facilities and sanitation facilities including construction/ refurbishment of household toilets and household level water improvements in Tier II to Tier VI centers"

Exclusion: Desalination projects without appropriate waste management plans for brine disposal, Desalination plants with dedicated on-site fossil fuel power

⁴¹ **Exclusion** - Transmission grid connected to a dedicated fossil fuel power plant (coal/oil/ natural gas)

⁴² **Exclusion** – Financing major roads and highway

⁴³ Vehicles financed and/or refinanced will also be subjected to relevant international environmental standards. Eligibility includes vehicles that are fully electric only

⁴⁴ Reserve Bank of India, "Master Directions – Priority Sector Lending (PSL) – Targets and Classification (Updated as on October 20, 2022)", (2022), at: https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=11959

⁴⁵ RBI's Master Directions - Priority Sector Lending – Targets and Classification (updated as on October 20, 2022) wherein for renovation of an existing house the loan amount will be up to INR 1 million in metropolitan centers and up to INR 600,000 in other centers








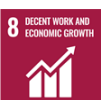

⁴⁶ As per RBI's Master Directions - Priority Sector Lending – Targets and Classification (updated as on October 20, 2022) and as per Ministry of Finance, Government of India, "Affordable Housing" is defined as a housing project using at least 50% of the Floor Area Ratio (FAR)/Floor Space Index (FSI) for dwelling units with carpet area of not more than 60 square meters

⁴⁷ (i) Economically weaker sections are defined as persons whose family has a gross annual income below INR 800,000 and are not covered under the scheme of reservation for scheduled castes, scheduled tribes and other backward classes. <https://pib.gov.in/PressReleaseSelfFramePage.aspx?PRID=1781353>

(ii) EWS households are defined as households having an annual income up to Rs.3,00,000 (Rupees Three Lakhs) [hfa_Guidelines.pdf](https://pib.gov.in/PressReleaseSelfFramePage.aspx?PRID=1781353) (pmaymis.gov.in)

LIG - <https://pmay-urban.gov.in/uploads/guidelines/62381c744c188-Updated-guidelines-of-PMAY-U.pdf>

MIG1 - <https://pmay-urban.gov.in/uploads/guidelines/62381c744c188-Updated-guidelines-of-PMAY-U.pdf>

| | | | |
|---|--|--|---|
| | | ❖ Loans to MSMEs ⁴⁸ as defined by the Government of India. Further, such MSMEs should be engaged in the manufacture or production of goods, in any manner, pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951 or engaged in providing or rendering of any service |  |
| 5 | Food Security | ❖ Investments or projects related to Investment in infrastructure and facilities such as warehouses to provide adequate storage, improve food conservation or improve connectivity in the food chain to avoid food losses |   |
| 6 | Socioeconomic Advancement and Empowerment | <p>Investments or projects related to enabling socioeconomic advancement and empowerment, including</p> <ul style="list-style-type: none"> ❖ Lending to the agriculture sector shall include Farm Credit (short term crop loans and medium/long term credit to farmers), and ancillary activities as set out in Table in the Annexure 8 ❖ Loans provided directly to individuals and individual members of SHG/JLG satisfying the criteria as prescribed in Master Direction on Regulatory Framework for Microfinance Loans Directions, dated March 14, 2022 ❖ Loans not exceeding ₹2.00 lakh provided to SHG/JLG for activities other than agriculture or MSME, viz., loans for meeting social needs, construction or repair of house, construction of toilets or any viable common activity started by SHGs. ❖ Loan to Weaker Sections: <ul style="list-style-type: none"> - Artisans, village and cottage industries where individual credit limits do not exceed ₹1 lakh. - Beneficiaries under Government Sponsored Schemes such as National Rural Livelihood Mission (NRLM), National Urban Livelihood Mission (NULM) and Self Employment Scheme for Rehabilitation of Manual Scavengers (SRMS) - Scheduled Castes and Scheduled Tribes - Beneficiaries of Differential Rate of Interest (DRI) scheme - Individual women beneficiaries up to ₹1 lakh per borrower - Persons with disabilities - Minority communities as may be notified by Government of India from time to time |       |

⁴⁸ Bank restricts lending to MSMEs that are involved in carbon-intensive or controversial sectors, such as weapons, mining, tobacco or conflict minerals, or that engage in child, forced or unfair labour practices by obtaining certifications from MSMEs

Target Population

The social project categories/criteria mentioned in Table 2 may provide direct or indirect benefit(s) to one or more of the following target populations:

- Economically Weaker Sections (EWS)
- Low-income households
- Rural communities
- Elderly Person with disabilities
- Scheduled Tribes and Scheduled Castes
- Micro, Small and Medium Enterprises (MSMEs)
- Any other marginalized community notified under government schemes

List of projects/activities excluded from the Sustainable Finance Framework

In any case, eligible activities/projects exclude the industries and activity categories mentioned below:

- ✓ 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.
- ✓ Luxury sectors such as precious metals, precious artworks & antiques, golf course services and hospitality groups,
- ✓ Agricultural or deforestation operations located on land designated as primary forest, rich biodiversity, high conservation value areas, or legally preserved areas
- ✓ Production or trade of any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans

USFBL shall not invest/lend in any activity that features in the exclusion list under the purview of the Sustainable Finance Framework

Crisil's opinion

The proceeds will be used to finance or refinance activities as per eligibility criteria.

The eligible project categories for use of proceeds have been clearly defined and detailed. Crisil considers the eligible categories for use of proceeds provided in UBI's Sustainable Financing Framework to be aligned with ICMA GBP, ICMA SBP, LMA GLP and LMA SLP. 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.

The eligible categories for the use of proceeds are also mapped to SDGs 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15 which is in alignment with SDG mapping as proposed by ICMA. Crisil Limited notes that this approach is congruent with market practices.

USFBL has also provided an exclusion list in line with RBI notification on Framework for acceptance of Green Deposits. USFBL will not invest/lend in any activity that features in the exclusion List defined above. Crisil Limited views excluding activities with adverse impacts on the environment and society as being aligned with the leading practices within the industry.

Project evaluation and selection process

The involvement of ESG-SC, which is a cross functional team with clearly defined roles, responsibilities, and approval authority follows industry best practices. Furthermore, USFBL has implemented and maintained systems for assessing and managing E&S risks and opportunities to ensure compliance as well as add value through appropriate procedures, resource allocation, monitoring, and reporting.

For any project identified by the Sales Team under the eligible Use of Proceeds categories (and therefore potentially qualifying for SFT allocation), the Credit Team will conduct a preliminary assessment, along with the Bank's due diligence and credit process, to evaluate its alignment with the Sustainable finance framework criteria. The Operations Team will review the quality of documentation and flag any issues to the relevant teams. If the project meets the defined criteria and receives approval from the Credit Team, it will be nominated for SFT allocation. The Audit Team will subsequently review the documentation and processes to ensure compliance with the framework.

Based on nature of business and extent of interaction with ESG aspects, the ESGMS is applied to the loan products in a differential manner as presented in the subsequent sub-sections.

The level of application of the ESGMS to loan products is classified as:

- a) Full application
- b) Partial application
- c) Minimal application
- d) Nil application

The ESGMS procedures that will be implemented for each of the above-mentioned four levels are as presented below:

| Level of application | Details on Application |
|----------------------------|---|
| Full Application | <p>The potential interaction of the sectors with ESG aspects to which this level will be applicable is expected to be higher. The size of loan to borrowers is comparatively large. Hence the following risk assessment and management procedures of the ESG-MS will be applicable:</p> <p>Step 1: Screening against Exclusion List</p> <p>Step 2: ESG Risk and Opportunity Identification</p> <p>Step 3: ESG Loan Covenants</p> <p>Step 4: ESG Action Plan</p> <p>Step 5: ESG Action Plan Implementation</p> |
| Partial Application | <p>The potential interaction of the sectors with ESG aspects to which this level will be applicable is expected to be lower. The size of loan to borrowers is smaller. Hence the following risk assessment and management procedures of the ESG-MS will be applicable:</p> <p>Step 1: Screening against Exclusion List</p> <p>Step 2: ESG Risk and Opportunity Identification</p> <p>Step 3: ESG Loan Covenants</p> |
| Minimal Application | <p>The size of loan to borrowers is small. The potential interaction of the sectors with ESG aspects to which this level will be applicable is expected to be minimal. Hence the following risk assessment and management procedures of the ESG-MS will be applicable:</p> |

| | |
|------------------------|--|
| | <p>Step 1: Screening against Exclusion List</p> <p>Step 2: ESG Loan Covenants</p> |
| Nil Application | The loans and loan products to which this level will be applicable are not envisaged to interact with ESG aspects and hence only screening against exclusion list and client protection requirements will continue to be fulfilled along with applicable requirements of the RBI's Fair Practice Code. |

Loan products and level of application:

| Loan Product | Level of Application | | | |
|--|--|--|--|---|
| | Full application | Partial application | Minimal application | Nil |
| Wholesale Lending | <ul style="list-style-type: none"> Non-Banking Financial Companies (NBFC's) – loans > INR 30 crore Housing Finance Corporations (HFC's) – loans > INR 30 crore | <ul style="list-style-type: none"> Non-Banking Financial Companies (NBFC's) – loans > INR 2 crore up to 30 crores Housing Finance Corporations (HFC's) – loans > INR 2 crore up to 30 crores non-NBFCs – loans > INR 2 crore | <ul style="list-style-type: none"> Business Correspondent (Other than JLG) Non-Banking Financial Companies (NBFC's) – loans < INR 2 crore Housing Finance Corporations (HFC's) – loans < INR 2 crore Non-NBFC - loans < INR 2 crore | <ul style="list-style-type: none"> Business Correspondent - JLG |
| Retail Lending | <ul style="list-style-type: none"> Micro, Small and Medium Enterprises – loans > INR 30 crore Trading and Warehousing – loans > INR 30 crore | <ul style="list-style-type: none"> Micro, Small and Medium Enterprises – loans > INR 2 crore up to 30 crores Trading and Warehousing – loans between INR 2 crore to 30 crores Loan Against Property – loans > INR 2 crore | <ul style="list-style-type: none"> Micro, Small and Medium Enterprises – loans > INR 50 lakh up to 2 crores Trading and Warehousing – loan > INR 1 crore up to 2 crores Loan Against Property – loan > INR 1 crore up to 2 crores | <ul style="list-style-type: none"> Personal loans Housing Finance (Individual home loans) Trading and Warehousing – loans < INR 1 crore Micro, Small and Medium Enterprises – loans < INR 50 lakh Loan Against Property – loans < INR 1 crore |
| Commercial and construction vehicle finance | <ul style="list-style-type: none"> Commercial & Construction Vehicle Finance – loans > INR 30 crore | <ul style="list-style-type: none"> Commercial & Construction Vehicle Finance – loans > INR 2 crore to 30 crores | <ul style="list-style-type: none"> Commercial & Construction Vehicle Finance – loans > INR 50 lakh to 2 crores | <ul style="list-style-type: none"> Commercial & Construction Vehicle Finance – loans < 50 lakh |

| | | | | |
|----------------------|---|---|---|--|
| | | | | • Two-wheeler loans |
| Micro-finance | - | - | - | <ul style="list-style-type: none"> • Micro banking business loans (MBIL) • Joint Liability Group Loans |

USFBL has also developed an ESG Policy that states its commitment to integrating ESG considerations in its business operations.

For all loan transactions under the purview of Sustainable Finance Framework, the E&S Policy and its requirements are implemented in compliance to Indian regulations.

Crisil's opinion

As outlined in USFBL's ESGMS Manual, the Bank has institutionalized a structured Environmental, Social, and Governance Management System (ESGMS) to incorporate ESG considerations into its lending operations. The ESGMS is embedded within the loan appraisal process and its application varies based on factors such as loan size, borrower type, and the level of potential ESG risk. According to the Manual, the ESGMS follows a four-step process: screening borrowers against an ESG Exclusion List, identifying ESG risks and opportunities, integrating ESG covenants into loan documentation, and implementing ESG Action Plans (ESAPs) where necessary. The Manual categorizes the level of ESGMS application—ranging from full to nil—across different product lines such as MSME, NBFC, HFC, LAP, Trading/Warehousing, and Vehicle Finance. Larger or higher-risk exposures are subject to more comprehensive ESG due diligence, while smaller or lower-risk loans are screened at a basic level. As per the Manual, the Sales team conducts exclusion list screening during loan origination, followed by the credit team's ESG risk identification using sector-specific checklists. Where applicable, ESG covenants are included in loan agreements, and material ESG risks trigger a time-bound ESAP. The ESGMS also extends to refinancing and to eligible loans disbursed within the past three years, in accordance with the criteria specified in the ESGMS Manual.

USFBL has also established an executive-level, cross-functional ESG Steering Committee (ESGSC) comprising representatives from various departments. The ESGSC is responsible for oversight of project selection, ensuring alignment with the Bank's ESG Policy, ESGMS framework, and Sustainable Finance Framework.

Crisil observes that this approach aligns with industry best practices for managing ESG risks across projects under Sustainable Finance Framework.

Allocation/ Management of proceeds

The Bank shall establish a process wherein the net proceeds from the SFTs will be managed by the Credit Department and credited to a designated sub-account. This sub-account will be earmarked for allocation to eligible projects/activities in alignment with USFBL's Sustainable Finance Framework.

To enable effective tracking of the use of proceeds, the Bank shall develop a loan tagging mechanism. This system will facilitate the identification and monitoring of key details within the sustainable finance portfolio, such as borrower account number, borrower name, use of proceeds, sanctioned amount, disbursed amount, loan maturity, and other relevant information, ensuring that the aggregate allocation of proceeds can be accurately recorded.

USFBL shall keep track of the use of proceeds for each SFT. The following information shall be recorded:

- a) Name and description of Eligible Projects to which the proceeds of the SFTs have been allocated in accordance with the framework.
- b) Transaction Date, Amount of (net) Proceeds, Maturity date, Coupon, Loan / Bond Type, Pricing Date, ISIN Code and/or other identifiers as required.

- c) Amount of unallocated proceeds.
- d) Information of temporary investment for unallocated proceeds.

USFBL commits to direct all proceeds through the SFTs towards financing/ refinancing eligible projects/activities on a best effort basis within 24 months of the SFT issuance in accordance with the evaluation and selection process outlined in the Sustainable Finance Framework. Pending allocation, if any, shall be invested or allocated in liquid money market instruments such as RBI Standing Deposit Facility (SDF), interbank call and notice money, Treasury Bills, high quality (AAA) liquid Commercial Papers up to maximum original tenure of one year.

Crisil's opinion

Based on discussions with the Bank's stakeholders, it is understood that USFBL intends to develop mechanisms to track and monitor the use of proceeds from instruments issued under its Sustainable Finance Framework (SFTs).

Stakeholders informed that the Bank plans to establish a designated sub-account to manage the proceeds from such instruments. In addition, USFBL intends to strengthen its existing Management Information System (MIS) by incorporating the following data points:

- ❖ Name and description of Eligible Projects to which the proceeds of the green deposits have been allocated in accordance with the framework.
- ❖ Allocation of the proceeds of green deposits to Eligible Projects
- ❖ Amount of unallocated proceeds.
- ❖ Information regarding temporary investment for unallocated proceeds

Crisil considers the Bank's intended process for the management of proceeds to be aligned with the principles set out in the ICMA Principles, LMA Principles, as well as the guidelines provided in the RBI's Framework for Acceptance of Green Deposits.

Third party Verification/ Assurance

The allocation of funds raised through SFTs 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:

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

USFBL will also internally monitor the end use of funds and ensure that borrowers fulfil the requisites defined in USFBL's Sustainable Finance Framework

Crisil Limited's opinion

The allocation of funds accumulated via SFTs during a fiscal year will be subjected to an annual verification/assurance by an independent third party. Furthermore, USFBL has affirmed its commitment to vigilantly monitor the end use of funds, employing internal verification procedures akin to those employed for other loans.

Crisil notes that these measures are consistent with the instructions provided in RBI notification on Framework for acceptance of Green Deposits.

Impact Assessment

USFBL, with the assistance of external firms, will annually assess, until full allocation, the impact associated with the funds lent for or invested in green and/or social finance activities/projects through an Impact Assessment Report. An illustrative list of impact indicators is outlined in the Sustainable Finance Framework.

Crisil's opinion

Crisil observes that these measures are in line with industry standards, including ICMA GBP, ICMA SBP, LMA GLP, and LMA SL, and are consistent with the guidelines outlined in the RBI's notification on the Framework for Acceptance of Green Deposits.

Reporting and Disclosures

A review report will be placed by USFBL 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 through SFTs during the previous financial year.
2. List of green and/ or social activities/projects to which proceeds have been allocated, along with a brief description of the projects.
3. The amounts allocated to the eligible green activities/projects.
4. A copy of the Third-Party Verification/Assurance Report and the Impact Assessment Report

USFBL will make appropriate disclosures in their Annual Financial Statements on the portfolio-level information regarding the use of the green deposit funds. USFBL has outlined the template to manage the portfolio-level information regarding the use of the green deposit funds within the framework. This approach is in consistent with RBI notification on Framework for acceptance of Green Deposits

Crisil's opinion

Crisil considers the process for reporting to be aligned with ICMA GBP, ICMA SBP, LMA GLP and LMA SLP. Crisil also notes that these measures conform to the RBI notification on Framework for acceptance of Green Deposits.

Disclaimer

This Second Party Opinion (SPO) reflects our assessment of USFBL's Sustainable Finance Framework's alignment only against Green Bond Principles (GBP) 2021, Social Bond Principles (SBP) 2023, and the Sustainability Bond Guidelines (SBG) 2021 as administered by ICMA, and Green Loan Principles (GLP) 2025, and Social Loan principles (SLP) 2025 as administered by LMA, APLMA and LSTA as well as the Reserve Bank of India (RBI) Notification dated 11th April 2023.

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 surveyed. The opinion is based on Crisil's judgment and comprehension of ICMA & LMA guidelines and RBI notification pertaining to Framework for Acceptance of Green Deposits and associated risks and alignment of USFBL Framework. The SPO relies on information provided by Utkarsh Small Finance Bank Limited. Crisil has not undertaken any independent verification or audit of documents and information provided by USFBL and does not warrant the completeness or accuracy 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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About Crisil

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Large and highly respected firms partner with us for the most reliable opinions on risk in India, and for uncovering powerful insights and turning risks into opportunities globally. We are integral to multiplying their opportunities and success.

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