

## RISK MANAGEMENT POLICY

### **Overview**

Balchem Corporation recognizes that risk is inherent to any business activity and that managing risk effectively is critical to the immediate and future success of the Company. The exposure to these risks is managed through the practice of Risk Management.

The Company's risk management program provides a framework to identify, assess and manage potential risks and opportunities. It also enables our leadership team to consider these risks when making critical business decisions. The program provides enterprise level risk guidelines encompassing key risk categories across the organization such as business risk, technology risk, operational risk, reputational risk and strategic risks. The objective of our risk management program is to develop a holistic, portfolio view of the most significant risks we face as an enterprise and enhance the Company's risk awareness so that decisions that balance value and risk are made after careful consideration and are aligned with the Company's long term strategy

### **Roles and Responsibilities**

The Chief Executive Officer and Chairman of the Board is the Company's risk management policy owner and serves as the Chief Risk Officer.

The Company's risk management activities are overseen by the Audit Committee of the Board of Directors. The Audit Committee assists the Board of Directors in carrying out its oversight responsibilities relating to the Company's financial reporting, internal controls and financial and risk management policies.

Management is responsible for establishing effective internal controls. The system of internal controls incorporates risk management. Key members of the management team have been identified as the Company's risk owners. Risk owners are responsible for identifying and assessing existing risks and mitigation strategies, as well as identifying new or emerging risks and the corresponding strategies to minimize risk to the Company.

The Internal Audit Director facilitates the risk management program, which includes maintaining the Company's consolidated risk register and providing regular program updates to the Senior Management team and the Audit Committee of the Board of Directors.

## **Risk Management Process**

Balchem's risk management system is dynamic and is designed to adapt to the Company's developments as well as changes in risk profile over time. The Company manages identified risks through its Enterprise Risk Management (ERM) program, which includes a consolidated risk register, which is used as a tool to assess identified risks at the enterprise level.

The risk register should be organized by key risk category. Each risk entry should contain the risk name, description, risk owner, inherent risk rating, mitigating activities, controls and/or action plans to further reduce risk, action plan owner, action plan due date and a residual risk rating which takes only existing and completed mitigating activities into consideration. Future risk mitigation action plans help reduce residual risk only when completed.

Risk identification is to be performed by risk owners at the strategic functional level and at the enterprise level. The Company's Internal Audit director shall meet with risk owners and the Chief Risk Officer, on a regular basis, to ensure that the ERM program captures all significant risks facing the various functions and overall enterprise. The Internal Audit director shall also coordinate and maintain the ERM consolidated risk register and ensure that it is current at all times. For this purpose, frequent and regular interactions with risk owners is required to identify new or emerging risks that are considered key. Risk owners are responsible for identifying emerging or new risk(s) and updating their existing risks in their risk register for the department and forwards to the Internal Audit Director. The Internal Audit Director is responsible for ensuring the consolidated ERM register is updated on a continuous basis.

As risks constantly emerge and evolve, it is important to ensure that ERM is an ongoing process and not a project that has a beginning and an end. While the initial launch of an ERM process might require aspects of project management, the benefits of ERM are only realized when management thinks of ERM as a process that must be active and alive, with ongoing updates and improvements.

The diagram below illustrates the core elements of Balchem's ERM process.



The circular, clockwise flow of the diagram reinforces the ongoing nature of ERM which is a constant journey to regularly identify, assess, respond to, and monitor risks related to the organization's core business model.

### **Cadence and Reporting**

The Company's management team executes formal reviews and updates of the top risks and corresponding mitigation strategies on a regular basis, at least semi-annually. Annually, management will provide the Audit Committee with an update regarding the Company's ERM program, including top risks and the status of related mitigation strategies.