

Credit Policy

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Table of Contents

1. Introduction	3
2. Objective Of The Credit Policy	3
3. Credit Principles.....	3
4. Credit Products	3
5. Credit Approval Authority	4
6. Credit Committee (Cc).....	4
7. Credit Approval.....	4
7.1 Credit Approval Process Flow	4
7.2 Credit Appraisal Framework	5
7.3 Credit Appraisal Memo	5
7.4 Credit Approval Documentation	6
8. Know Your Client (KYC)	6
9. Perfection Of Security And Execution Of Documentation	6
10. Disbursal Of Financing:.....	6
11. Portfolio Monitoring	7
11.1 Ongoing Client Engagement:	7
11.2 Annual Review:	7

1. Introduction

ART Climate Finance (India) Private Ltd (hereinafter “Company”) is a Non-Bank Finance Company registered with Reserve Bank of India. The Company is primarily focused on providing financial solutions and advisory to Small & Medium Enterprises in climate action sectors such as renewable energy (solar, wind, hydro, hydrogen, biomass), sustainable transport, electric mobility, climate-resilient agriculture, water management, green buildings, energy efficiency, waste management, recycling and circular economy projects. The Company’s credit approach emphasizes fundamental analysis through extensive due diligence, detailed assessment of borrower’s financial and operating models, legal documentation / regulatory factors. In pursuing its business objectives, the Company will operate according to the highest ethical and compliance standards and constantly seek to follow best practices in the industry.

2. Objective Of The Credit Policy

The Credit Policy is the governing document for the Company’s credit appraisal, approval and post-approval monitoring. This will be the reference document on any issues related to credit approval or process connected to the same. The objective of this Credit Policy is to establish a framework for prudent credit risk management, aligned with the guidelines issued by the Reserve Bank of India (RBI) for Non-Banking Financial Companies (NBFCs). This policy seeks to:

- Ensure sound credit decision-making
- Maintain the quality of the loan portfolio and its growth
- Support financial inclusion and climate-focused lending
- Minimize credit losses through structured appraisal and monitoring

The policy ensures that Company manages its credit risk in a manner that is in line with objectives of the Company. It is compliant with RBI Master Directions for NBFCs and adheres to Fair Practices Code (FPC), Know Your Customer (KYC)/Anti-Money Laundering (AML) norms, Asset Classification & Provisioning requirements, Board-approved Risk Management Framework. The policy must be read and followed in line with the relevant laws and regulations governing its business. In the case of any conflict or divergence between this policy and relevant regulations and laws, the regulations and laws will override this policy.

The policy will continue to be amended from time to time in the light of changing business and economic environment. The policy must be reviewed every 3 years by the Board, or earlier in light of change of strategy or business environment.

3. Credit Principles

- Prudence: Lending shall be based on repayment capacity and cash flow visibility.
- Climate Focus: Preference to projects/borrowers with climate action & social, and ESG alignment.
- Diversification: Avoidance of excessive concentration by borrower, sector, or geography.
- Transparency: Borrowers to be charged transparent, non-discriminatory interest rates.
- Risk–Return Balance: Lending to be based on internal risk rating and pricing.

4. Credit Products

- Project Finance – medium to long-term loans for renewable energy projects

- Working Capital – fund based (credit line, loan against receivables) and non-fund based (guarantees/letter of credit)
- Term Loans – for capex / assets in climate-aligned businesses
- Securitization/Co-lending – with banks and DFIs for climate-focused SMEs

5. Credit Approval Authority

- The credit approval authority and any delegation of the credit approval authority lies with the Board
- An Investment Committee (IC) / Credit Committee (CC) may be constituted with the approval of the Board to which the Board can delegate the credit approval authority
- The Board may from time to time, and based on its judgement of business requirements, delegate credit approval authority to the Chief Executive Officer of the Company within defined monetary thresholds

The credit approval authority will:

- Approve each exposure
- Approve divestment of any exposure
- Approve any subsequent deviation from approved credit terms
- Ensure that regulatory (RBI) requirements on portfolio concentration and sectoral exposure are met through exposure approval
- Conduct portfolio risk reviews to ensure management of risk within key thresholds

6. Credit Committee (Cc)

Role:

- Approval:** The CC will be the operative credit approval authority for the Company, when it is formed. Till such time the CC is formed all the proposals, will be approved by the Board or as delegated by the Board to the Chief Executive Officer of the Company. Once the CC is formed, all the proposals must be presented to and approved by the CC.
- Monitoring:** Additionally, the CC will also be responsible for monitoring and reviewing the existing portfolio and taking action in response to changes in the credit-worthiness of existing borrowers or specific financings. The CC is also expected to keep itself updated on emerging threats to the Company's operating environment and also other issues relevant to the portfolio's credit profile. For this purpose, the primary source of information will be on the ground investment team.
- Composition:** The composition of the CC will be as approved by the Board from time to time.
- Quorum:** The quorum for the CC shall consist of 2 members.
- Meeting Frequency:** The CC shall meet at least once in a quarter and as frequently as required. The proposals for the CC can be moved and approved by circulation on email.

7. Credit Approval

7.1 Credit Approval Process Flow

- i. **Initial Screening:** The business team will do an initial screening of the deal based on preliminary information to see that the opportunity aligns with the Company's objectives – climate impact, stage and scale, strong leadership, expected IRR etc.
- ii. **Temporary (In-Principle) Credit Approval:** Granted by the credit approval authority based on preliminary appraisal. This allows the Company to issue an in-principle approval or term sheet to the borrower and engage for detailed appraisal.
- iii. **Detailed Appraisal:** The team will conduct detailed evaluation of the project, the company, its financial performance and relevant documentation. The team will conduct face-to-face meetings with the promoter and management, conduct field visit to the operation areas, where required, and negotiate key terms with the prospective borrower.
- iv. **Final Credit Approval:** The team will present a Credit Appraisal Memorandum (CAM) to the Credit Committee, which will take the final decision. If the CC asks for further information or sets conditions on the approval, the team may need to revise the CAM and re-present it. On final approval by CC, the team will share the final sanction letter with the borrower.

7.2 Credit Appraisal Framework

- KYC/AML Compliance – in line with RBI Master Directions
- Legal Due Diligence – land/title, permits, agreements (PPA) enforceability
- Technical Due Diligence – project feasibility, technology risk, EPC/vendor capability
- Financial Due Diligence – past financials, projected cash flows, repayment capacity
- Promoter Assessment – background, track record
- Environmental Social & Governance assessment, especially Climate Impact
- External / Internal Rating and Risk Assessment

7.3 Credit Appraisal Memo

The Business / Origination team proposes the loans/deals to the credit approval authority through the Chief Risk Officer through a Credit Appraisal Memo (CAM). The credit authority will examine the proposal and sanction or reject the proposal and/or specify the terms/structure under which the proposal can be approved. In the case of any exceptions or related party transactions, these will be referred to the CC or the Board (till such time the CC is formed).

The CAM being proposed to the credit authority should cover the following aspects:

Part A: Executive Summary including the Current Transaction Summary and Risks associated with the Transaction

Part B: Detailed Credit Note covering the following (as applicable):

1. Company Description
2. Debt Profile
3. Shareholding Pattern
4. Opportunity or Industry Overview
5. Proposed Terms of the Transaction including transaction size, tenor, security, interest rate, end use of loan
6. Financial Snapshot
7. Site Visit Summary (wherever applicable)
8. ESG Considerations
9. Key Risks

10. Return Expectations
11. Potential conflicts of interest with the Borrower
12. Recommendation of the Team

7.4 Credit Approval Documentation

- The CAM should be signed by the business team / the Chief Risk Officer
- CAM should be presented to the credit approval authority in meeting or circulated over email
- The comments of the Credit Approval Authority (if any) should be captured in the CAM
- Signed CAM should be sent (i) to the Compliance/ Secretarial team for filing and (ii) to the author of the CAM

8. Know Your Client (KYC)

- Clients must furnish all authenticated documents necessary for completing the KYC process
- The Company has put in place a separate KYC policy that needs to be fulfilled

9. Perfection Of Security And Execution Of Documentation

- Once the prospective borrower accepts the sanction letter with all the proposed changes during due diligence process, the Company must prepare, negotiate and execute legal documentation to evidence the transaction / loan
- All the documentation pertaining to the transaction will be based on the formats shared by the legal counsel (in house or the external counsel)
- Any deviations in the documents from the credit approval authority conditions must be approved by the respective credit approval authority
- The CEO may allow disbursal of financing pending minor security perfection issues e.g. opening of escrow account etc
- It is to be ensured by the back-office team that the finalized security document cannot be amended or otherwise changed in any manner by the borrower prior to execution
- Execution of the transaction documents: The Chief Executive Officer (CEO) will nominate the specific individuals/teams who will be responsible for execution of the transaction documentation. The origination/structuring staff responsible for managing the client relationship and originating the financing proposal must provide all necessary assistance in perfecting the security
- All the documents and Scanned copies of the security documentation must be stored in the client folders and easily accessible to the team at all times

10. Disbursal Of Financing:

- Disbursal of the financing will be done by the Finance and Accounts team. This is done on the basis of a confirmation from the Documentation team that documentation is complete and any Conditions Precedent (CP) have been completed.

11. Portfolio Monitoring

11.1 Ongoing Client Engagement:

It is expected that at least once in six months, the management team will conduct a detailed client discussion and review covering all issues that impact the client credit profile and circulate the review note covering:

- Minutes of meeting with the management of the Company
- Financial snapshot of the Company
- Debt profile of the Company
- Key Company/ Industry developments – positive and negative

11.2 Annual Review:

- An annual review is to be conducted on all Client Groups. Each review should incorporate all group entities the Company deals with and various facilities therein
- In cases where there is a multi-year facility provided to a client, the focus of the review should be on any developments since the approval or last review rather than a repetition of the same information

11.3 Asset Classification & Provisioning

The asset classification and provisioning will be in line with RBI Prudential Norms:

- Standard: Payments <90 days overdue.
- SMA-1: 31–60 days overdue.
- SMA-2: 61–90 days overdue.
- NPA: >90 days overdue.

Provisioning norms to follow RBI Master Directions.

11.4 Recovery & Restructuring

- Pre-defined recovery mechanisms: reminders, restructuring, legal recovery.
 - RBI-compliant Resolution Framework for stressed loans
 - Escalation to Wilful Defaulter Policy where applicable
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