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A. BACKGROUND

Benguet Corporation (BC) established the Risk Management Charter in 2011 because it believes that risks need to be identified, assessed, measured and addressed to manage potential issues that can prevent the Company from achieving success of its business goals and objectives.

Beyond compliance and good business practices, BC is committed to continually improve the way risks are managed across the enterprise, to proactively adapt to the changing landscape of the mining and related industries it is a part of.

B. OBJECTIVE

1. To support the Board of Directors in its responsibilities to maintain an adequate and effective enterprise risk management in the conduct of its business.
2. To outline Management's commitment in attaining a risk-responsive corporate culture by establishing a robust risk management framework and governance structure
3. To enhance and optimize decision-making by the Management and Board with timely and comprehensive information in:
   a. Minimizing threats and reducing operational surprises or losses;
   b. Seizing and maximizing business opportunities,
   c. Improving efficiency and effectiveness of operations and processes, and;
   d. Sustaining growth in corporate performance, thereby increasing stakeholders' value.

C. SCOPE

This policy shall cover all business units within Benguet Corporation including its subsidiaries and affiliates.

D. DEFINITION OF TERM

1. **Compliance risk** - is the risk of potential legal or regulatory sanctions, fines and penalties, financial loss or damage to reputation and franchise value arising from failure to comply with laws, regulations, contractual arrangements, standards of conduct, internal policies and other legally binding agreements and requirements.
2. **Controls** - consist of systems, policies, procedures and instructions that exist or to be installed to address or mitigate the risk identified.
3. **Enterprise risk management** - is a risk management process applied in business strategy setting and planning activities across the organization. It is approved by the Top Management and

Board to provide an overall framework in addressing the broad spectrum of risks it faces.

4. **Environmental risk** - the potential loss resulting from adverse effects on living organisms and environment by effluents, emissions, wastes, resource depletion, etc., arising out of the Company's activities. This could refer to both internal and external requirements.
5. **ERM Team/Office** - a group tasked to help the organization set-up and manage risks and risk processes and activities on an enterprise-wide level, with the support of the Management
6. **Financial risk** - is the potential loss from the Company's inadequate cash flow to cover their financial needs **(liquidity risk)** and obligations such as defaulting on loans/debts **(credit risk)** when they fall due, and potential loss caused by adverse changes in financial markets indicators such as interest rates, foreign exchange rates, equity and commodity prices and their levels of volatility **(market risk)**.
7. **Group risk** - is the potential loss resulting from risks occurring in other parts of the Group, as well as risks arising from its own activities that may impact other Group companies.
8. **Inherent risk** - is the risk that exists without considering any control or mitigating effort. It represents the risk in its pure or original state.
9. **Likelihood** - the probability of a risk occurring or happening. This is usually represented by criteria designating scores for period and percentage probability.
10. **Operational risk** - is the potential loss resulting from inadequate or failed internal processes, people, and systems or from external events. This includes those arising from business operations, fraud, information technology, human resources, and external forces such as political, regulatory, competition and damaging disasters, terrorism, etc.
11. **Process owner** – is an officer who has the ultimate responsibility and accountability for the performance of a unit/department's objectives measured by Key Performance Indicators, and has the authority and ability to make necessary changes.
12. **Residual risk** - is the risk that remains after considering existing controls that could mitigate inherent risk.
13. **Risk** - is the probability of an event or incident from occurring that could have a negative or positive impact on the achievement of the Company's business objectives or goals. Risk is measured in terms of consequences/impact and likelihood/probability.
14. **Risk and control assessment** - involves analysis of identified risk by evaluating the likelihood of its occurrence, the severity of its impact or consequences, and effectiveness of any controls existing.
15. **Risk appetite** - refers to the level of risk that the Company is willing to take or accept in pursuing its business objectives. This is expressed broadly and in aggregate, as determined by the Management and approved by the Board. It serves as a key guide in allocating the

resources of an organization in accordance with its strategic planning.

16. **Risk coordinator** – is a designated/assigned person in a unit/department who takes a proactive role of integrating and promoting the risk management function within their area and among colleagues, and fulfills the requirements needed.
17. **Risk exposure level** – the level of risk criteria used for residual risk score determined after assessing the likelihood and impact severity of a risk
18. **Risk identification** - *is the process of identifying key risks that hinders the achievement of* Company or business goals/objectives resulting to unexpected losses or regulatory and reputation concerns, or opportunities that the Company sees as potential profit contributor.
19. **Risk management** - is a logical and systematic method of identifying, assessing, mitigating and monitoring risks that enables the Company to maximize profitability based on its risk appetite. It is a process of continuous improvement that is best embedded into existing practices and business processes. associated with activities, functions and/or processes
20. **Risk matrix** - provides a graphic illustration of risk, usually color and number-coded, after assessing its likelihood and impact total scores
21. **Risk monitoring** - refers to oversight and continuous review, improvement and communication of the status of risk factors, risk exposures and mitigation effectiveness, as well as providing management and the Board with assurance that established processes and controls are functioning properly.
22. **Risk score/rating** - the value of a risk after assessing its likelihood and impact severity. It could refer to inherent risk score when existing mitigating controls are not yet considered, or residual risk score when mitigating controls are imputed.
23. **Risk tolerance** - refers to the level of risk that the Company is willing to take on per individual risk basis at business or lower unit level. It is usually expressed in specific performance measures linked to the Company's objectives. This is a narrower level than Risk Appetite.
24. **Risk treatment** - pertains to Company's tolerance of and eventual action on the identified risks by deciding whether to avoid, reduce, share or accept them. Management considers both cost and benefit, and then selects the options that optimizes value.
25. **Severity** - the level of impact on the Company if the risk occurs. This is usually represented by criteria designating scores for impacts on financial, regulatory and legal, operations, employees, environment and community, and image and reputation.
26. **Strategic risk** - is the risk of potential loss arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes as a result of completion and innovations, or capital unavailability due to continued losses.

E. CONTEXT OF ENTERPRISE RISK MANAGEMENT (ERM)

ERM Principles and BC Philosophy

BC Risk management principles follow the **PACED** acronym, as follows:

PROPORTIONATE	Risk management activities of the organization must be proportionate to the level of risk it faces
ALIGNED	ERM activities need to be aligned with the other business activities in the organization
COMPREHENSIVE	ERM approach and process must be easily understandable and executable, systematic and structured
EMBEDDED	Risk management activities need to be embedded within the business processes and all its components such as culture, employee behavior and position levels
DYNAMIC	Risk management activities must be responsive to emerging and changing risks to keep up with its fast-paced surroundings

Aligned with the ERM principles above, BC believes that:

1. **Nature of Risk.** Every entity faces uncertainties in its pursuit to meet business objectives. It is an integral part of doing business which is inherent in all endeavors. The challenge for Top Management and the Board is to know how much uncertainty is tolerable or acceptable as it strives to grow shareholders' value.
2. **ERM as Enabler.** ERM enables Management to effectively deal with uncertainty and associated risk and opportunity, to maximize value by:
    a. Setting objectives that strike an optimal balance between growth and related risks;
    b. Allocating resources effectively to ensure achievement of its objectives, in line with its vision and mission, within the approved risk appetite;
    c. Aligning strategies, structures, policies and processes to ensure that opportunities and threats are effectively identified, analyzed, mitigated, reported and monitored, and;
    d. Arriving at informed decisions that lead to internal control environment, greater level of accountability and transparency, maximized returns to the business and shareholders, and value-added services to customers.
3. **Risk Culture.** Top Management and the Board are committed to fostering a corporate culture

which promotes proactive risk management by providing a structure that enforces ERM processes, rewards good performances and constantly improves and adopt best practices.

Benefits of ERM

4. **Well-Developed System** that promotes an enterprise-wide approach, instead of individually in silos, encompassing all disciplines working together to identify, assess and mitigate risk.
5. **Alignment** of business strategy, objectives, culture, process at strategic, tactical and operational levels leading to informed decisions and sound business practice.
6. **Improved corporate performance** resulting from:
    a. Better revenues, or reduced operating losses
    b. Greater reliability and efficiency
    c. Greater level of accountability and transparency
    d. Value-added to customers

Stakeholders

7. BC considers its stakeholders or interested parties who can affect, be affected or perceived to be affected by risk management. These are composed of, but not limited to the following:

Internal	External
a) Shareholders b) Board and Management Committees c) Employees	a) Customers b) Government Units c) Contractors and suppliers d) Non-governmental units e) Outsourced parties f) Business and industry associates g) Academe

F. ERM FRAMEWORK

1. **ERM Framework** is the totality of structures, stakeholders, methods and processes that defines the manner of managing all internal and external sources of risk that could have a material impact on BC's operations and business value.
2. **Governance** of the risk management framework is established by maintaining effective relationship and communication between ERM teams and Senior Management of BC. The

following are key strategic components of the BC ERM framework:

a. Context of ERM (Section E above)

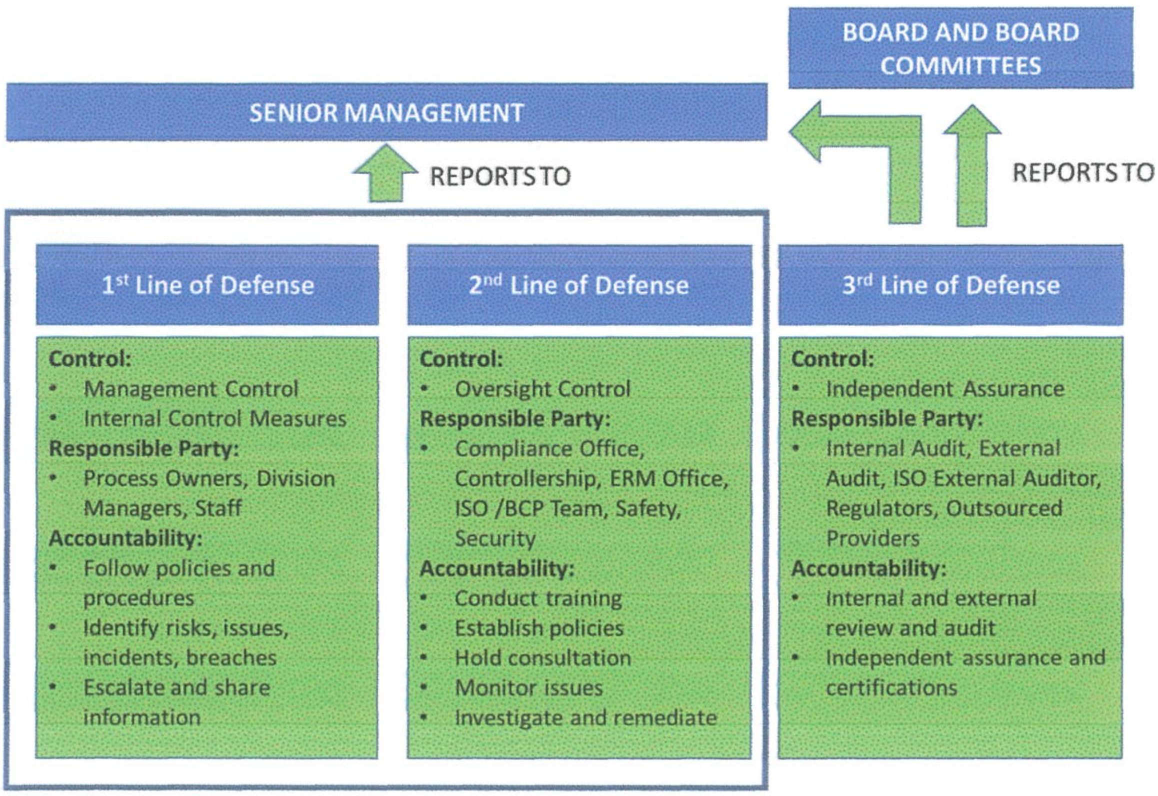
b. Governance and reporting structure

c. ERM process and approach

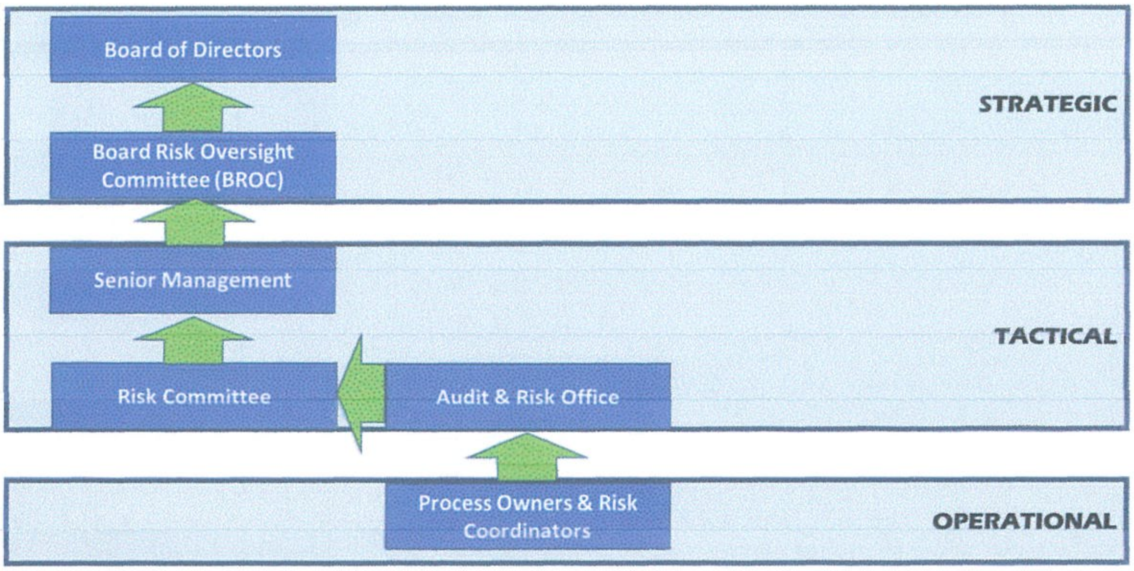
d. Framework review

Governance and Reporting Structure

3. All internal stakeholders within the BC group value chain are responsible for the management of risk in accordance with the BC ERM philosophy and principles. BC adopts the *Three Line of Defense Model* as a guide in emphasizing everyone's role in in **risk control** within the organization including responsible parties and their accountabilities, as shown below:



4. In relation to the above model, below is the flow of how **risks are managed** internally:



5. At **Operational** level, risk management activities of Process Owners and their Risk Coordinators are adopted in their day-to-day operations, such as:
   a. Maintaining effective internal controls measures as required in the operations;
   b. Ensuring risk management requirements are applied in their processes, including identifying and reporting of risk events and potential positive and negative risks;
   c. Encouraging expected ERM behavior and embedding them in their daily activities by using risks tools such as Key Performance Indicators (KPIs) and Key Risk Indicators (KRIs); and
   d. Sharing information for best practices.
6. At **Tactical** level, the ERM activities of Audit and Risk Office and Management Committees on risk are carried out, as follows:
   a. Creating ERM Office and its functions and charter, including designation of Chief Risk Officer;
   b. Forming of Committees for governance with clear charters;
   c. Prepare the ERM framework and applying risk management principles consistently including analyzing and reporting risk by highlighting the top/high ones, and conducting related training; and
   d. Initiating assessment of the whole ERM program.
7. At **Strategic** level, risk management activities are performed by the Board and Top

Management, such as:

a. Approving establishment of ERM governance and reporting structure, approach and supporting resources required;

b. Overseeing top risks;

c. Formulating strategies and policies for managing risks;

d. Establishing adequate systems and controls to ensure that overall risks remain within acceptable levels; and

e. Reviewing the framework as needed.

ERM Process/Approach

8. BC follows the approach shown below in ERM:

Objective Setting

9. Objective setting consists of establishing business goals at strategic level aligned with Company's mission and vision.

10. Use of Balance Scorecard perspectives comprising of Customer, Internal Processes, Learning

and Growth and Financials targets shall be used to form performance objectives and measurements as basis for operations, reporting and compliance.

Risk Identification

11. Risk identification involves the identification of key risks that:

    a. Could prevent the achievement of business goals, resulting in unexpected losses, or other serious concerns; or

    b. Could potentially create opportunities that positively impact the achievement of business objectives.

12. Use of analytical models such as SWOT and Gap analysis, brainstorming, assessment of internal and external change factors, emergent risks analysis, are useful aides in the identification.

13. Risk are categorized and sub-categorized (see Annex 1 for sub-categories listing with risk samples) for standard identification as follows:

RISK	DESCRIPTION
Compliance risk	is the risk of potential legal or regulatory sanctions, fines and penalties, financial loss or damage to reputation and franchise value arising from failure to comply with laws, regulations, contractual arrangements, standards of conduct, internal policies and other legally binding agreements and requirements.
Environmental risk	the potential loss resulting from adverse effects on living organisms and environment by effluents, emissions, wastes, resource depletion, etc., arising out of the Company's activities. This could refer to both internal and external requirements.
Financial risk	is the potential loss from the Company's inadequate cash flow to cover their financial needs (liquidity risk) and obligations such as defaulting on loans/debts (credit risk) when they fall due, and potential loss caused by adverse changes in financial markets indicators such as interest rates, foreign exchange rates, equity and commodity prices and their levels of volatility (market risk).
Group risk	is the potential loss resulting from risks occurring in other parts of the Group, as well as risks arising from its own activities that may impact other Group companies.
Operational risk	is the potential loss resulting from inadequate or failed internal processes, people, and systems or from external events. This includes those arising from business operations, fraud, information technology, human resources, and external forces such as political, regulatory, competition and damaging disasters, terrorism, etc.
Strategic risk	is the risk of potential loss arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes as a result of completion and innovations, or capital unavailability due to continued losses.

14. In identifying the risk, describe the specific risk event concisely, determine the potential root cause of the risk, and state the potential impact if the risk shall occur. A Risk Self-Assessment (see Annex 2) template is designed to help accomplish the risk management process.

Risk Assessment

15. Risk assessment involves analysis of risk events in terms of:

    a. The likelihood of its occurrence

    b. The severity of its impact

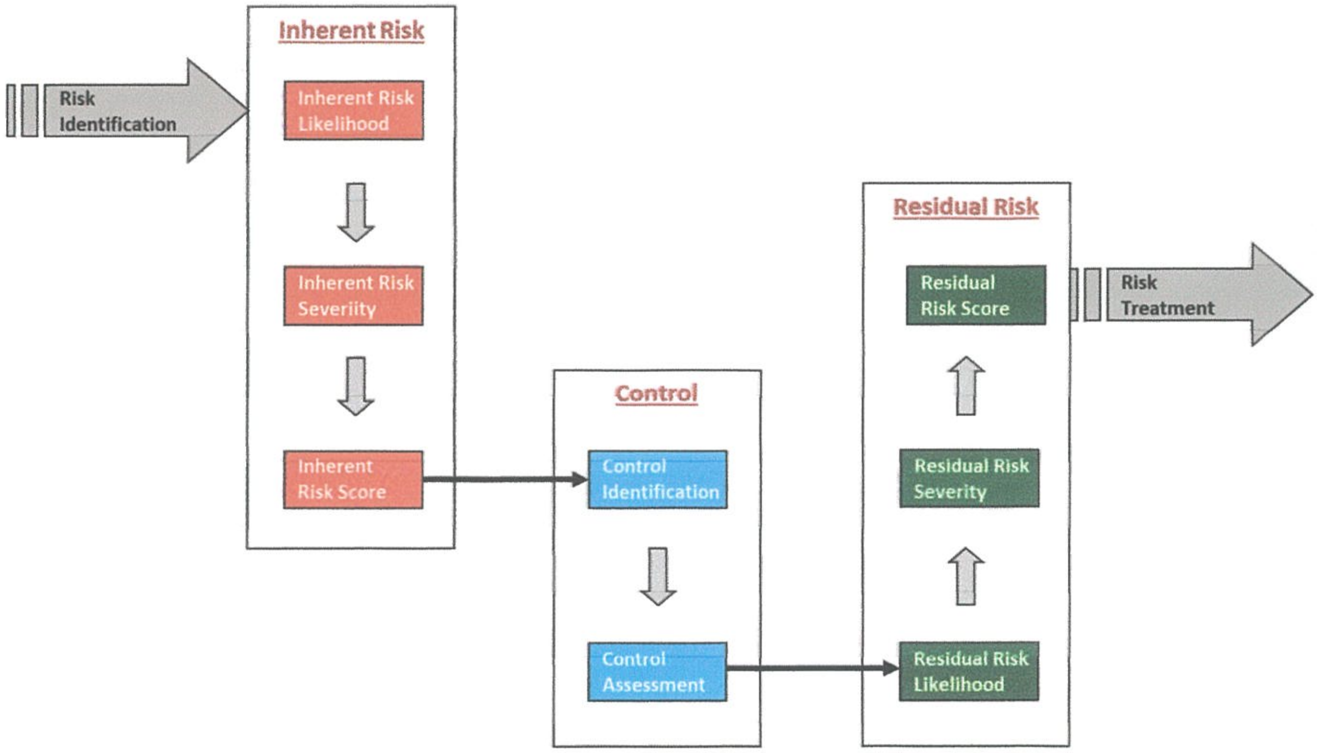
16. Risk assessment entails 3 steps:

    a. Assessing the Likelihood and Severity of inherent risk and subsequent computation of its Risk Score. Inherent risk is the risk that exists without considering any control or mitigating effort. It represents the risk in its pure or original state.

    b. Assessing the effectiveness of existing controls applicable to the inherent risk

    c. Assessing the Likelihood and Severity of residual risk and subsequent computation of its Risk Score. Residual risk is the risk that remains after considering existing controls that could mitigate inherent risk.

17. Below is the diagram of this assessment flow:



18. Likelihood score is based on the frequency of occurrence as follows:

LIKELIHOOD (FREQUENCY of OCCURRENCE)			
Score		Period	% Probability
1	**Negligible**	100 year event	<1%
2	**Extremely Unlikely**	Years to Decades	>1%
3	**Very Likely**	Months to Years	>20%
4	**Feasible**	Weeks to Months	>50%
5	**Likely**	Days to Weeks	99%

19. Severity of impact score is based on 6 factors – Financial, Regulatory and Legal, Operations, Employees, Environment and Community, and Image and Reputation. Below are the descriptions:

SEVERITY (of IMPACT)						
Score	**Financial**	**Regulatory & Legal**	**Operations**	**Employees**	**Environment & Community**	**Image & Reputation**
1 **Minor**	0% to 1% of budgeted EBITA	Minor legal issues, non-compliances and breaches of regulation.	a. Minor disruption on the organization and operations b. Impact can be readily absorbed under normal operating conditions and will not affect achievement of objectives	Negligible or isolated employee dissatisfaction.	a. Medium-term effect on environment/community b. Required to inform environmental agencies c. First aid case d. Exposure to minor health risk	a. Local press reporting b. Disciplinary action may be taken
2 **Containable**	1% to 3% of budgeted EBITA	Breach of regulation with investigation or report to authority with prosecution and/or moderate fine possible.	a. Minor disruption on the organization b. Impact can be readily absorbed under normal operating conditions and will not affect achievement of objectives	a. General employee morale and attitude problems b. Increase in employee turnover.	a. Major spill or release leading to off-site impact b. Medium term recovery. c. High potential for complaints from interested parties. d. Medical treatment case e. Exposure to major health risk	a. Local press reporting b. Managers may be asked to leave c. Government may be interested
3 **Significant**	3% to 5% of budgeted EBITA	a. Major breach of regulation with punitive fine. b. Significant litigation involving many weeks of Management time.	Impact can be readily absorbed under normal operating conditions	a. Poor reputation as employer. b. Widespread employee attitude problems. c. High employee turnover.	a. Prolonged environmental impact. b. High-profile community concerns requiring significant remediation measures and Management attention c. Lost time injury d. Reversible impact on health	a. National press reporting b. Government caution c. Pressure on executives to leave. d. Implications on operating licence.
4 **Serious**	5% to 19% of budgeted EBITA	a. Major litigation b. Investigation by regulatory body resulting in long-term interruption to operations c. Possibility of custodial sentence d. Medium-term closure of operations by government	Impact can be managed under supported operating conditions, but Management intervention is required	a. Senior managers or experienced employees leave. b. High turnover of experienced employees. c. Company not perceived as an employer of choice.	a. Irreversible long-term environmental damage. b. Community outrage and potential for large-scale class action. c. Single fatality d. Irreversible impact on health	a. Prominent negative local and International press reporting over many days b. Non-public reprimand by government c. Executives and directors revamped and restructured d. Operating licence is threatened
5 **Catastrophic**	= or > 10% of budgeted EBITA	a. Major litigation or prosecution with damages plus significant costs. b. Custodial sentence for Company Executive c. Long term closure of operations by authorities.	a. Event will have a prolonged negative impact and extensive consequences. B. Can lead to the collapse of the Company and it not achieving its objectives c. Possible of Company not being able to operate as a going concern	A large number of senior managers or experienced employees leave the company	a. rreversible long term environmental and species damage b. Large-scale prolonged class action c. Multiple fatalities d. Impact on health ultimately fatal	a. Prolonged local and international condemnation b. Executives and directors revamped and restructured c. Public reprimand from Government d. Loses mining licence and permits for a prolonged period

20. Each risk identified is scored based on the likelihood score and severity score. The final risk score is determined by multiplying the likelihood score with the severity score.

21. Assessment of existing controls to mitigate inherent risk is based on the following rating:

Control Rating		Description	Effect on Risk
1	Effective	a) Control is well-established, relevant and deemed *reliable in mitigating the risk of loss.* b) The control is appropriately designed and executed as intended.	1) Risks are addressed by the controls in place. *Controls are well-designed.* 2) Nothing more to be done except review and monitor the existing controls
2	Partially Effective	a) There is only partial fulfillment or adherence with the control as stated (i.e., the control is not performed with full effectiveness, or performed inconsistently or with irregular frequency). b) Control design needs some improvement (may not be fully effective in mitigating risk) or the design might be manual (where an automated control would be more effective).	1) Most controls are designed correctly and are in place and effective in partly addressing the risks. 2) Some of the controls are not correctly designed Some need more work to be done to improve operating effectiveness.
3	Ineffective	a) Control does not mitigate the risk that is inherent in the key business process. b) The control either does not exist. c) The control is in place, but does not mitigate the risk for which it is designed (the control design is inadequate). d) The control is in place but performed improperly or not at all.	1) Significant control gaps with virtually no credible control. Risks are not treated effectively due to absence of controls or the controls do not operate effectively.

22. The Risk Exposure Level is determined based on the final risk score of residual risk as plotted in the Risk Matrix shown below. Risk treatment shall proceed based on this result.

Severity						
	5	5	10	15	20	25
	4	4	8	12	16	20
	3	3	6	9	12	15
	2	2	4	6	8	10
	1	1	2	3	4	5
		1	2	3	4	5
		Likelihood				

RESIDUAL RISK SCORE	RISK EXPOSURE LEVEL
20, 25	Extreme
12, 15, 16	High
6, 8, 9, 10	Moderate
1, 2, 3, 4, 5	Low

Risk Treatment

23. Risk Treatment involves deciding whether to retain or mitigate a risk, considering the company's risk appetite, and in case of risk mitigation, finding or designing the best risk mitigation strategies.

24. Risk Treatment comprises of 6 steps as follows:

   a. Determine the Risk Appetite as approved by Management and Board

   b. Evaluate the overall Control Level

   c. Decide on the Response and Action to take

d. Define the Risk Owner to execute and Escalation Party to approve

e. Determine the risk treatment resources needed and estimating any cost involved

f. Determine the monitoring frequency

25. Below is the BC Risk Treatment standards:

RISK EXPOSURE LEVEL	RISK TREATMENT					
	Risk Appetite	Control Level	Risk Response	Risk Action	Escalation and Risk Ownership	Monitoring
Extreme	Intolerable/ Unacceptable	Inadequate and Ineffective	Immediate action required	Avoid; Eliminate/ Terminate; Reject; Transfer	Board	Monthly
High	Generally intolerable	Inadequate and Ineffective. With good ones	Urgent action required	Share; Transfer; Treat; Avoid; Reject	Risk Management Committee	Quarterly
Moderate	May become intolerable without action	Inadequate. With effective ones	Significant action required	Reduce; Control	Senior Management Committee	Semi-Annually
Low	Generally tolerable/ Acceptable	Adequate and effective	Action may be required	Accept; Retain	Middle Management	Annually

26. Risks need to be prioritized by focusing on the more risky concerns such as the High and Extreme exposures. This shall allow the Management to allocate resources efficiently and address the more pressing risks faced by the Company effectively.

27. Management considers costs and benefits, and selects a response that brings expected likelihood and impact within the desired risk tolerance. Actions need to be specific, measurable, attainable, result-focused and time-bounded (SMART) for every risk identified

Risk Monitoring and Reporting

28. Risk Monitoring involves continuously monitoring the status of risk factors, risk exposures and mitigation effectiveness, as well as providing Management and the Board with assurance that established processes and controls are functioning properly. It also facilitates proactive identification and assessment of new and/or unexpected risks.

29. Use of analytical tools and technology for monitoring are encouraged to ensure timely and relevant analysis and delivery of risk information.

30. Risk Reporting shall identify, capture and communicate information in a form and timeframe that enable people to carry out responsibilities. Communicate effectively flowing down, across and up the organization using standard reports and templates.

31. Audit and Risk Office shall facilitate periodic conduct of meeting for the Management, Board Risk Oversight Committee, the Board and other stakeholders requiring risk information and data.

Review and Continuous Improvement

32. Over time, risk profiles, treatment plans and controls shall change and become ineffective and irrelevant. Management needs to continually review the effective functioning of the risk management process.

33. The following mechanisms shall ensure continuous dynamism of ERM in BC:

    a. Continuous monitoring of ERM process, structure and policies such criteria for measuring and reporting risk, implementation of risk response and action plans, effectiveness of controls, communication flow and others.

    b. Constant training need analysis

    c. Periodic feedback and survey engagement, and self-assessment

    d. Internal audit review of the ERM process.

34. Through the constant monitoring and oversight of the ERM processes and engagement of all stakeholders (through forum and meeting), improvement opportunities shall be identified and subsequently implemented.

G. EFFECTIVITY AND UPDATING

This Enterprise Risk Management Framework shall take effect on the date it is approved and shall supersede all other policies previously issued. It shall be reviewed and updated as needed, as a result of changes in the laws, rules and regulations pertaining to the subject. Any revision shall be approved by the President, or his designated appointee, the Board Risk Oversight Committee and the Board based on recommendations of the Risk Management Officer.

H. CHANGE HISTORY

Version No.	Date	Change		Author
		Policy	Particular	
1	6/24/19	Enterprise Risk Management Framework	New document	DA Tongco