RISK MANAGEMENT POLICY

1 Scope

This document aims to lay down a broad framework for Risk management at John Deere Financial India Private Limited (referred to as "JDFIPL") as required by the Reserve Bank of India vide notification RBI/2021-22/112 DOR.CRE.REC. No.60/03.10.001/2021-22 - Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs

The Finance Department shall be responsible for maintaining this document in consultation with Legal, Treasury, Credit and Secretarial team. The review and updates to this policy shall be done annually and approved by Board of Directors of JDFIPL.

The information in this policy is confidential and should not be transmitted outside the company due to the sensitive nature of policies such as this (Information Classification chart)

2 References

Document Number	Description	Revision/Date
RBI/2021-22/112 DOR.CRE.REC. No.60/03.10.001/2021-22	Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs	October 22, 2021
Internal Capital Adequacy Assessment Process (ICAAP)	Master Circular – Basel III Capital Regulations dated July 01, 2015	
JDF044 SOP 1	ICAAP working	
RBI/2013-14/390/ DBOD.BP.BC.No.75/21.04.103/2013-14 dtd 2 Dec,2013	**Guidelines on Stress Testing** circular DBOD.No.BP.BC. 101/21.04.103/2006-07 dated June 26, 2007	
Annex 1	**Stress Test working**	

3 Policy

The purpose of this policy is to address unanticipated and unintended losses to the Company. The effective management of risk is vital to the continued growth of the Company since an NBFC is prone to inherent risks while operating in the financial sector. The company has introduced effective risk management systems that address the issues relating to various risks

3.1. Broad Categories of risks:

The following broad categories of risks have been identified in our risk management framework along with possible mitigation factors:

A. Credit Risk

A risk of loss due to failure of a borrower/counterparty to meet the contractual obligation of repaying his debt as per the agreed terms, is commonly known as risk of default.

Risk Mitigation

- Credit risk shall be managed using a set of credit norms and policies. The Company shall have defined roles and responsibilities for originators and approvers. All credit exposure limits shall be approved by authorized persons.
- Annual review of credit policy is done.
- There shall be a structured and standardized credit approval process to ascertain the credit worthiness of the borrower.
- The Company shall develop internal evaluation team to make credit decisions more robust and in line to manage collateral risk.
- The Company shall follow a process of time-to-time revisiting the credit policy and processes, on the basis of experience and feedback.

Also refer "India Retail Credit Policy" for JDFIPL.

B. Operational Risk

Any eventuality arising from the act relating to people, technology, infrastructure, and external factors, which can give rise to some type of loss in the organization, is termed as Operational Risk. Majorly it is internal and unknown. Therefore, the persons responsible shall keep continuous watch and shall gather the symptoms/warning signals to manage Operational risk.

Risk Mitigation

- Document Storage and Retrieval: The company recognizes need for proper storage of documents as also their retrieval for audit and statutory requirements. The Company is maintaining all the original documents adequately and at safe location. Annual records retention certification is carried out by all employees to ensure retention is in accordance with regulatory and/or company guidelines.
- Whistle Blower Policy: This policy is in place to report any non- compliance to the company policies and procedures noted by the employees.
- Internal audit – Annual internal audit is conducted by an external firm. The scope of this Internal Audit covers all key functions including HR, Operations, Credit, Administration, Finance and Accounts. The firm also audits the company's adherence to all Statutory and Regulatory Guidelines that have been prescribed for NBFC. The scope of these audits is reviewed periodically and modified as needed. All significant audit observations of Internal Audits and follow-up actions are presented to the Board Audit Committee.
- Technology Infrastructure: An IT security policy is in place. Refer JDF 033 IT Policy and JDF034 Information Security Policy.

C. Market risk

This is majorly external market dynamics, which gives rise to Risks like Liquidity risk, Interest Rate risk and Funding risk. Liquidity risk is the inability to meet financial obligations in a timely manner and without stress. The Company shall resort to proper ways to manage such risks.

Risk Mitigation

- As a contingency plan the Company shall maintain sufficient approved but un-drawn credit lines on a continuous basis as buffer to manage eventuality of liquidity constraints.

D. Financial Risk

The financial risk includes interest rate risk, liquidity risk. Interest rate risk is the risk where changes in market interest rates might adversely affect an NBFC's financial condition. Liquidity Risk arises largely due to maturity mismatch associated with assets and liabilities of the company. Liquidity risk stems from the inability of the company to fund increase in assets, manage unplanned changes in funding sources and meet financial commitments when required.

Risk Mitigation

- The company has the following policies in place to mitigate the financial risks- JDF 038 Liquidity Risk Management Framework Policy and JDF035 Resource planning policy.

E. Regulatory Risks

The Company shall be compliant in terms of regulatory norms and therefore shall effectively manage regulatory risk. Effective Customer redressal mechanism and fair practices shall keep legal risk under control. The Company shall have processes in place, to manage the risk of fraud and the suspected frauds are reported, wherever necessary.

Risk Mitigation

The company has a Customer Charter Committee in place monitoring customer grievances and issues and meets on a periodic basis. The company tracks regulatory updates in the monthly legislative compliance review meeting. Periodic checks are done by Risk and Compliance team to identify frauds. Process is in place for escalation and reporting of fraudulent incidents.

3.2. Capital Adequacy framework

Reserve Bank issued Guidelines based on the Basel III reforms on capital regulation on May 2, 2012, to the extent applicable to banks operating in India. Basel III reforms strengthen the bank-level i.e. micro prudential regulation, with the intention to raise the resilience of individual banking institutions in periods of stress. These new global regulatory and supervisory standards mainly seek to raise the quality and level of capital to ensure banks are better able to absorb losses on both a going concern and a gone concern basis, increase the risk coverage of the capital framework, introduce leverage ratio to serve as a backstop to the risk-based capital measure, raise the standards for the supervisory review process (Pillar 2) and public disclosures (Pillar 3) etc.

Reference"

3.2.1 Scope of application of capital adequacy framework:

JDFIPL is required to do the standalone ("Solo") level capital adequacy ratio requirements, which measure the capital adequacy of a unit based on its standalone capital strength and risk profile.

JDFIPL will quarterly evaluate of capital adequacy and consider different business case scenarios to see minimum threshold capital requirement maintained even at worst case scenario.

3.2.2 Three pillars of capital adequacy

The Capital Adequacy Framework rests on three components or three Pillars. Pillar 1 is the Minimum Capital Ratio while Pillar 2 and Pillar 3 are the Supervisory Review Process (SRP) and Market Discipline, respectively.

- Pillar 1: Minimum Capital Requirements - which prescribes a risk-sensitive calculation of capital requirements that, for the first time, explicitly includes operational risk in addition to market and credit risk.
- Pillar 2: Supervisory Review Process (SRP) - which envisages the establishment of suitable risk management systems in banks and their review by the supervisory authority.
- Pillar 3: Market Discipline - which seeks to achieve increased transparency through expanded disclosure requirements for banks.

The main aspects to be addressed under the SRP, and therefore, under the ICAAP, would include:

(a) the risks that are not fully captured by the minimum capital ratio prescribed under Pillar 1;
(b) the risks that are not at all taken into account by the Pillar 1; and
(c) the factors external to the bank/NBFC.

Since the capital adequacy ratio prescribed by the RBI under the Pillar 1 of the Framework is only the regulatory minimum level, addressing only the three specified risks (viz., credit, market and operational risks), holding additional capital might be necessary for Regulated Entity (RE), on account of both – the possibility of some under-estimation of risks under the Pillar 1 and the actual risk exposure of a bank vis-à-vis the quality of its risk management architecture.

3.3 Internal Capital Adequacy Assessment Process (ICAAP):

Piller2 requires RE's to implement an internal process, called the Internal Capital Adequacy Assessment Process (ICAAP) for assessing their capital adequacy in relation to their risk profiles as well as a strategy for maintaining their capital levels.

The ICAAP comprises a bank's procedures and measures designed to ensure the following:

- (a) An appropriate identification and measurement of risks;
- (b) An appropriate level of internal capital in relation to the RE's risk profile; and
- (c) Application and further development of suitable risk management systems in the Company.

Detail process of ICAAP as suggested in BASELIII has been considered in JDF044 SOP 1.

Based on the outcome of the ICAAP as submitted to and approved by the Board, the ICAAP Document, in the format furnished at Annex 15, should be furnished to the RBI (i.e., to the CGM-in-Charge, Department of Banking Supervision, Central Office, Reserve Bank of India, World Trade Centre, Centre I, Colaba, Cuffe Parade, Mumbai – 400 005). The document should reach the RBI latest by end of the first quarter (i.e. April-June) of the relevant financial year.

Board of Directors Meeting and Review

The Board of Directors, in their board meetings, will oversee the implementation of the system and review its functioning periodically.
The ultimate responsibility for designing and implementation of the ICAAP lies with the Company's board of directors of the bank and with the Chief Executive Officer

4 Records Management and Retention

4.1 Record Management and Retention

This document shall be kept in compliance with JDF record retention policy

4.2 Document Change Records

Document Change Records				
Sr. No.	Revision no./ date	Section Revised/ Page No.	Reason For change	Change Description
1				

Need to know departments				
Finance	Operations	IT	Legal	Credit
Yes	No	No	Yes	Yes
Sales	Collection	HR	Wholesale	Risk and Compliance
No	No	No	No	Yes
Bank Relationship				
No				

End of document

STANDARD OPERATING PROCESS ON ICAAP (Refer JDF Policy JDF044 Risk Management Framework)

1.1 SCOPE

Internal Capital Adequacy Assessment Process (ICAAP):

While working on ICAAP unit is taking an integrated, firmwide perspective of a regulated entity's (RE) risk exposure, in order to support its ability to identify and react to emerging and growing risks in a timely and effective manner.

The purpose of this guidance is the need to enhance firm-wide oversight, risk management and controls around REs' capital markets activities, including securitization, off-balance sheet exposures, structured credit and complex trading activities.

This system is developed considering the following key features:

- Active board and senior management oversight;
- Appropriate policies, procedures and limits;
- Comprehensive and timely identification, measurement, mitigation, controlling, monitoring and reporting of risks;
- Appropriate management information systems (MIS) at the business and firm-wide level;
- Comprehensive internal controls.

1.2 Purpose

The board and senior management must first have an understanding of risk exposures on a firm-wide basis. To achieve this understanding, the appropriate members of senior management must bring together the perspectives of the key business and control functions. There is Credit and Risk committee formed which meets at regular intervals to assess the risks related to business.

The Board should ensure that the senior management of the RE:

(i) establishes a risk framework in order to assess and appropriately manage the various risk exposures of the RE.
(ii) develops a system to monitor the RE's risk exposures and to relate them to the RE's capital and reserve funds.
(iii) establishes a method to monitor the RE's compliance with internal policies, particularly in regard to risk management.
(iv) effectively communicates all relevant policies and procedures throughout the RE.

1.3 Objective: ICAAP to Include Stress Tests and Scenario Analyses

As part of the ICAAP, the management of a RE shall, as a minimum, conduct relevant stress tests periodically, particularly in respect of the RE's material risk exposures, in order to evaluate the potential vulnerability of the RE to some unlikely but plausible events or movements in the market conditions that could have an adverse impact on the RE. In this context, the attention is also invited to the RBI circular DBOD.No.BP.BC.101/21.04.103/2006-07 and DBOD.BP.BC.No.75/21.04.103/2013- 14 dated June 26, 2007 and December 2, 2013, respectively on stress testing.

The first objective of an ICAAP is to identify all material risks. Risks that can be reliably measured and quantified should be treated as rigorously as data and methods allow. The appropriate means and methods to measure and quantify those material risks are likely to vary across RE's.

Some of the risks to which REs are exposed include credit risk, market risk, operational risk, interest rate risk in the banking book, credit concentration risk and liquidity risk.

Additionally, if REs employs risk mitigation techniques, they should understand the risk to be mitigated and the potential effects of that mitigation, reckoning its enforceability and effectiveness, on the risk profile of the RE.

ICAAP Risk Scenarios (Sensitivity Analysis – Shocks):

Scenarios	Assessment	Indicators
Credit Risk: Shock 1: increase in NPA Shock2: Slippage of Restructured assets	Assess the impact of Macro-economic cycles AND Unit specific factors	- Credit Downgrades - Deterioration of Asset quality - Erosion of collateral value - Underpricing of risk - Excessive growth in sensitive sectors
Market Risk: A. Foreign Exchange Risk:	Evaluate the impact of exchange rate variations on net open position and on profitability	- Depreciation of INR - Appreciation of INR
B. Interest Rate Risk	Conduct sensitivity analysis using gap analysis or simulation techniques to assess long term and short-term impact of market interest rate changes	- Upward/downward shift of Yield curve in BPS - Steepening of Yield curve - Inversion of Yield curve
C. Equity Price Risk	NA to JDFIPL as not listed in stock exchange	
Liquidity Risk:	In addition to cash flow projections, unit should perform stress tests based on 'what if' scenarios on liquidity positions.	- Potential liquidity strain - Liquidity within Risk tolerance

*Please see Annex 1 for Stress test model

Assessment as of Mar-2022

Particulars	Actual (Mar-22)	Reference
Portfolio	3,875.93	\\npunexc1a\JDFIP
Others	38.79	
Reduce Lifetime ECL provision	(114.40)	
Total	3,800.32	
Capital Fund Tier I, Equity	535.90	'\\npunexc1a\JDFIP
Reserves	266.48	
Deferred Revenue Expenditure	0.09	
Deferred tax Asset	(54.48)	
Total	747.99	
Tier II		
1.25% of RWA	47.50	
12 ECL provision	43.80	
Lower of above	43.80	
CRAR	20.83%	
Required for JDFIPL	15.00%	

Mar-22

Portfolio	Total Portfolio	ECL Provision	Gross %
Stage I	343,754	4,248	1.2%
Stage II	20,361	1,408	6.9%
Total Standard	364,115	5,656	1.6%
Stage III			
Substandard	21,336	7,346	34.4%
Doubtful(1Yr)	3,637	2,546	70.0%
Doubtful(1-3Yr)	56	56	100.7%
	25,028	9,949	39.7%
Total	389,143	15,605	4.0%
Stage III portfolio net off stage	15,080	0	
Total portfolio net off stage II	379,195	0	
Gross NPA	6.43%		
Net NPA	3.98%		
Tier II capital	4,169.00		
Net worth -Tier I capital	74,769.00		
Total Net Worth	78,938.00		
RWA	380,031.00		
CRAR as on Mar 2022	20.77%		

QUANTIFIABLE RISKS

Stress Test Scenarios - Credit Risk

Credit Risk - Shock 1 Increase in NPA	Baseline (50%)	Medium (100%)	Severe (150%)
Net NPA	15,079.98	15,079.98	15,079.98
Increase in NPA	7,539.99	15,079.98	22,619.97
Increase in Prov because of Increased NPA	2,997.05	5,994.10	8,991.15
Adjusted Net worth	75,940.95	72,943.90	69,946.85
Stressed CRAR under Shock 1	19.98%	19.19%	18.41%

Credit Risk - Shock 2 Increase in NPA in top 5 Indu	Baseline (50%)	Medium (100%)	Severe (150%)
This scenarios is not applicable for JDFIPL being captive unit			

Credit Risk - Shock 3 Increase in NPA in specific Se	Baseline (50%)	Medium (100%)	Severe (150%)
This scenarios is not applicable as JDFIPL deals in only Agriculture Farm equipments and Roadline equipments			

Credit Risk - Shock 4 Slippage of Restructured Std	Baseline (20%)	Medium (30%)	Severe (40%)
Restructured Loan as of March 2022	973.37	973.37	973.37
Provision as of March 22 on restructured portfol	264.24	264.24	264.24
Increase in Prov as per Stress test	52.85	79.27	105.69
Adjusted Net worth	78,885.15	78,858.73	78,832.31
Stressed CRAR under Shock 4	20.76%	20.75%	20.74%

Credit Risk - Shock 5 Depletion in collateral	Baseline (10%)	Medium (15%)	Severe (20%)
Current ECL provision Mar 22	15,605	15,605	15,605
ECL Provision under stress scenario	17,094	17,848	18,603

Increase in provision as per stress test	1,489	2,243	2,998
Adjusted Net Worth	77,449.23	76,694.74	75,940.26
Stressed CRAR under Shock 5	20.38%	20.18%	19.98%

Credit Risk - Shock 6 Downgrade in counter-party	Baseline (5%)	Medium (10%)	Severe (20%)
This scenarios is not applicable as JDFIPL deals with Farmers and B2C segments			

Credit Risk - Shock 7 Concentration Risk (Top Borr	Baseline (Top 1)	Medium (Top 2)	Severe (Top 3)
Outstanding of Top Borrowers as of Mar-2022	36.44	59.43	79.64
100% loss if default	36.44	59.43	79.64
Adjusted Net worth	78,901.56	78,878.57	78,858.36
Stressed CRAR under Shock 1	20.76%	20.76%	20.75%

Credit Risk - Shock 8 Concentration Risk (Group Bo	Baseline (Top 3)	Medium (Top 5)	Severe (All)
Adjusted Net worth			
This scenarios is not applicable as JDFIPL does not have group borrowers			

Credit Risk - Shock 9 Concentration Risk (Industry)	Baseline (Top 3)	Medium (Top 5)	Severe (All)
Adjusted Net worth			
This scenarios is not applicable as JDFIPL deals in only Agriculture Farm equipments and Roadline equipments			

Stress Test Scenarios - Market Risk			
Market Risk - Shock 1 Forex Risk	Baseline (15%)	Medium (20%)	Severe (25%)

This scenarios is not applicable for JDFIPL being very minimal forex exposure

Market Risk - Shock 1 Interest Rate Risk	Baseline (2.5%)	Medium (3%)	Severe (4%)	
Interest cost as of Mar-22	18,250.95	18,250.95	18,250.95	Fin cost from Mar 22 Profit and loss account
Average borrowing cost Mar 22	6.41%	6.41%	6.41%	
Stressed Avg Interest rate	8.91%	9.41%	10.41%	
Stressed Interest cost	25,369.11	26,792.74	29,640.00	
Impact on gross income	7,118.16	8,541.79	11,389.05	
Adjusted Net worth	71,819.84	70,396.21	67,548.95	
Stressed CRAR under Shock 1	18.90%	18.52%	17.77%	

* JDFIPL gives loans at fixed rate and borrowings are also at fixed rate. Considered increase in average rate by the stress rates provided.

Market Risk - Shock Equity Price Risk	Baseline (40%)	Medium (50%)	Severe (60%)
This scenarios is not applicable for JDFIPL being not Equity Listed company			

Stress Test Scenarios -Liquidity Risk

Liquidity Risk	Baseline (10%)	Medium (30%)	Severe (50%)
Available credit lines March 22	189,000.00	189,000.00	189,000.00
Stressed availability	170,100.00	132,300.00	94,500.00
Amount payable in next 1 months (principal)	1,417.50	1,417.50	1,417.50
Additional funding required in 1 month	0	0	0

Stress Test Scenarios -Liquidity Risk 2

Liquidity Risk	Baseline (10%)	Medium (30%)	Severe (50%)
Available credit lines March 22	189,000.00	189,000.00	189,000.00
Stressed availability	170,100.00	132,300.00	94,500.00
Amount payable in next 3 months (principle)	19,842.50	19,842.50	19,842.50
Additional funding required in 3 months	0	0	0

Stress Test Scenarios -Liquidity Risk 3

Liquidity Risk	Baseline (10%)	Medium (30%)	Severe (50%)
Available credit lines March 22	189,000.00	189,000.00	189,000.00
Stressed availability	170,100.00	132,300.00	94,500.00
Amount payable in next 6 months (principle)	58,555.00	58,555.00	58,555.00
Additional funding required in 6 months	0	0	0

Stress Test Scenarios -Liquidity Risk 4

Liquidity Risk	Baseline (10%)	Medium (30%)	Severe (50%)
Available credit lines March 22	189,000.00	189,000.00	189,000.00
Stressed availability	170,100.00	132,300.00	94,500.00
Amount payable in next 12 months (principle)	140,217.50	140,217.50	140,217.50
Additional funding required in 12 months	0	7,917.50	45,717.50