ZF COMMERCIAL VEHICLE CONTROL SYSTEMS INDIA LTD

(Formerly known as WABCO India Limited)

RISK MANAGEMENT POLICY

(Pursuant to Provisions of Companies Act 2013 and SEBI Listing Regulations)

(As amended with effect from 24th May 2023)

Policy Information:

Policy reference number	Policy Owner	Policy Approver	Creation date
RM_PS_01_2022-23	M Muthulakshmi, Company Secretary	Board (as recommended by RMC)	2023-05-10

Version Control:

Version No.	Effective date	Summary and Reason for change
1	2023-05-24	To include cyber security and ESG related activities and as required by SEBI (LODR)

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1. Introduction

The Companies Act, 2013 and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, ("LODR - 2015") incorporated various provisions in relation to Risk Management policy, procedure and practices.

As per Regulation 17(9) of the SEBI LODR, 2015, the listed entity shall

(a) Lay down procedures to inform members of board of directors about risk assessment and minimization procedures.
(b) The board of directors shall be responsible for framing, implementing and monitoring the risk management plan for the listed entity.

As per Regulation 21(4) of the SEBI LODR, 2015, detailed Risk Management Policy shall include

- a framework for identification of internal and external risks specifically faced by the Company, in particular including financial, operational, sectoral, sustainability (particularly, Environment, Social and Governance related risks), information, cyber security risks or any other risk as may be determined by the Committee;
- Measures for risk mitigation including systems and processes for internal control of identified risks;
- Business continuity plan

As per Section 134(3)(n) of the Companies Act, 2013, the Directors' report to the shareholders is to include-

> "a statement indicating development and implementation of a risk management policy for the company including identification therein of elements of risk, if any, which in the opinion of the Board may threaten the existence of the company".

It has therefore become mandatory for the listed Companies to prepare a framework on risk management for assessment of risks and determine the responses to these risks so as to minimize their negative impact on the organization.

The Board may delegate to any other person or committee the responsibility of reviewing the effectiveness of the Risk Management system. This Policy shall be reviewed periodically, at least once in two years, including by considering the changing industry dynamics and evolving complexity. All changes to the Policy should be approved by the Board.

2 Definitions and Abbreviations

"Board" means the Board of Directors of the Company.

"CA 2013" or "Act" means the Companies Act, 2013 and rules made thereunder, as amended from time to time.

"SEBI LODR" means the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 as amended from time to time.

"Company" or "ZF" means ZF Commercial Vehicle Control Systems India Limited.

"Consequence" – Outcome of an event
"Event"- Occurrence or change of particular set of events. (can be a risk source)

"Enterprise Risk Management" - ERM is incorporated into all management activities and the organization's structure. It is a combination of all risk management activities within the Company performed and starting from strategy-setting, ERM describes the process of risk identification, risk assessment, risk response, risk aggregation and risk reporting.

"Impact" - Negative or positive deviation of profit of the Company compared to plan resulting from a particular event.

"Occurrence probability" - Denotes how many times a particular event may occur within a time period of 100 years. This is translated into percentage figures and provided in ranges (e.g. 25%-50%).

"Likelihood" – Chance of something happening

"Policy" means this Risk Management Policy as amended and approved by the Board from time to time.

"Risk" - potential future developments or events / uncertainties that may imply a negative (risk) or positive (chance/opportunity) deviation from operational or strategic objectives.

"Existential Risk" - An existential risk according to this Policy Statement is present if its impact may cause insolvency or the loss of more than 50% of the equity capital of the Company.

"Risk source" - element which can give raise to risk (alone or with other elements)

"Quantitative risk assessment" - Evaluation of risks whose impact can be quantified in monetary terms.

"Qualitative risk assessment" - Exceptional evaluation of risks whose impact cannot be quantified in monetary terms but stated in qualitative impact scales (e.g. low).

"Key Risk Indicator (KRI)" - Metrics used to provide an early signal of increasing risk exposures in various areas of the company. KRI give an early warning to identify potential events that may harm continuity or effectiveness of activities, processes or projects.

"Stakeholder" is a person or organization who is affected.

3. Purpose

The Company is committed to high standards of business conduct and good Risk Management to:

- Protect the company's assets;
- Achieve business continuity;
- Avoid major surprises related to the overall control environment;
- Safeguard shareholder investment; and
- Ensure compliance with applicable legal and regulatory requirements.

The purpose of this Policy is to set clear guidance and responsibilities for effective management of risks and associated opportunities to provide a sound decision basis for the Board Top Management and to comply with legal risk management requirements (Companies Act 2013 & SEBI (LODR) Requirements). This includes to ensure that the total risk exposure of the Company does not exceed its risk bearing capacity. To achieve this, all risks that exceed certain limits & threatening risks shall be identified and evaluated at the earliest possible stage, adequately treated and reported by Risk Owners to the Risk Management Committee.

4. Scope

This Policy Statement applies to all employees of the Company and all of its directly controlled subsidiaries.

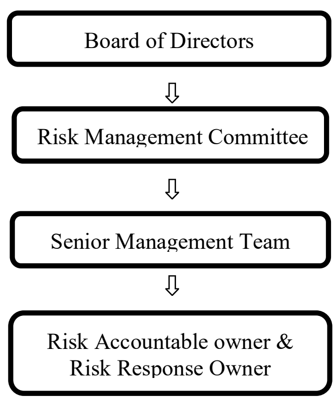
In the event of any conflict between this policy and the SEBI regulations & the Companies Act, the provisions of the SEBI regulations & the Companies Act shall control and be binding.

5. Responsibilities

The Company's Board of Directors, the Risk Management Committee & Senior Management team comprising risk owners are responsible for implementing this policy and an appropriate risk management approach, to identify, evaluate and treat risks that can affect the objectives of the Company.

Every risk accountable owner within the Company and scope of this internal regulation must take all actions necessary to ensure that all his/her employees who are affected by this internal regulation are familiar with its content and their responsibilities.

Hereinafter, the roles and responsibilities of the key stakeholders within the Enterprise Risk Management (ERM) process are briefly described in order to enable compliance with external and internal requirements, clear accountability in decision-making processes and an adequate performance of any ERM activities.



Board of Directors ("Board"): The Board of the Company shall be responsible for framing, implementing and monitoring the effectiveness of risk management system of the Company and review & update about the development and implementation of a risk management policy for the company including identification therein of elements of risk, if any, which in the opinion of the Board may threaten the existence of the company. Board of the Company monitors Risk Management Committee decisions and triggering further (risk-based) analyses and activities.

Risk Management Committee (RMC): The Board has constituted the "Risk Management Committee" and it is in line with the requirements of the SEBI LODR. This Policy and the Terms of Reference of Risk Management Committee as specified in the listing regulation are integral to the functioning of the Risk Management Committee and are to be read together.

RMC is responsible for formulating detailed RM Policy and to ensure that appropriate methodology, processes and systems are in place to monitor and evaluate risks associated with the Business of the Company and also evaluating the adequacy of risk management systems.

The Board has authority to reconstitute the Risk Management Committee from time to time as it deems appropriate

Senior Management Team: Senior Management is responsible for ensuring effective risk management throughout the Company and shall serve as an interface between the RMC stakeholders who perform operational and strategical risk management.

It is accountable for the risk reporting process and validation of risk reports and for enabling ad hoc reporting of emerging significant risks. This includes the responsibility to prepare and provide information on the current risk situation incl. decision-oriented risk-based analyses (upon need) to the Risk Committee and Board, respectively.

Managing Director (Board member responsible for Risk Management) leads the senior management team and it consists of permanent members representing certain risk areas and additional participants as deemed necessary. The meeting frequency is at least quarterly. Ad hoc meetings shall be conducted as deemed necessary.

Risk accountable owner: for every risk a distinct Risk Owner must be appointed by name and function. The Risk Owner is responsible for the effective management of allocated risks. This includes regular assessment and active reporting of risks to the Senior Management Team. This applies for risks exceeding the thresholds defined in the respective organization and major changes thereof.

The Risk Owner must determine adequate risk response measures, ensure sufficient resources and monitor the overall mitigation process. The Risk Owner can delegate operational implementation responsibility to a Risk Response Owner. However, the responsibility for effective management of the respective risk remains with the Risk Owner.

6. Enterprise Risk Management Process

The ERM Process must support the management of the Company to make decisions on a sound basis. The risk management process must be continually improved by senior management team and subject to regular independent reviews and/or audits. The process comprises the following main steps:

- Risk Identification & Analysis
- Risk Assessment
- Risk Response
- Risk Monitoring & Reporting

6.1 Risk Identification & Analysis

All risks along the value chain of the Company, particularly those that exceed the defined thresholds, shall be identified at an early stage, evaluated and adequately treated. Risk identification is an ongoing process to be performed by all levels of management under responsibility of senior management of the Company. The risk identification includes operational risks (quarterly process, if deemed necessary ad hoc), strategic risks (annual process, unless ad hoc), Compliance & Governance Risks, Financial Risks, IT & Sustainability Risks . Identified risks must be allocated to a Risk Owner. A root cause analysis shall be done in the course of risk identification.

6.2 Risk Assessment

Identified risks shall be assessed and evaluated by the Risk Owner. Risks must be assessed regarding impact, occurrence probability & likelihood and be conducted systematically, iteratively and collaboratively. Senior Management may request for ad hoc risk assessments at any time.

Occurrence probability & likelihood and impact must be assessed based on business environment and comprises 3 years for operational risks and a longer time period for strategic risks, as per the given table 1 & 2 and more elaborately prescribed in ERM Framework.

Risks should be evaluated in a quantitative way. Every risk with a quantified impact as per Risk assessment and in the view of RMC must be verified and alternatively, risks can be assessed in a qualitative way. Qualitative risk assessments are exceptions that must be formally justified by the risk owner.

Risks which are caused by the same underlying reason and hence "belong together" must be considered, assessed and managed in a holistic manner and must not be split up (e.g. in order to remain beneath the currently applicable reporting threshold of the Company). As several small risks can, in combination, become a big risk for the Company, risk aggregation must be conducted. Major responsibility for aggregating risks within risk categories lies with the Risk Category Owners.

Interdependencies between risks must be considered as far as possible. In this course, close alignment must be ensured between functions, to avoid redundant activities or double counting of risks.

Key risk indicators (KRI) can help assessing the risk situation on an ongoing basis. The definition and maintenance of KRI shall be taken into account based on the maturity of the underlying processes related to the risk.

6.3. Risk Response

The Risk Owner is responsible for the determination and controlling of adequate risk responses.

There are four different risk response strategies:
- Risk Reduction: Implementing measures to reduce occurrence probability or/and impact
- Risk Acceptance: Retaining the (residual) risk and not conducting further risk mitigating activities
- Risk Transfer: Transferring the risk to an external instance (e. g. partner, service provider, insurance)
- Risk Avoidance: Stopping the risk associated activity so that the risk no longer exists for th Company

A risk response may comprise several of these strategies.

Senior Management with help of Internal Audit to perform sample checks of the effectiveness and efficiency of risk responses and risk acceptance has to be adequately formalized taking criticality level of the underlying risk into consideration.

6.4. Risk Monitoring & Reporting

Risk Owners are responsible for monitoring the risk development and timely reporting of risks. The purpose of monitoring and review is to assure and improve the quality and effectiveness of process design, implementation and outcomes. Risk owners must conduct periodic review of the risk management process and its outcomes as part of the risk management process with the following objectives:

- To ensure that the risks are being managed in the manner approved by senior management and the management team.

- To evaluate whether the agreed-upon responses are efficient and to implement action plans if necessary.
- To determine whether the risk catalogue anticipates and reflects changes in the business circumstances and new economic conditions.
- Additionally, the senior management must identify whether any risk has materialized and wherever applicable, the measures implemented to mitigate it.

The risk management process and its outcomes should be documented and reported through appropriate mechanisms by the risk owners.

Risks must be reported as long as they are active or until they are fully settled. A risk is (still) active when it lies above the reporting thresholds and has not been finalized yet. A risk is settled if the risk has occurred, been averted, or the risk is reduced below the Reporting thresholds.

Risk accountable owners shall forward their risk reports on a quarterly basis or immediately to Senior Management and apart from the regular reporting cycles, updated risk reports can be requested by the Management prior to the Meetings of RMC and Board.

7. Business Continuity

Each manufacturing unit of the Company has a disaster management plan which inter alia ensures compliance with applicable laws and aims to protect the assets and people of the Company and ensures continuity of its key business processes after a disaster i.e. an unexpected business interruption caused by natural or man-made events.

8 Amendments

This Policy may be amended and appropriate modifications will be made to the procedures, from time to time, by the Board of the Company on identification of changes in the organization and the business environment in which it operates.

Monitoring activities should provide assurance that there are appropriate controls in place and that the procedures are understood and followed.