

# Risk Management Policy

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**Recommended By:** Chief Executive Officer (CEO)

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# Risk Management Policy - Key Components

## 1. Risk Management Policy Statement

ART Climate Finance (India) Private Ltd ("the Company"/"ACF") is a Non-Banking Financial Company (NBFC) registered with the Reserve Bank of India (RBI) dedicated to innovative and accessible financing solutions for supporting enterprises, technologies, and projects that address climate change.

ACF recognizes that effective risk management is fundamental to achieving its strategic objective of financing climate solutions in a safe, sustainable, and compliant manner. The Company is committed to embedding a prudent and proactive risk culture, ensuring that risks are clearly identified, assessed, monitored, controlled, and reported in line with RBI regulations and global best practices.

Risk management is not intended to eliminate all risk but to ensure that risks are understood, measured, and managed within the Company's defined risk appetite, thereby protecting stakeholders' interests, ensuring financial stability, and promoting long-term value creation.

## 2. Scope

This Policy establishes the enterprise-wide Risk Management Framework (RMF) for ACF. It defines the principles, governance, processes, roles, and controls to identify, measure, monitor, control and report material risks arising from ACF's activities, with specific focus on climate and renewable energy financing.

This Policy applies to the Board, all employees, committees, subsidiaries/SPVs, branches, and outsourced service providers engaged on behalf of ACF. Where there is a conflict between this Policy and prevailing laws/regulations, the stricter requirement shall prevail.

## 3. Regulatory Framework

This Policy is designed to align with applicable RBI regulations/circulars and other laws, including (as amended from time to time): - Master Directions for NBFCs and Scale-Based Regulation (SBR) - Liquidity Risk Management (LRM) Framework for NBFCs and Core Investment Companies - Asset-Liability Management (ALM) guidelines (maturity buckets, structural liquidity) - Prudential norms on income recognition, asset classification and provisioning (IRACP); 90 DPD norm; upgradation norms - Outsourcing of IT Services; IT Framework and Cybersecurity for NBFCs - Fair Practices Code; KYC/AML (PMLA Rules & RBI Directions) - Digital Lending Guidelines; Data Governance/Privacy guidance - Fraud monitoring & reporting requirements

[Note: Compliance will be mapped and refreshed as RBI updates are issued.]

## 4. Risk Management Framework

1. **Compliance & Alignment** – Ensure compliance with all RBI regulations for Base Layer NBFCs and align with industry best practices in climate financing. Institute a risk culture in the company.
2. **Risk Identification** – Establish processes to systematically identify risks across credit, liquidity, market, operational, legal, reputational, IT/cyber, and climate/ESG dimensions.
3. **Risk Measurement & Assessment** – Develop tools, scorecards, and stress tests to assess the probability and impact of identified risks.

4. **Risk Appetite Implementation** – Translate the Board-approved risk appetite into operational risk limits, monitoring mechanisms, and escalation protocols.
5. **Risk Mitigation & Control** – Define a risk governance structure. Implement preventive and detective controls, including collateral management, portfolio diversification, insurance, governance standards, and ESG safeguards.
6. **Risk Monitoring & Reporting** – Strengthen MIS, early warning systems, and dashboards for timely detection and reporting of risks to management and the Board.
7. **Capital & Liquidity Protection** – Maintain sufficient capital and liquidity buffers to absorb shocks, ensuring resilience against stress events and regulatory compliance.
8. **Stakeholder Confidence** – Enhance stakeholder trust by ensuring prudent risk-taking, commensurate returns, transparent disclosures, and alignment of business practices with sustainable finance objectives.
9. **Continuous Improvement** – Review and update the risk management framework annually or upon significant regulatory/market changes, fostering a culture of ongoing improvement.

## 5. Risk Appetite & Strategy

**Risk Appetite Statement (RAS).** The Board approves the RAS annually, setting quantitative limits and qualitative boundaries consistent with capital, liquidity, earnings capacity, reputation, and strategic objectives. The RAS covers at minimum: capital adequacy, asset quality, concentration, earnings volatility, liquidity buffers/mismatches, interest rate risk, operational risk losses, cyber events, conduct, and ESG/climate risk exposure.

**Risk Capacity.** The maximum level of risk the Company can assume without breaching regulatory minima, solvency, or liquidity thresholds.

**Risk Limits.** Management-level limits translate the RAS into actionable constraints (see Annexure A). Breaches trigger defined escalation (see Section 13).

**Business Strategy Alignment.** Business plans must demonstrate alignment to the RAS; new products/markets require risk assessment, pricing-for-risk, and approval through the New Product Approval (NPA) process.

## 6. Governance & Three Lines Model

**6.1 Board of Directors.** Holds ultimate accountability for risk oversight; approves the RMF, RAS, key policies (Credit, ALM/LRM, Operational, IT/Cyber, Market/Interest Rate, Outsourcing, Stress Testing, Capital Planning), and reviews quarterly risk reports. The Board directly, or through Board level committees discharges the following risk management functions:

- Oversees enterprise risk; reviews RAS, stress tests, large exposures, concentrations, and risk reports.
- Oversees internal controls, financial reporting integrity, internal audit effectiveness, and regulatory audit matters.
- Oversees IT/Cyber risk posture, key projects, and outsourcing of IT services.
- Ensures compensation is consistent with prudent risk-taking.

Initially, proportional to the scale of operations, the Board may constitute combined committees, where permitted by regulation.

## 6.2 Management Committees / Officers

The active monitoring and execution of the risk management strategies will be delegated to the **Risk Management Committee (RMC)**, chaired by CRO, monitors risk profile, limit utilization, emerging risks, and policy compliance, and further sub-delegated to the following Management Committees / Officers:

- **Asset-Liability Committee (ALCO)**. Chaired by CEO/CFO; manages liquidity, funding mix, interest rate risk, pricing, and transfer pricing.
- **Credit Committee**: Sanction authority as per Delegation of Powers (DoP); monitors portfolio quality and approvals.
- **Chief Risk Officer (CRO)**: Independent senior executive with direct access to the Board/RMC; owner of RMF and RAS; ensures risk aggregation, stress testing, and limit monitoring.
- **IT & Cybersecurity Officer**: Oversees IT, data and cybersecurity, cyber posture, incidents, and regulatory reporting.

## 6.3 Three Lines Defence Model for Risk Management

1. **Business/First Line**. Owns risks; adheres to policies, underwriting standards, and controls; responsible for customer outcomes and conduct.
2. **Second Line (Risk & Compliance)**. Develops frameworks, challenges first line, monitors, reports.
3. **Third Line (Internal Audit)**. Provides independent assurance on design and operating effectiveness of the RMF and controls.

## 7. Risk Control Matrix

ACF follows an internal comprehensive Risk Control Matrix, updated from time-to-time, based on need & compliance requirements, covering the activities across functions like Sales, Technical, Legal, FCU, Credit, Operations, Marketing, IT, Treasury, HR, Accounts, Finance, Secretarial and Compliances. The matrix is filled by each constituent of the business and is reviewed periodically to assess the control over risk and take the corrective and preventive action.

An extract of the risks monitored for each of the activities, departments, segment, business and operations may have (including but not limited to) the following columns:

1. Risk Category
2. Main Risk Category
3. Sub Risk category
4. Risk Description
5. Categorization of each sub risk as Minor, Material, Critical based on magnitude and regulatory/financial impact. Mitigation measures in place for each risk
6. Type of mitigation measures i.e. detective or preventive

7. Designation of the owner of the risk
8. Escalation Matrix for each category of risk:
  - Minor: Business Head → CRO within 2 working days; remediation within 15 days.
  - Material: CRO → RMC/ALCO within 24 hours; action plan approved; report to BRMC at next meeting.
  - Critical/Regulatory: Immediate notification to CEO & Chair RMC; Board within 48 hours; regulatory intimation where required.

Risk emanating from the credit appraisal, operations, finance, collections and information technology is monitored periodically by the constituted Risk Management Committee, appointed from time to time, and appropriate actions are taken not only for the purpose of regulatory compliance but to analyze and take effective steps to protect the critical business functions.

### 8. Record Keeping & Document Control

Policy reviewed at least annually or upon material regulatory/strategic change. Version control maintained by CRO; only the latest approved version shall be in force. Retention of risk records per statutory and business requirements.

### 9. Exceptions

Any deviation from this Policy requires prior approval from CRO and ratification by Board depending on materiality, with clear rationale, sunset date, and compensating controls.

## Key Risks and Management

### 10. Strategic Risks

Strategic risk refers to the possibility of losses or missed opportunities arising from flawed business strategies, adverse regulatory/policy changes, failure to adapt to evolving market dynamics, or misalignment between the Company’s mission (climate and renewable energy financing) and its execution. The strategic risks may arise from any of the following sources:

- Over-reliance on specific technologies or sub-sectors.
- Policy and regulatory changes in renewable energy tariffs, subsidies, or carbon markets.
- Inability to attract sufficient capital or access low-cost funding.
- Entry of new competitors or disruption by innovative / low-cost financing models
- Failure to scale operations while maintaining asset quality.

#### Management of Strategic Risks

- **Board Oversight** – The Board and BRMC shall review the Company’s business strategy annually to ensure alignment with the risk appetite and external environment.
- **Scenario Planning** – Management shall conduct scenario and sensitivity analyses (e.g., subsidy withdrawal, interest rate hikes, climate policy shocks) to assess the resilience of the business model.

- **Diversification of Strategy** – ACF shall diversify across renewable technologies, geographies, borrower segments, and financial instruments to reduce dependency on any single line of business.
- **Periodic Strategy Review** – A formal strategy review process shall be conducted at least once every two years, involving market research, benchmarking, and stakeholder consultation.
- **Early Warning Indicators (EWIs)** – Identification of strategic EWIs such as slowing loan disbursements, declining portfolio quality in a specific segment, or adverse credit rating changes.
- **Innovation & Adaptation** – Investment in new financing models, digital platforms, products and technology enabled processes to stay competitive and aligned with the evolving climate finance ecosystem.

## 11. Market Risk

The possibility of loss caused by changes in the market variables created from adverse changes in the market variables which, inter alia, include liquidity risk, interest rate risk, foreign exchange risks and commodity price risk. ACF's business model may involve borrowing through a wide variety of banking and capital market instruments including bank finance, non-convertible debentures and commercial paper. The funds so borrowed by ACF are primarily deployed into lending products.

### 11.1 Market Risks faced by the Company

Given the business model of the Company, it is exposed to the following market risks:

- **Interest Rate Risk** is generally associated with overall balance sheet exposures where mismatches arise between assets and balances from fund providers. Interest rate risk is defined as the risk that a Company may not meet their benchmark (expected) rate of returns on investments.
- **Interest rate risk in the balance sheet ('IRRB')**: Interest rate risk in the balance sheet arises as a result of mismatch in timing of re-pricing assets and liabilities. Where assets are re-priced later than liabilities, the Company is exposed to risk on account of rising interest rates. Where liabilities are re-priced later than assets, the Company is exposed to risk on account of falling interest rates. Since interest rates do not move evenly across all tenors, interest rate risk arises not only on account of cumulative mismatches across tenors but also on account of mismatches in individual time buckets.
- **Exchange Rate Risk**: Currently, ACF does not have any exchange rate exposure, but will make use of hedging through derivatives to counter exchange rate risks as they arise

### 11.2 Managing Market Risks

Additionally, mismatches between floating and fixed assets and liabilities are expected to enhance interest rate risk. Since the Company relies on bank finance for funding; and revision in base rates by Banks is not expected to be passed on to customers immediately, general increase in interest rates is likely to affect the net interest margins ('NIMs') of the Company. Containing duration mismatches and maintaining an equitable mix of fixed-floating assets and liabilities shall be the cornerstones of the interest rate risk management strategy.

Interest rate risk in the balance sheet shall be addressed as part of the Asset Liability Management Policy and shall be managed by the balance sheet management group within treasury. The Company primarily borrows from banks/ capital markets / other group companies and advances loans to its customers. Interest rate risk in the balance sheet for the Company shall be managed within prudential gaps limits for re-pricing gaps. Additionally, limits on mismatch between assets and liabilities shall be adhered to as detailed in the ALM policy. To price in interest rate risk in the balance sheet into product pricing, a fund transfer pricing shall be instituted for the Company. The same will be governed by the *Fund Transfer Pricing Policy*. Interest rate risk in the balance sheet for ACF shall be managed by treasury.

To tackle market risk, the following efforts will be taken:

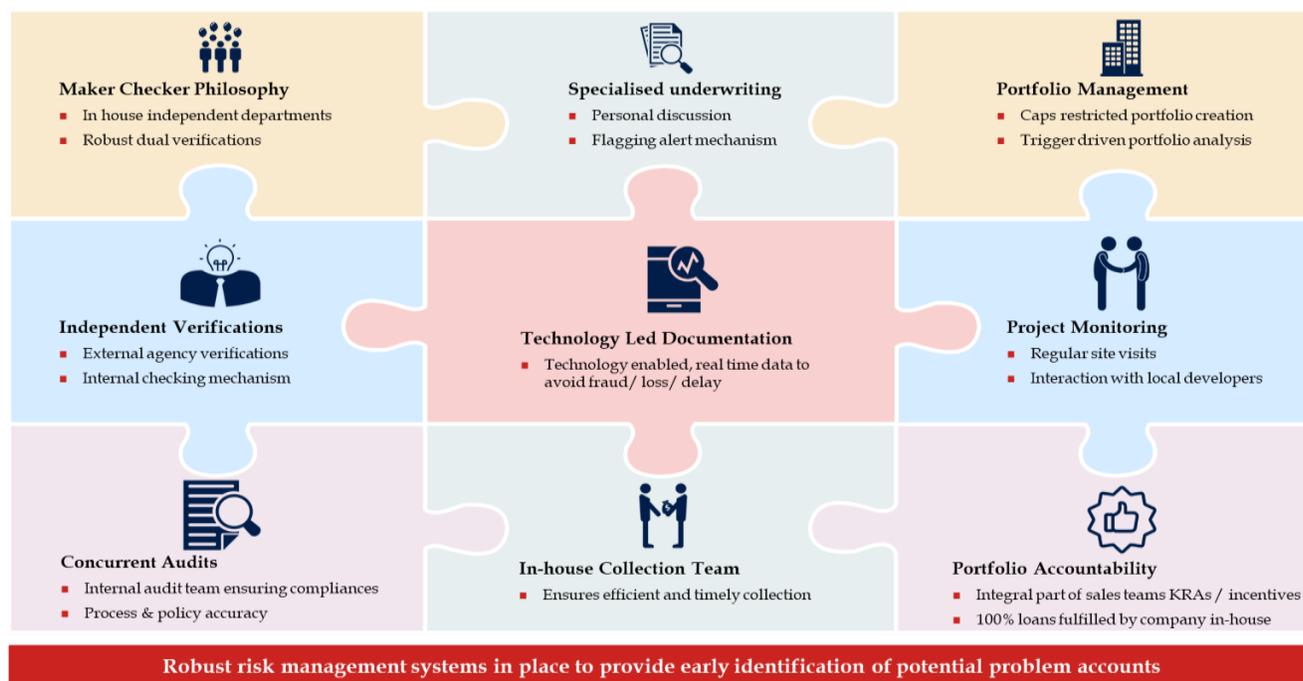
- Transparent and comprehensive policies are framed
- Prudential risk limits for the various categories of loans
- One of the principles of the company in mitigating the IRR is risk-based pricing basis the customer profile and product in relation to the prime lending rate
- Periodic monitoring of the quality of portfolio on a quarterly basis
- A robust auditing system is in place

## 12. Credit Risk

Credit risk is the possibility of a financial loss that a lender faces when a borrower fails to repay a debt or meet their contractual obligations. This risk is inherent in all credit-related transactions. The credit risk may stem from default risk, technology/project risks, concentration risk, policy dependency risk, counterparty risk

Recovery of loan depends primarily upon the quality of loan sanctioned and the integrity of the borrower. A good quality loan is one where the borrower is able and willing to repay the loan and there is sufficient security in case of adverse events.

### 12.1 Credit Risk Management Framework



**12.2 Credit Appraisal & Underwriting:** Detailed due diligence, financial and technical appraisal of borrowers/projects, including:

- Borrower selection, eligibility, KYC/AML
- Financial strength – past financials, equity capital, cash flows, DSCR, leverage
- Technical feasibility – project feasibility, EPC track record, O&M capacity, etc.
- Promoter credibility – background, experience, governance practices, not only ability but intention to repay
- Security - collateral evaluation, LTV/LTC norms
- ESG compliance – environmental social and governance due diligence
- Documentation, and sanction conditions

**12.3 Rating/Scoring & Pricing:** External credit ratings, or internal risk grades/scores calibrated to Probability of Default (PD) bands; pricing-for-risk framework (base rate + risk premium + risk-based fees) ensuring Risk-Adjusted Return on Capital (RAROC)  $\geq$  hurdle.

**12.4 Collateral & Credit Enhancements:** Wherever possible take adequate security, property, cash collateral, interest in project assets, receivables, and/or additional collateral, guarantees, escrow accounts, insurance, etc. Independent valuation of collateral at origination and periodical review and monitoring

**12.5 Credit Approval Process:** Clear delegation of authority and maker-checker controls. Breach of any policy limit requires higher level and ultimately Board approval.

**12.6 Managing Concentration Risk:** Concentration risk arises when exposures are too focused on a single counterparty, sector, geographic region, or asset class, leading to potential large losses if adverse events occur in those areas. These shall be managed through portfolio diversification, by prescribing limits for single borrower/group, sector/technology, geography, counterparty, and funding sources (Annexure A). Exposures beyond thresholds require Board approval and explicit risk mitigation.

**12.7 Portfolio Monitoring & EWS.** Early Warning Signal triggers (days past due, DSRA shortfall, project delays, covenant breaches). Quarterly reporting to the Board and regulators. Watchlist governance and action plans.

**12.8 Collections & Recovery.** Bucket-wise strategies, restructuring framework, legal proceedings (SARFAESI where applicable), repossession for asset-backed portfolios, OTS policy.

**12.9 Impairment & Provisioning.** Ind AS 109 Expected Credit Loss (ECL) methodology with Stage 1/2/3 classification; forward-looking overlays; model governance; alignment with RBI IRACP for NPA recognition (90 DPD) and income de-recognition; NPA upgradation only upon clearance of all arrears.

### 13. Liquidity & ALM Risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they fall due without incurring unacceptable costs. The area of A&L risk is of great importance to any organization that raises funds for onwards lending. The A&L risk assessment provides to establish the overarching guidelines for the Company’s Asset Liability Management (‘ALM’) framework, which is aligned to the regulatory guidelines on Asset Liability Management measures. The Company has also constituted an Asset Liability Management Committee (‘ALCO’) to oversee ALM on an ongoing basis.

**13.1 ALM Philosophy:** The ALM philosophy encompasses the strategic objective of balance sheet management and the operational objective of liquidity management. The ALM philosophy is guided by two distinct set of principles, viz, balance sheet management principles and risk management principles. The scope of ALM activities is depicted below:

Risk Management	Balance Sheet Management
Liquidity risk management	Monitoring net interest income
Interest rate risk management	Resource planning & cost of funds
Liquidity contingency	Product pricing decision support

While measurement and management of liquidity and interest rate risk shall remain the basic objectives of ALM, the Company shall use ALM as a tool for balance sheet management.

Accordingly, ALM shall support management of Net Interest Income ('NII'), product pricing and funding.

### **13.2 Managing liquidity risk on an on-going basis**

Liquidity risk may be measured at a structural level and a cash flow level. To manage structural liquidity risk, this policy envisages adherence to certain key ratios and gap limits in normal business conditions and under stressed market conditions. Regular liquidity stress tests must be conducted, including scenarios such as, sharp increase in NPAs, market funding freeze or withdrawal of credit lines, delay in loan repayments. To manage liquidity risk at a cash flow level, this policy envisages adherence to certain gap limits based on dynamic liquidity forecasts (refer to Annexure A). The company will maintain a minimum liquidity buffer of 30 days operating expenses and debt servicing requirements in the form of high-quality liquid assets (HQLA). Maintaining an optimal balance sheet structure and cash flow patterns shall be the key component of the liquidity risk management strategy.

### **13.3 Liquidity contingency management**

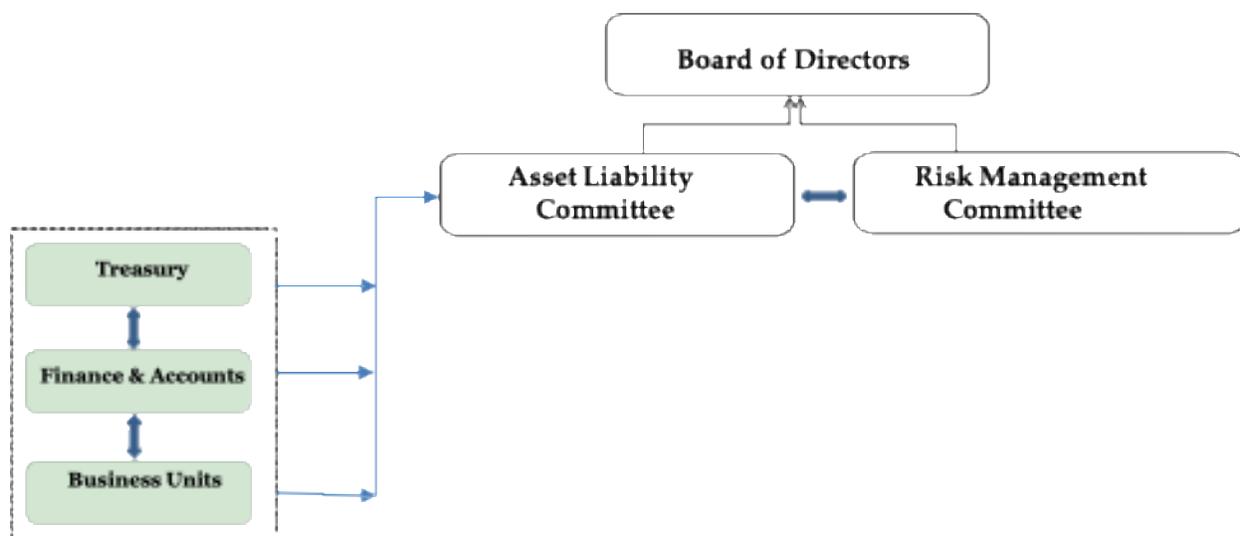
The ALM exercise shall focus on making available requisite sources of funds in case of contingencies. The contingency planning exercise will also focus on evaluating the impact of contingencies on the cost of funds. Accordingly, the liquidity contingency management strategy will be focused on availability and cost in stressed market conditions. Securitization is another mode of financing for NBFCs, which enables it to convert a pool of assets/loans, into bonds, which are then sold to investors. The company will maintain a Securitization Policy.

### **13.4 Capital Planning**

The company will develop annual rolling 3–5 year business plans, which will include capital plan covering growth, loss absorption, dividend policy, capital actions, and contingency options; linked to business plan and RAS. It is important for the Company to tie-up funding sources while maintaining an acceptable NII spread. Before lending commitments are made, tying up funding sources shall be the role of the Treasury function. In addition to raising of funds, another important aspect of liquidity is also how these funds are safely held till they are disbursed. This is addressed in the Investment policy.

The ALM function shall focus on evaluating the cost of funds vis-à-vis market based pricing benchmarks. Additionally, the ALM function will focus on prescribing an equitable mix between long term and short term funding sources to manage structural mismatches and cost of funds.

### **13.5 Governance Framework**



**13.6 Relation between ALCO and RMC:** While the ALCO is responsible for oversight of specific risks relating to liquidity and interest rate sensitivity, the Risk Management Committee shall be responsible for Company-wide risk management. The minutes of ALCO will be reported to RMC for its noting. The Risk Management Committee shall not be involved in direct oversight of the ALM function or Investment management function.

## 14. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems, or external events. This includes risks related to fraud, IT systems, human error, legal and compliance breaches, cyber threats, and disruptions due to climate or external shocks. Unlike credit or market risk, operational risk is not taken in return for an expected reward, but is inherent in all business activities of the Company.

### 14.1 Types of operational risks relevant for ACF:

- **Internal and External Fraud:** This includes intentional misreporting of positions, employee theft, forgery, and computer hacking.
- **System and Technology Failures:** Failures in IT infrastructure, software, and telecommunications can disrupt business operations, leading to significant financial losses and reputational damage.
- **Process and Execution Errors:** Mistakes in data entry, documentation, or transaction processing can result in financial discrepancies, legal issues, and customer dissatisfaction.
- **Human Resources Risks:** This involves risks related to employee misconduct, inadequate training, and employee attrition, which can impact the quality of services and internal controls.
- **Third-Party and Outsourcing Risks:** NBFCs often rely on external vendors for IT services, loan processing, and other functions. A failure by a third-party provider (vendor for IT, loan origination, security) can expose the company to operational and reputational risks.
- **Regulatory and Compliance Risks:** Failure to comply with regulations set by RBI, GST or MCA can lead to penalties, fines, and suspension of licenses.

## 14.2 Managing Operational Risks

To manage these risks effectively, ACF will implement a robust **Operational Risk Management Framework (ORMF)**, which typically follows a "three lines of defence" model:

1. **First Line of Defence - Business Unit Management:** This is the front line where risks are identified, assessed, and controlled. Individual business units are responsible for managing the risks inherent in their day-to-day operations with clear defined roles.
2. **Second Line of Defence - Risk Management and Compliance:** This function provides oversight and guidance, developing policies, procedures, and tools for risk management. They monitor and challenge the effectiveness of the first line of defence.
3. **Third Line of Defence - Internal Audit:** The internal audit function provides independent assurance to the board and senior management that the ORMF is effectively designed and implemented.

## 14.3 Operational Risk Management Framework (ORMF)

- **Governance and Culture:** Establishing a strong risk culture from the top down, with clear roles and responsibilities. All employees, especially those in lending and risk roles, will receive mandatory training on credit appraisal, risk management, and the specific nuances of climate finance.
- **Risk Identification and Assessment:** Continuously identifying and assessing potential risks using tools like risk and control self-assessments (RCSAs) and key risk indicators (KRIs). Qualitative categorization of each risk as Low, Medium and High.
- **Control and Mitigation:** Implementing effective controls, such as segregation of duties (e.g., maker-checker), vendor due diligence, automated systems, contract clauses and documented policies, to reduce the likelihood and impact of risks.
- **Monitoring and Reporting:** Regularly monitoring risk exposures and loss events, internal audits, with timely reporting to the management, board and RBI. Internal Audit team to ensure that all the risks & controls that apply to various processes are captured in the Risk Control Matrix (RCM). Auditing of all the risks captured in RCM is to be decided basis risk categorization - High/Medium/Low
- **Business Continuity and Resilience:** Developing and regularly testing business continuity and disaster recovery plans to ensure critical operations can continue during disruptions.

Some key operational risks that merit a separate mention:

## 14.4 Compliance Risk

“Compliance Risk” is defined as “the risk of legal or regulatory sanctions, material financial loss, or loss to reputation the Company may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organization standards, and codes of conduct applicable to its financing activities” (together, “Compliance Laws, Rules and Standards”).

In order to manage/ mitigate the Compliance Risk, the Company shall have a dedicated Compliance Function headed by a senior executive with adequate manpower resourcing

having defined roles and responsibilities. It should be ensured that the compliance staff has fair knowledge of laws, regulations, rules, accountancy, business products etc. to carry-out their duties effectively.

The Compliance Function shall advise and assist the senior management on Compliance Laws, Rules and Standards, including keeping them informed on various developments. The responsibilities of the Compliance Function shall also include:

- 1) Guidance to the business & support functions on all Compliance Laws, Rules and Standards. The Compliance Function should act as a reference point within the Company for seeking clarifications/ interpretations of various regulatory/ statutory guidelines;
- 2) Prompt issuance and dissemination of new regulatory guidelines/ instructions within the Company;
- 3) Monitoring compliance with the regulatory guidelines/ instructions;
- 4) Standardization of activities and awareness among staff through policies, procedures, compliance manuals, internal codes of conduct and practice guidelines;
- 5) Analysis and review of new products, policies and processes from a compliance perspective;
- 6) Co-ordination of the regulatory inspections and correspondence with the authorities.

The activities of the Compliance Function are subject to annual independent review by the internal audit. Further to ensure adequate management review of compliance processes, heads of all relevant functions shall submit quarterly confirmation to the CEO who thereafter shall submit the compliance certificate to the Board of Directors of the Company.

### 14.5 Legal Risk

Legal Risk is the potential loss to the Company arising from:

- non-compliance with applicable laws and regulations,
- defective contracts or loan documentation,
- inadequate legal enforceability of security/agreements,
- litigation risk (from borrowers, employees, or third parties),
- penalties or sanctions from regulators (RBI, MCA, SEBI, Income Tax, GST, etc.).

#### Legal Risk Management Framework

**Governance:** *Board* approves legal risk management framework, reviews litigation exposure. *CRO* integrates legal risks into the Enterprise Risk Management (ERM) framework. *Head of Legal/Compliance Officer* ensures legal due diligence, monitors regulatory changes, manages litigation.

**Risk Identification:** Regulatory updates (RBI Master Directions, Companies Act, new laws). Review of loan agreements, sanction letters, security documents. Litigation monitoring system.

#### Risk Mitigation

- Standardized loan & security documentation vetted by legal counsel.
- Regular legal audits of lending portfolio and corporate records.
- Contract management system for vendor/outsourcing agreements.
- Continuous compliance monitoring (RBI filings, MCA filings, KYC/AML).
- Adequate professional indemnity insurance.

### Monitoring & Reporting

- Quarterly litigation & compliance status report to RMC/Board.
- Immediate reporting of material legal risks (e.g., high-value litigations, RBI penalties).

### 14.6 Information Technology & Cybersecurity Risk

Information Technology (IT) and Cybersecurity Risk, refers to the possibility of financial loss, business disruption, data compromise, reputational damage, or regulatory penalties due to inadequate IT systems, cyberattacks, unauthorized access, data breaches, or failure of technology infrastructure.

**Governance:** Information Technology and Cybersecurity Policy approved by Board and Chief Information Security Officer (CISO) appointed. Policy alignment to RBI IT Framework and cyber security guidelines.

**Controls:** Access management, network security, encryption, secure SDLC, change management, vulnerability management, patching, logging/SIEM, endpoint security, backup, and incident response. Protection of customer and lender data with privacy-by-design.

**Monitoring & Reporting:** Formal Cybersecurity Incident Response Plan (CIRP), with incident reporting and escalation protocols. Post-incident forensic analysis and remediation. Reporting to RBI in case of material cyber incidents. Continuous training of staff on cyber hygiene and phishing awareness.

**Business Continuity & Disaster Recovery:** Data backup protocols with offsite/cloud replication. Alternate processing site for mission-critical applications. Periodic drills simulating IT disruptions (including climate-induced outages).

## 15.Reputational Risk

Reputational risk is the risk of potential damage to the Company due to damage or deterioration of its reputation and/or standing because of its negative perceptions among its different stakeholders, namely, its customers, employees, shareholders, suppliers and regulatory authorities.

Organizations are exposed to reputation risk arising from failures in governance, business strategy and process, regulatory-compliance and legal risk. The reputation of the Company may suffer as a result of its failure to comply with laws, regulations, rules, reporting requirements, standards and codes of conduct applicable to its activities, rather than compliance with the internal limits or procedures. Proactive measures to minimize the risk of losing reputation could be - a sound risk management framework, good corporate governance, high level of ethics and integrity, rigorous anti money laundering procedures, good business practices and reporting of all breaches which lead to reputational risk to the attention of senior management and the board.

It may arise due to various factors including mis-selling, adverse media campaign, unfair trade practices, regulatory action, liquidity issue, etc.

To manage this risk, the Company shall, inter alia, ensure the following:

- a) All media communications would be handled by the group corporate communication team.

- b) Timely response to statutory/ regulatory queries/ requirements.
- c) Training of employees and FOS,
- d) Respond to the customers' queries and needs within committed turn-around time.
- e) Be vigilant to customer's/ stakeholder's/ media feedback (including social media) and take quick remedial actions.

## 16. Climate & ESG Risk

Climate-related risks are an integral part of the Company's risk profile. It must assess transition and physical climate risks in origination and portfolio monitoring. The Company has developed an ESG framework. It will include ESG due diligence checklists and exclusion lists aligned to Company values and lender covenants.

**16.1 Physical Risks:** These risks arise from the physical effects of climate change, such as extreme weather events (floods, cyclones) or long-term shifts (rising temperatures, water scarcity) that can impact the viability of a project.

- **Location-Based Analysis:** All projects will be screened based on their geographical location and vulnerability to physical risks. This will involve using publicly available climate hazard data.
- **Mitigation Measures:** The Company will encourage and, where possible, require borrowers to incorporate physical risk mitigation measures into their project designs, including adequate insurance.

**16.2 Transition Risks:** These risks are associated with the transition to a low-carbon economy. They arise from changes in policy, law, technology, or market sentiment that could impact the financial viability of a borrower or project.

- **Regulatory Analysis:** The Company will continuously monitor changes in government policies, subsidies, and regulations related to renewable energy and climate finance.
- **Technology Risk:** Due diligence on emerging green technologies will be robust, with a focus on assessing their reliability, commercial viability, and scalability before providing finance.
- **Reputational Risk:** The Company will ensure that the projects it finances are environmentally and socially compliant to protect its reputation and brand image.

## 17. Annexure A – Risk Appetite & Limit Framework (Template)

- **Capital Adequacy:** Minimum CRAR  $\geq 20\%$ ; Tier 1  $\geq 15\%$ .
- **Asset Quality:** GNPA  $\leq 3\%$ ; NNPA  $\leq 1.5\%$
- **Concentration:** Single borrower  $\leq 25\%$  of NOF; Single group  $\leq 40\%$  of NOF; Subsector/technology caps as **50%** of AUM; Geography (State) cap  $\leq 33\%$  of AUM; Unsecured loans  $\leq 50\%$  of AUM
- **Liquidity:** Cumulative mismatch  $\leq 10\%/10\%/20\%$  (1–7/8–14/15–30 days); Survival horizon  $\geq 180$  days; LCR  $\geq 100\%$  where applicable; HQLA floor  $\geq 30$  days of cash outflows.
- **Market/IRR:** Duration gap  $\leq 1$  year; EaR shock limits  $\leq 5\%$  of NII &  $10\%$  of Net Worth (for a  $\pm 100$  bps rate shock); Investment grade floor A for treasury book.
- **Operational:** Gross OpRisk losses  $\leq 50$  bps of Average Net Revenue (ANR); Major incidents resolved within 60 days; Vendor risk KRIs within thresholds.
- **Cyber Security:** Critical patching within 15 days; no Critical open vulnerabilities  $> 15$  days.
- **ESG/Climate:** Exposure to excluded activities = 0; Exposure to preliminary risk Category A projects  $\leq 25\%$ .

## 18. Annexure B – Key Policies Referenced

Credit Policy; Collections & Recovery Policy; ALM/LRM Policy; Treasury & Investment Policy; Impairment/ECL Policy; Operational Risk Policy; Information Security Policy; Outsourcing Policy; BCP/DR Policy; Model Risk Policy; Conduct/Fair Practices Code; KYC/AML Policy; Data Governance & Privacy Policy; Vendor Management Policy; Securitization/DA Policy; Disclosure Policy.

**Certification** This Policy has been reviewed and recommended by the RMC and approved by the Board of Directors of ART Climate Finance (India) Private Ltd.

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