Sports Club Company

Risk Management Policy

Version: 1/2024

This policy was approved by the Board of Directors of Sports Club Company, in its meeting held on 28/07/2024.

DISCLAIMER This English version of this document is a translation of the original Arabic document and has been made for the purpose of informing non-Arabic speakers of the said document. In case of any discrepancy or misinterpretation of any clause or article, the original Arabic document shall prevail.

Table of Contents

1. Definitions:

Subject to the definitions provided in the Glossary of Defined Terms used in the Implementing Regulations and Rules of the Capital Market Authority (CMA), Corporate Governance Regulations, and other regulations issued by the CMA, the following terms and expressions shall have the meaning they bear as follows unless the contrary intention appears:

- **Company:** Sports Club Company.
- **Board or Board of Directors:** The Board of Directors of the Company.
- **Authority:** The Capital Market Authority (CMA).
- **Tadawul or Market:** The Saudi Stock Exchange (Tadawul).
- **Companies Law:** The Companies Law issued by Royal Decree No. (M/132) dated 1/12/1443H (corresponding to 30/6/2022G), as amended.
- **Corporate Governance Regulations:** The Corporate Governance Regulations issued by the Authority's Board pursuant to Resolution No. 8-16-2017, dated 16/5/1438H (corresponding to 13/2/2017G), as amended by Resolution No. 8-5-2023, dated 25/6/1444H (corresponding to 18/1/2023G), as amended.
- **Kingdom**: The Kingdom of Saudi Arabia.
- **Management or Senior Management:** The management of the Company.
- **Audit Committee:** The Audit Committee of the Company.
- **Internal Audit Department:** Department assesses and monitors the implementation of the internal control system and verifies that the Company and its employees comply with the applicable laws, regulations and instructions, and the Company's policies and procedures.

2. Introduction:

1) Without prejudice to the provisions of the laws and implementing regulations issued by the competent authorities in the Kingdom that have supervisory and regulatory

jurisdiction over any of the Company's activities, this policy is intended to complement, not to replace, such provisions.

2) The Risk Management Policy sets out the principles and components of the risk management system, outlines the methods for risk mitigation, and establishes procedures for the ongoing assessment and enhancement of the risk management system's effectiveness. Additionally, it defines the roles and responsibilities associated with risk management and stipulates the requirements for information disclosure.

3) The main aim of this policy is to facilitate the proficient management of risks within the Company. To realize this goal the Board, along with various committees such as the Risk Committee (if formed), the Audit Committee, the Nomination and Remuneration Committee, and the Executive Management, will oversee the risk management activities and procedures within their respective domains of expertise. The Board holds the ultimate responsibility for ensuring that the necessary procedures and measures for risk management are implemented in a manner that is both effective and efficient, thereby supporting the attainment of the Company's strategic and operational goals. Furthermore, the Board may adopt any measures or mechanisms it considers suitable to fulfill this aim, which may include the creation of a dedicated risk management unit within the Company.

3. <u>Principles and Objectives of Risk Management:</u>

1) Within the context of this policy, the risk is defined as the likelihood of a specific event occurring that is expected to influence the Company's operations and potentially obstruct its ability to achieve its objectives.

2) Risk management refers to the systematic approaches used by the Company to consistently identify, assess, and mitigate negative events and threats, as well as recognize positive events and opportunities. The Company is constantly refining and improving its processes to reduce the potential impact of threats while capitalizing on investment opportunities.

3) Risk management implementation should be viewed as a fundamental practice that is in line with effective governance, rather than a compliance obligation. This approach seeks to implement all necessary measures through proactive prevention, diligent monitoring of operational activities, and directing the actions and decisions of Company personnel and officials toward established standards.
4) The Company's Risk Management Policy is designed not only to mitigate risks but also to enhance the probability of fulfilling its strategic goals. This involves implementing suitable measures to either lower the chances of incurring losses or to lessen the severity of anticipated losses
5) The policy considers the interconnections among various risks to evaluate their collective effect on the company's operations and activities.
6) The policy extends beyond merely safeguarding the interests of investors; it also aims to uphold the concerns of other stakeholders involved in the company's operations.
7) The implementation and maintenance of the Company's risk management system aim to achieve the following objectives:
   - Promoting adherence to the Risk Management Policy, ensuring strict compliance with all statutory requirements, regulatory guidelines, and the Company's governance standards related to identifying, maintaining, managing, and, where applicable, disclosing risks.
   - Fostering a culture of risk management within the Company, characterized by a disciplined approach to accepting manageable risk levels based on established policies and operational procedures.
   - Providing professional development for employees through continuous training in information technology and risk management systems, thereby enabling adherence to best practices in risk management.

- Establishing a clear and precise division of duties and lines of accountability between employees involved in creating client transactions and back-office personnel responsible for executing such transactions.
- To mitigate risks that could threaten the Company's strategic goals and operations, thereby ensuring a protective framework is in place.
- To Integrate and coordinate risk management systems across all financial and operational functions of the Company to improve their effective management
- To Identify and capitalize on investment opportunities to enhance the value of the Company's assets and ensure long-term profitability.

4. Risk Identification and Risk Factors:

The Company endeavors to identify significant risks it may encounter to the best of its ability. To achieve this, it employs a range of methodologies, including surveys, discussions with personnel responsible for risk identification, evaluations conducted by the Audit Committee and the Internal Audit Department, as well as insights from external auditors. Additionally, the Company may consider other appropriate risk identification approaches, which may involve seeking the expertise of external consultants when necessary.

1) Identification of Risk Source and Context:

A. **Internal Context:** The internal context involves identifying components and elements of the internal environment within the Company that may pose risks, consequently, impacting the pursuit and realization of its objectives. These elements of the internal context differ depending on the specific nature of management activities and objectives set forth. Examples of internal context elements include:

- Policies, procedures, and operations.
- Internal governance framework.
- Roles, responsibilities, and accountability mechanisms.
- Delegation of authorities.

- Regulatory and control environment.
- Internal compliance environment.

External Context: The external context includes the external environment in which the Company conducts its operations and strives to achieve its strategic objectives, necessitating adaptation to and compliance with the frameworks, regulations, and formal instructions set forth by supervisory, regulatory, and other relevant authorities, as well as economic, technical, and social factors that may have a direct or indirect impact on the Company's operations.

Risk Probability: The likelihood of a risk materializing is categorized into, certain, probable, possible, and rare. Given the varied nature of risks and the ability to evaluate their probability according to the specific type of risk, the determination of occurrence probability is conducted through two separate approaches:

- Frequency of Risk Occurrence.
- Probability of Risk Occurrence.

2) Risk Factors:

The Company encounters various risks and uncertainties stemming from its operational activities, which are addressed through the mechanisms detailed in this policy. These risks include a range of factors, including but not limited to the following:

A. **Risks Associated with the Company's Operations, Including:**

- **Inability to Attract and Retain Subscribers (clients)**: The Company's revenues primarily consist of subscription fees, and the subscription rate may decline due to various factors, including changes in discretionary spending levels and fluctuations in general economic conditions.
- **Inability to Execute the Business Plan and Achieve the Targeted Growth Strategy:** The Company's future performance depends on the successful execution of its business plan and growth strategy. The Company's ability to expand into new markets or increase its presence in existing markets relies on several factors, including the ability to:

1. Develop well-defined strategies, objectives, and benchmarks.
2. Establish new fitness centers in well-situated locations with high population density, under favorable lease terms.
3. Renovate and upgrade existing fitness centers periodically in a cost-effective and timely manner.
4. Identify new geographic markets, achieving successful competition within those markets, and ensuring compliance with local regulations
5. Maintain sufficient financial resources to support Company operations.
6. Recruit and adequately train new employees.

- **Risks of Dependence on Senior Management and Key Employees**

B. Market and Sector-Related Risks, Including:

- Risks Related to Consumer Spending Rates: The Company's operations may be impacted by changes in subscriber spending patterns or behaviors.
- Seasonality Risks: The Company's business may be subject to certain degrees of seasonal fluctuations throughout the year.
- Intensified Competition in the Health and Fitness Sector.

C. Financial and Credit Facility Risks.

D. Risks Related to the Kingdom and the Global Economy.

E. Risks associated with changes in the regulatory environment, non-compliance with applicable laws and regulations, or amendments thereto—particularly concerning the licenses, permits, and approvals required from the competent regulatory authorities in the Kingdom for the Company to carry out its operations.

F. Risk of Additional Levies or New Taxes.

G. **The risk of epidemic or infectious diseases that may spread locally, regionally, or globally.**

The aforementioned risks and uncertainties are not ranked by their importance, likelihood of occurrence, or potential impact on the Company. Additionally, there may be other risks and uncertainties, including those not currently known or those presently deemed immaterial, that could impact the Company's operations if they were to occur.

5. **Risk Analysis, Evaluation, and Classification:**

1) The Company provides a comprehensive description of each significant risk it has identified, detailing the nature of the risk, its scope, and the stakeholders involved. This includes an overview of the risk, an assessment of its potential impact should it materialize, and an analysis of how each risk may affect the interests of shareholders.

2) Following a thorough evaluation and categorization of risks based on their types within the Company's administrative functions, risks are classified according to their estimated likelihood of occurrence, utilizing a three-tiered scale. **The first level** indicates a high probability of occurrence, **the second level** signifies a medium probability, and **the third level** represents a low probability of occurrence.

3) Each level reflects a different nature of risk occurrence:

- **Level One: Indicates that, in the absence of all controls for managing this type of risk, its occurrence is nearly inevitable.**
- **Level Two: Indicates that the absence of controls, this type of risk results in a probable occurrence, depending on the nature of the activity involved.**
- **Level Three: Indicates that the absence of controls does not necessarily lead to the realization of the risk, should it occur, the severity may differ based on the nature of the activity.**

4) Estimated Impact Assessment: The potential impact of each risk is evaluated using a three-level scale:

1. **Level One: Represents a significant impact if the risk materializes.**
2. **Level Two: Represents a moderate impact if the risk materializes.**
3. **Level Three: Represents a minor impact if the risk materializes.**

4. The Company, through the Internal Audit Department or the Risk Management Department (if formed), applies distinct and quantifiable metrics for evaluating the probability of major risk-related occurrences.
5. For every risk metric, the Company determines a critical threshold that reflects the acceptable level of risk and is consistent with the Company's strategic goals.
6. Following the preliminary assessment of identified risks, the Company revisits the risk register in light of its preferences and requirements. Consequently, risks that were initially categorized as high or low shall have a reassessment and adjustment in their classification and management approach.
7. The Company identifies key risks associated with its activities and records them in a document known as the Risk Register. The recording of such risks is limited to describing the nature of the risk and providing a technical opinion on its significance for the Company's operations. This register is regularly updated to reflect internal and external changes affecting Company operations. The Chief Executive Officer, with support from the Internal Audit Department, is responsible for compiling this register, which includes a detailed explanation of each identified risk as part of the risk assessment and categorization process, along with suggested strategies for their management.

6. Risk Management Procedures:

1) For each significant risk, the Company shall develop methods and solutions to aiming to mitigate the potential consequences should these risks materialize. Concurrently, the Company will fully capitalize on any emerging opportunities. These methods include, but are not limited to, the establishment of counteractive programs once the risk indicator reaches a critical level.
2) The type and structure of the method employed by the Company are based on an analysis of the anticipated benefits in relation to the costs associated with their implementation.
3) Primary Risk Management Methods Implemented by the Company Include:
   - Recognizing and documenting the risk.
   - Avoiding the risk by canceling specific projects.
   - Financing or transferring the risk, through insurance or introducing new investments.
   - Risk diversification and risk mitigation.
4) **Key Considerations in Selecting Risk Management Methods Include:**
   - The Company readiness to acknowledge the extent of the risk involved.
   - Balance between the prevention plan based and the Outcomes-based supervision.
   - Balance between the cost and benefit of supervision and control.

7. Monitoring and Maintaining the Risk Management System:

The Company ensures the continuous monitoring, oversight, and maintenance of the risk management system.

8. Roles and Responsibilities in the Risk Management System:

1) Departments and Unit Heads within the Company are responsible for identifying the risks faced within their respective areas.

2) The Chief Executive Officer (CEO) is responsible for implementing the overall Risk Management Policy of the Company.

3) Until the Risk Management Committee is appointed or formed, the Audit Committee, through the Internal Audit Department, shall be in charge of overseeing, monitoring, and evaluating the Company's risk management processes. In addition to its primary responsibilities in internal auditing, the Audit Committee shall discuss and review the following issues:

   - The Operational, Financial, and Strategic Risks, as well as any other risks identified by department heads, unit leaders, and other divisions within the Company.
   - Risk Evaluation and Analysis: Evaluating and analyzing the identified risks.
   - Developing and Reviewing of the Risk Management Plan.
   - Developing of Risk Management Methods for each individual risk.

4) The CEO is responsible for submitting a report to the Board of Directors via the Audit Committee that contains information on the overall condition of the risk management system, any deficiencies identified, and steps taken to improve it.
5) Should the Board obtain information that reveals considerable deficiencies or inadequacies within the system, the Audit Committee will be responsible for assessing the risk management framework in collaboration with the Internal Audit Department.
6) The Board is responsible for approving the Company's Risk Policy and defining particular metrics to guide its continuous improvement.
7) The Board, through the Audit Committee, holds the responsibility for overseeing the risk management system.
8) The Board shall conduct regular evaluations based on the submitted reports concerning the following several key issues:

- The characteristics and intensity of the diverse risks encountered by the Company.
- Risk Acceptance: Determining which risks are acceptable and which pose unacceptable threats.
- **Risk-Bearing Capacity**: The Company's ability to absorb potential losses linked to risks or to manage those risks proficiently
- Assessing the cost of maintaining a comprehensive risk management system and the associated benefits.
- Structure and Organization of the Risk Management System.

9) Upon the receipt of the annual assessment of the Company's risk management framework, the Board shall engage in discussions and reach determinations concerning the subsequent issues:
   - Analyzing modifications in the characteristics and significance of risks, alongside the Company's capacity to adeptly navigate these alterations.
   - The effectiveness and scope of actions undertaken by executive members, internal auditors, and other staff engaged in internal control, particularly in relation to risk management practices.
   - Assessing whether executives provide risk management reports to the Board and its committees in a timely and suitable manner.
   - Identifying any major shortcomings within the risk management framework during the assessment period and appraising their influence on both operational and financial functions.

9. Disclosure of Risk Management Related Information:

The Company's Risk Management Policy is a fundamental aspect of its organizational culture and shall be communicated to all employees.

The Company shall maintain effective communication channels between the Board, executive personnel, and all department heads to ensure proper management or timely mitigation of any strategic and operational risks.

The Company shall disclose the following information in its annual Board report:

- Detailed analysis of the company's significant risks.
- Details on monitoring and managing significant risks.
- Report any changes to the Company's risk management system, including their underlying causes.
- Additional report shall be submitted to the General Assembly by the Audit Committee outlines additional activities undertaken in the execution of its responsibilities and provides an evaluation of the efficacy of the Company's internal control system.

10. Implementation and Enforcement:

This policy shall become effective immediately as of the date of its approval by the Board. The Board shall review this policy periodically as part of assessing the effectiveness of the Company's governance, or upon the issuance of new instructions or regulations related to the policy.