

## Fraud Risk Management Policy

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## **Introduction**

Financial Institutions are targeted by fraudsters intending to dupe the company / customers. Housing Finance in which an average loan size is usually more than the other industry is more susceptible to both organized frauds and individuals committing fraud as an opportunity. Thus, there is a need to formulate a policy which enunciates India Shelter Finance Corporation Limited (India Shelter) stance towards frauds and its approach towards mitigating the same. The policy shall be referred for prevention, early detection and timely reporting of incidents of fraud to Law Enforcement Agencies (LEAs), Reserve Bank of India (RBI), National Housing Bank (NHB) and Insurance Regulatory and Development Authority of India (IRDAI) and matters connected therewith or incidental thereto.

## **Applicability**

The Policy is applicable to all employees, vendors, agents, applicants, borrowers and persons/stakeholders associated with India Shelter.

## **Definitions**

**Persons** include Third Party Service Providers and Professionals such as architects, valuers, chartered accountants, advocates, etc.

**Committee of the Executives (CoE) for Monitoring and Follow-up of cases of Frauds:** Committee of the Executives (CoE) shall constitute minimum of three members, at least one of whom shall be a Whole-time director or equivalent rank Official.

Fraud would mean and include

- i. Mis-appropriation and criminal breach of trust
- ii. Fraudulent encashment through forged instruments,
- iii. manipulation of books of accounts or through fictitious accounts and conversion of property
- iv. Cheating by concealment of facts with the intention to deceive any person and cheating by impersonation;
- v. Forgery with the intention to commit fraud by making any false documents/electronic records;
- vi. Wilful falsification, destruction, alteration, mutilation of any book, electronic record, paper, writing, valuable security or account with intent to defraud;
- vii. Fraudulent credit facilities extended for illegal gratification;
- viii. Cash shortages on account of frauds;
- ix. Fraudulent transactions involving foreign exchange;
- x. Fraudulent electronic banking / digital payment related transactions committed on NBFCs; and
- xi. Other type of fraudulent activity not covered under any of the above

## **Date of occurrence**

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.

## **Date of detection**

Date of detection to be reported in FMR 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 competent authority of the Applicable NBFC

## **Date of classification**

Date of classification is the date when due approval from the competent authority has been obtained

for such a classification, and the reasoned order is passed.

### **Governing laws / guidelines**

Laws / Guidelines which governs the framework are:

- Master Directions on Fraud Risk Management in Non-Banking Financial Companies(NBFCs) (including Housing Finance Companies) vide DOS. CO. FMG. SEC. No. 7/23.04.001/2024-25 dated July 15,2024
- India Shelter Code of Conduct
- Insurance Regulatory and Development Authority of India (Insurance Fraud Monitoring Framework) Guidelines, 2025 and related circulars, notifications, guidelines, and amendments thereto
- Any other applicable regulations Committee under Fraud Risk Management

### **Committee of the Executives (CoE)**

India Shelter has constituted Committee with three members, at least one of whom shall be a Whole-time director or equivalent rank Official for the purpose of performing the roles and responsibilities as below -

- Oversee the effectiveness of the fraud risk management in the company;
- Review and monitor cases of frauds, including root cause analysis, and suggest mitigating measures for strengthening the internal controls, risk management framework and minimising the incidence of frauds.
- Such reviews shall be presented annually to the Board of Directors or Committee of Board of Directors
- The coverage may include among others 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.
- The CoE shall meet on quarterly basis or as and when required.

### **Composition of Committee**

1. Managing Director and Chief Executive Officer - Chairman
2. Chief Risk Officer
3. Chief Financial Officer

### **Roles and Responsibilities of Senior Management**

The Senior Management shall be responsible for implementation of the fraud risk management policy approved by the Board of Directors.

Annual review of incidents of fraud shall also be placed before Board / Audit Committee of Board (ACB), as appropriate, by the Senior Management.

Transparent mechanism to ensure that Whistle Blower complaints on possible fraud cases /suspicious activities in account(s) are examined and concluded appropriately under the Whistle Blower Policy as approved by the Board of Directors.

The company has an Anti Fraud Department for institutionalisation of fraud risk management within the

overall risk management .

Head of Internal Audit shall be responsible for monitoring and reporting of frauds.

The company shall disclose the amount related to fraud reported in the company for the year in the Financial Statements – Notes to Accounts.

### **Governance Structure for Fraud Risk Management**

India Shelter shall have a well laid out system for issuance of Show Cause Notice (SCN) and examination of the responses / submissions made by the Persons/Entities prior to declaring such Persons / Entities as fraudulent.

A detailed SCN to the Persons, Entities and its Promoters / whole-time and Executive Directors against whom allegation of fraud is being examined shall be issued by the Company. The SCN shall provide the complete details of transactions / actions / events, basis which declaration and reporting of a fraud is being contemplated under the framework adopted by the company. The same shall be issued under the authority of Head – Internal Audit or any other official as may be delegated by MD & CEO.

A reasonable time of not less than 21 days or extended time as may be deemed fit by the investigating team shall be provided to the Persons / Entities on whom the SCN was served to respond to the said SCN.

A reasoned Order shall be served on the Persons / Entities conveying the decision of the company regarding declaration / classification of the account as fraud or otherwise. Such Order(s) shall contain relevant facts / circumstances relied upon, submission made against the SCN and the reasons for classification as fraud or otherwise.

### **Credit facility / Loan account / Other financial transactions - indication of fraudulent activities**

India Shelter shall monitor activities in credit facility / loan account / other financial transactions and remain alert on activities which could potentially turn out to be fraudulent.

In case where there is a suspicion / indication of wrongdoing or fraudulent activity, the company shall use internal audit as per the current Board approved Policy for further investigation in such accounts

The company may use an external audit for further investigation if required.

While using services of external auditors, aspects such as due diligence, competency and track record of the auditors, among others shall be examined before the empanelment. Further, the contractual agreement with the auditors inter alia, contains suitable clauses on timeline for completion of the audit and submission of audit report to the company within a specified time limit.

Suitable clause shall be added in the loan agreement with the borrower for conduct of such audit at the behest of the company. In cases where the audit report submitted remains inconclusive or is delayed due to non-cooperation by the borrower, India Shelter shall conclude on status of the account as a fraud or otherwise based on the material available on the company's record and their own internal investigation / assessment in such cases.

India Shelter shall ensure that the principles of natural justice are strictly adhered to before classifying / declaring an account as fraud.

In case an account is identified as a fraud, the borrowal accounts of other group companies, in which one or more promoter(s) / whole-time director(s) are common, shall also be subjected to examination by the company from fraud angle.

In cases where Law Enforcement Agencies (LEAs) have suo moto initiated investigation involving a borrower account, the company shall follow the process of classification of accounts as fraud as per this policy.

### **Independent confirmation from the third-party service providers including professionals**

India Shelter shall place reliance on various third-party service providers as part of pre-sanction appraisal and post-sanction monitoring. Therefore, the company shall incorporate necessary terms and conditions in the agreements with third-party service providers to hold them accountable in situations where wilful negligence / malpractice by them is found to be a causative factor for fraud.

### **Staff Accountability**

The company shall initiate and complete the examination of staff accountability in all fraud cases in a time-bound manner in accordance with this policy.

In all fraud cases, staff accountability will be mandatorily explored. It is required to (a) confirm whether there was any lapse / mala-fide on part of employee which led to fraud and (b) if so then to take action against the staff concerned.

In cases involving very senior executives of the company (MD & CEO / Executive Director / Executives of equivalent rank), the Audit committee of the Board shall initiate examination of their accountability and place it before the Board of the Directors.

### **Early Warning Signals**

India Shelter shall have a framework for Early Warning Signals (EWS) under the overall Fraud Risk Management Policy approved by the Board.

This EWS framework is a proactive mechanism designed to highlight, at an early stage of their life cycle, possible pool of problematic cases that may become non-performing later on. It also highlights any systematic risk present in the underwriting process that may result into significant number of cases becoming delinquent in near future.

This framework will assist the Company in identifying Early Warning Indicators (“**EWI**”) and taking timely actions to mitigate risks and maintain a stable loan portfolio.

### **SOURCES / CHANNELS FOR IDENTIFYING EWI**

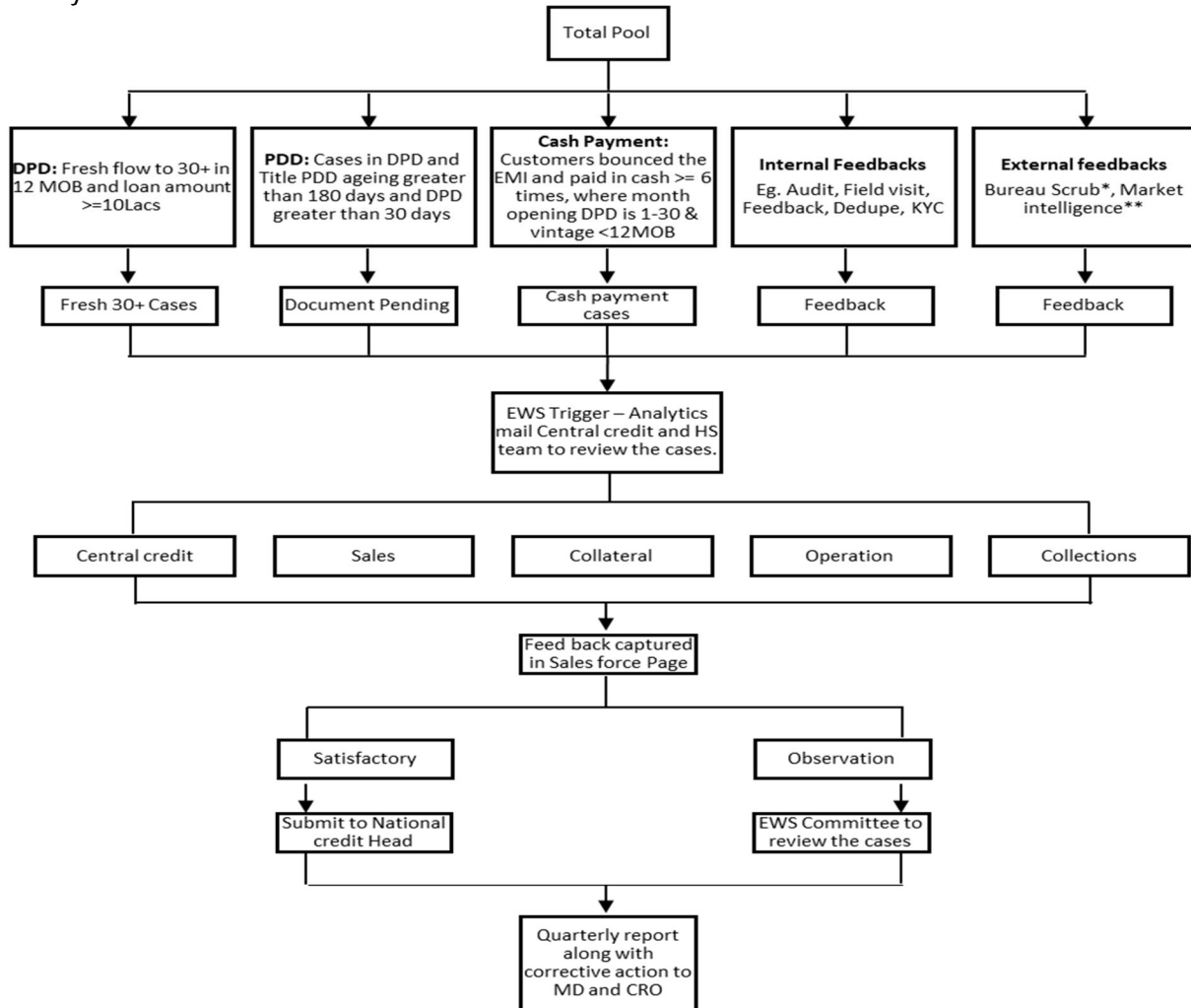
The early warning indicators shall be identified as below:

- **DPD:** Fresh flow to 30+ in 12 MOB and loan amount  $\geq 10$  Lacs
- **PDD:** Cases with DPD greater than 30 days and Title PDD ageing greater than 180 days
- **Cash Payment:** Customers bounced the EMI and paid in cash  $\geq 6$  times, where month opening DPD is 1-30 & vintage  $< 12$  MOB
- **Internal Feedbacks** including. Audit, Field visit, Feedback, Dedupe, KYC

- **External Feedbacks** including. Bureau Scrub, Market intelligence

## MONITORING

All teams will closely monitor cases under the Early Warning Signal (EWS) framework. The field team will perform the re-due diligence in the respective areas including credit, collection, operations, technical. The report of the same shall be presented to the MD & CRO & Risk Management Committee on quarterly basis.



**Note:**

\* All cases where MOB is lesser than 18 months, where external non-government trade executed post ISFC disbursement; where ISFC DPD is greater than 0; where the new trade disbursed amount is greater than or equal to 10 lakhs; where the current balance is greater than 1 lakh; where customer has been in 30+ days past due on external trade for the past 12 months; the trade type for external trade is either property or house; and excluding the customer already in EWS.

\*\* Negative output (other than PEP) on Screenza portfolio monitoring & suspicious transaction monitoring considered for EWS

### Other Aspects of Monitoring

- Once a case comes under EWS scan, it will be qualified for EWS review again after 12 months. Any case which is not concluded in the same quarter to be reported to credit and policy head with due justification.

Any suspicion of fraud on the cases identified under EWS may be investigated in accordance with

the Fraud Risk Management Policy by the Internal Audit department.

### **Penal Measures**

Persons / Entities classified and reported as fraud by the company and also Entities and Persons associated with such Entities, shall be debarred from raising of funds and / or seeking additional credit facilities from financial entities regulated by RBI, 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.

Lending to such Persons / Entities being commercial decisions, the company shall have the sole discretion to entertain or decline such requests for credit facilities after the expiry of the above mandatory cooling period

### **Treatment of accounts under Resolution**

In case an Persons / entity classified as fraud has subsequently undergone a resolution either under IBC or under the resolution framework of RBI resulting in a change in the management and control of the entity / business enterprise, India Shelter shall examine whether the entity shall continue to remain classified as fraud or the classification as fraud could be removed after implementation of the Resolution Plan under IBC or aforesaid prudential framework.

This would, however, be without prejudice to the continuance of criminal action against erstwhile promoter(s) / director(s) / persons who were in charge and responsible for the management of the affairs of the entity / business enterprise.

The penal measures as detailed in para above on **Penal Measure** shall not be applicable to entities / business enterprises after implementation of the resolution plan under IBC or aforesaid prudential framework.

The penal measures detailed in para above on **Penal Measure** shall continue to apply to the erstwhile promoter(s)/ director(s)/ persons who were in charge and responsible for the management of the affairs of the entity / business enterprise

### **Reporting of Frauds to Law Enforcement Agencies (LEAs)**

The company shall immediately report the incidents of fraud to appropriate LEAs, viz. State Police authorities, etc., subject to applicable laws.

The company has designated Head – Internal Audit or as may be delegated by MD & CEO for reporting incidents of fraud to LEAs and for proper coordination to meet the requirements of the LEAs.

### **Categorization of Fraud**

To ensure uniformity and consistency while reporting incidents of fraud to RBI / NHB, the company shall choose the most appropriate category from any one of the following:

- (i) Misappropriation of funds and criminal breach of trust;
- (ii) Fraudulent encashment through forged instruments;
- (iii) Manipulation of books of accounts or through fictitious accounts, and conversion of property;
- (iv) Cheating by concealment of facts with the intention to deceive any person and cheating by impersonation;

- (v) Forgery with the intention to commit fraud by making any false documents/electronic records;
- (vi) Wilful falsification, destruction, alteration, mutilation of any book, electronic record, paper, writing, valuable security or account with intent to defraud;
- (vii) Fraudulent credit facilities extended for illegal gratification;
- (viii) Cash shortages on account of frauds;
- (ix) Fraudulent transactions involving foreign exchange;
- (x) Fraudulent electronic banking / digital payment related transactions committed on HFCs; and
- (xi) Other type of fraudulent activity not covered under any of the above.

### **Modalities of Reporting Incidents of Fraud to RBI**

The company shall furnish individual fraud returns in fraud cases, irrespective of the amount involved, immediately but not later than 14 days from the date of classification of an incident / account as fraud.

The company shall also report frauds perpetrated in their group entities to RBI separately, if such entities are not regulated / supervised by any financial sector regulatory / supervisory authority.

The company shall adhere to the timeframe for reporting of fraud cases to RBI and shall examine and fix staff accountability for delays in identification of fraud cases and in reporting to RBI.

Under exceptional circumstances, the company may withdraw FMR / remove name(s) of perpetrator(s) from FMR. Such withdrawal / removal shall, however, be made with due justification and with the approval of MD and CEO.

### **Reporting of Incidents of Fraud to Reserve Bank of India (RBI)**

- Communication on suspicion of Frauds shall be responsibility of the Head of the department.
- Frauds to be reported in the Balance Sheet in Notes to Accounts Section
- Cases directed by RBI / NHB to be treated as Frauds are also to be reported as Fraud
- Cases where investigation is on-going by central investigation agencies who have initiated criminal proceedings suo moto will be reported as fraud
- Frauds perpetuated in subsidiaries / affiliates / joint ventures will also be reported
- Reporting to NHB/RBI in the applicable returns

### **Closure of Frauds**

Fraud case will be closed only where the actions are complete and with approval of the Audit Committee/Board of the company. The action would be considered complete when

- the fraud cases pending with CBI/Police/Court are finally disposed of; and
- the examination of staff accountability has been completed;

Fraud cases involving amounts up to Rs. ~25.00 lakh, will be closed where examination of staff accountability and disciplinary action, if any, has been taken and:

- (i) The investigation is going on or 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
- (ii) The charge-sheet is filed by the LEAs in 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.

In all closure cases of reported frauds, India Shelter shall maintain details of such cases for examination by auditors.

### **Reporting Cases of Theft, Burglary, Dacoity and Robbery**

India Shelter shall report incidents of theft, burglary, dacoity and robbery to NHB in the manner and in Returns / Formats as prescribed by NHB.

### **Other Instructions**

#### **Legal Audit of Title Documents in respect of Large Value Loan Accounts i.e. Rs. 1 crore and above**

The company shall subject the title deeds and other related title documents in respect of all credit facilities of ₹1 crore and above to legal audit and re-verification at least once in three years, till the loan is fully repaid.

#### **Treatment of Accounts classified as Fraud and sold to other Lenders / Asset Reconstruction Companies**

The company shall complete the investigation from fraud angle before transferring the loan account / credit facility to other lenders / ARCs. In cases the company has concluded that a fraud has been perpetrated in the account, they shall report it to RBI / NHB before selling the accounts to other lenders / ARC.

#### **Insurance Fraud Monitoring Framework**

In case of any fraud with respect to Insurance services, the company shall follow the provisions of Insurance Regulatory and Development Authority of India (Insurance Fraud Monitoring Framework) Guidelines, 2025 and related circulars, notifications, guidelines, and amendments thereto.

#### **Role of Auditors**

During the course of the audit, 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 the senior management and if necessary, to the Audit Committee of the Board (ACB) for appropriate action.

Internal Audit shall cover controls and processes involved in prevention, detection, classification, monitoring, reporting, closure and withdrawal of fraud cases, and also weaknesses observed in the critical processes in the fraud risk management framework of the company.

#### **Amendment / Modifications / Review**

- There shall be an annual review of the Policy by the Board
- India Shelter with the approval of the Board of Directors, can at any time modify or amend, either the whole or any part of this Policy.
- Operational changes to the policy can be done with approval of MD & CEO.
- Statutory changes will be read mutatis mutandis in the policy document even if not amended
- Any clause or reference in the policy document which is contrary to or on violation of statutory or regulatory shall be deemed to be severed from the policy