

Fraud Risk Management Policy

Company: ART Climate Finance (India) Private Ltd

Document Title: Fraud Risk Management Policy

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Approved By: Board of Directors

Recommended By: Chief Executive Officer (CEO)

1. Background

Reserve Bank of India, through its Master Directions circular dated July 15, 2024, having reference no. RBI/DOS/2024-25/120/DOS.CO.FMG.SEC.No.7/23.04.001/2024-25 has advised all NBFCs to create a framework for the prevention, early detection of frauds and matters connected therewith or incidental thereto. Framework also includes timely reporting of incidents of fraud to Law Enforcement Agencies (LEAs), Reserve Bank of India (RBI) and National Housing Bank (NHB). With this, the Company has prepared the Fraud Risk Management Policy.

2. Definition of Fraud

Fraud is defined as falsification of information or misrepresentation by an applicant, customer, employee or any third party with the intent to fraud. In other words, fraud is defined as knowingly providing false/ fabricated information or concealment of information, acting in a manner that is deliberately detrimental to ART Climate Finance (India) Ltd. ("ACF"). This also includes misrepresentation of facts, collusion with third parties, submission of fabricated documents, etc.

3. Fraud Risk Management Framework

ACF has a distinct Fraud Control Unit for monitoring fraudulent activities in the company. The prime objective of the FCU is to prevent and detection of Fraud, investigate reported cases and corruption incidents, and educate and raise Awareness on the prevention and eradication of fraud. Advising on process modifications to institutionalise the learnings thereof.

4. Committee of Executive (CoE)

For monitoring and follow-up of fraud cases, ACF shall have a Committee of Executives (**CoE**) in place.

- **CoE** will oversee the effectiveness of Fraud Risk Management in the Company. It shall also review and monitor cases of fraud, including root cause analysis, and suggest mitigating measures for strengthening the internal controls, risk management framework and minimising the incidence of fraud.
- **CoE** shall also analyse categories/ trends of frauds, industry/ sectoral/ geographical concentration of frauds, delay in detection/ classification of frauds and delay in examination/ conclusion of staff accountability, etc.
- **CoE** shall ensure that Whistle Blower complaints on possible fraud cases / suspicious activities in accounts(s) are examined and concluded appropriately under their Whistle Blower Policy.
- In case of any suspicion/ indication of wrongdoing or fraudulent activity, **CoE** may

recommend an external audit or an internal audit for further investigation in such accounts.

- In case the audit report submitted remains inconclusive or is delayed due to non-cooperation by the borrower, CoE shall conclude on the status of the account as a fraud or otherwise based on the material available on their record and their own internal investigation/ assessment, only after following the principles of natural justice.

5. Framework for Early Warning Signals for Detection of Fraud

ACF has a Risk Committee, which oversees the effectiveness of the Early Warning Signals (EWS) framework. Risk Management Committee (RMC) periodically review portfolio quality and EWS and triggers a deeper investigation from a potential fraud angle and also initiates preventive measures.

6. Salient Features of Fraud Investigation

- Fraud Control Unit (FCU) will be working in close coordination with various key functional units of the company, which could include both external & internal business partners like sales, credit, Operations, verification agencies, billing unit, collection, etc.
- Fraud Control Unit shall initiate investigations upon either getting triggers from internal data analyses or being reported from any internal source/CoE/Risk Management Committee. The following are the salient steps to be followed during the investigation:

6.1 Follow Principles of Natural Justice

- FCU team mandatorily issue a detailed Show Cause Notice (SCN) to the person/entity involved against whom the allegation of fraud is being examined. SCN will provide complete details of transactions/ actions/events basis of which declaration and reporting of a fraud is being contemplated.
- A time period of 21 days will be provided to person/entities for submission of their facts.
- A reasoned Order shall be served on the Persons/ Entities conveying the decision regarding the declaration/ classification of the account as fraud or otherwise. Such Order(s) must contain relevant facts/ circumstances relied upon, submission made against the SCN and the reasons for classification as fraud or otherwise.

6.2 Date of Occurrence

The 'date of occurrence' is the date when the actual misappropriation of funds has started taking place, or the event occurred, as evidenced/ reported in the audit or other findings.

6.3 Date of Detection

The 'date of detection' is the actual date when the fraud came to light in the concerned branch/audit/department, as the case may be, and not the date of approval by the CoE.

6.4 Date of Classification

The 'date of classification' is the date when due approval from the CoE has been obtained for such a classification, and the reasoned order is passed.

6.5 Independent confirmation from the third-party service providers

As part of pre-sanction appraisal and post-sanction monitoring, ACF places reliance on various third-party service providers. It shall ensure that agreements with such service providers must have the clauses to hold them accountable in situations where willful negligence/malpractice by them is found.

6.6 Staff Accountability

FCU Team validate staff accountability in all fraud cases in a time-bound manner. In cases investigation involves very senior executives, the ACB shall initiate an examination of their accountability and place it before the Board.

7. Penal Measures

- Cases that are identified by the FCU team prior to the sanction of a loan will be declined immediately. These would also be reported in Hunter Services, enabling to stop of subsequent funding by other financial institutions.
- Identified persons/entities classified and reported as fraud shall be debarred from raising funds and/or seeking additional credit facilities for a period of five years from the date of full repayment of the defrauded amount/settlement amount agreed upon in case of a compromise settlement.
- Penal measures against company staff must be decided upon by the CoE, based on the intensity of the act. This may include actions as per the code of conduct, written warning from HR, demotion, termination, etc.
- Penal actions to service providers would include termination of contract with DSA/verification agencies and any other recommendations by virtue of Fraud committed

8. Role of Auditors

- During the course of the audit, company auditors may come across instances where the transactions in the account or the documents point to the possibility of fraudulent transactions in the account. In such a situation, the auditor should immediately bring it to the notice of **CoE** and, if necessary, to the **ACB** for appropriate action.
- Internal Audit of ACF in their audit scope shall cover controls and processes involved in prevention, detection, classification, monitoring, reporting, closure and withdrawal of fraud cases, delay in reporting, non-reporting, prudential provisioning and also weaknesses observed in the critical processes in the fraud risk management framework.

9. Fraud Reporting

- Chief Compliance Officer, with the help of the FCU team, will ensure to furnish FMR in fraud cases, irrespective of the amount involved, immediately but not later than 14 days from the date of classification as fraud.
- While reporting frauds, it should be ensured that persons/entities who / are not involved/associated with the fraud are not reported in the FMR.
- FMR reporting and incidents of theft, burglary, dacoity and robbery will be done in the manner and in the Returns / Formats as prescribed by NHB.

- Incident of fraud must also be reported to the appropriate Law Enforcement Agencies (LEA).
- Before selling the cases to Assets Reconstruction Companies (ARC), ACF shall investigate cases from a fraud angle. If fraud has been perpetrated in the account, the same shall be reported to NHB before selling to ARC.
- ACF shall disclose the amount related to fraud reported in the company in the year in their Financial Statements – Notes to Accounts.
- A periodic review of incidents of fraud shall also be placed before the Board / Audit Committee of the Board (ACB), by the FCU head

10. Closure of Fraud Cases

For fraud reported loans up to Rs 25 Lakhs, ACF will close cases where:

- a. Examination of staff accountability and disciplinary action has been taken.
- b. The investigation is going on, or a charge-sheet has not been filed in the Court by LEA for more than three years from the date of registration of First Information Report (FIR); or
- c. The charge-sheet is filed by the LEAs in the trial court, and the trial in the court has not commenced or is pending before the court for more than three years from the date of registration of FIR

Other fraud cases can be closed only if examination of staff accountability has been completed and the case with LEA/Courts is disposed of.

In all closure cases of reported fraud, ACF shall maintain details of such cases for examination by auditors.