

Egyptian Resorts Company (ERC)
RISK MANAGEMENT POLICY

As ERC grows, the operating environment becomes more complex, the pace of change accelerates, and the Company's exposure to risk increases.

This exposure can be reduced by Risk Management. Risk Management is the systematic application of management policies, procedures and practices to the tasks of identifying, analyzing, assessing, treating and monitoring risk. It is important that we manage risk effectively for the benefit of our stakeholders.

Policy Statement

ERC is committed to a strong company culture of risk management, and to establishing an integrated risk management system that supports a proactive, multi-disciplinary approach to both managing risk and pursuing opportunities at all levels.

Policy Conditions

- The risk management process is designated as a key internal business process.
- The management of risk/opportunity must be formally addressed in making major business decisions.
- A comprehensive company risk review should be prepared and discussed regularly at Board meetings.
- A risk management plan must be developed for major projects.
- Operational risks related to employees, the environment, the community and company assets should be identified and addressed as part of routine operating procedures.
- Key risk/opportunity areas and their drivers should be included in management/board reporting systems.

Responsibilities

The Board of Directors, on behalf of shareholders, is responsible for ensuring that risks and opportunities are identified, monitored and managed in a pro-active way, and that they are reported quarterly or in the event of a major development in company status.

The Chief Executive Officer is responsible for providing leadership and direction, for fostering a company-wide risk management culture, and for ensuring business, financial and risk management approaches are integrated during the planning, implementation and reporting of major projects at all levels.

Managers at every level are responsible for implementing the risk management system. They should ensure that staff has the knowledge and skills to use the system and that appropriate risk management practices and procedures are integrated with standard management practices and business processes in their operations.

All employees have a responsibility to identify areas of risk and initiate responses that seek to minimize business exposure.

A copy of this policy document is to be provided to all managers and placed on the company website under the Corporate Governance section.

1. RISK MANAGEMENT FRAMEWORK

Definitions

1.1 For the purpose of this document, the definitions below apply.

1.1.1 Consequence

Outcome or impact of an **event**

NOTE 1: There can be more than one consequence from one event.

NOTE 2: Consequences can range from positive to negative.

NOTE 3: Consequences can be expressed qualitatively or quantitatively.

NOTE 4: Consequences are considered in relation to the achievement of objectives.

1.1.2 Control

An existing process, policy, device, practice or other action that acts to minimize negative risk or enhance positive opportunities.

NOTE: The word 'control' may also be applied to a process designed to provide reasonable assurance regarding the achievement of objectives.

1.1.3 Event

Occurrence of a particular set of circumstances.

NOTE 1: The event can be certain or uncertain.

NOTE 2: The event can be a single occurrence or a series of occurrences.

1.1.4 Likelihood

Used as a general description of probability or frequency.

NOTE: Can be expressed qualitatively or quantitatively.

1.1.5 Loss

Any negative **consequence** or adverse effect, financial or otherwise.

1.1.6 Monitor

To check, supervise, observe critically or measure the progress of an activity, action or system on a regular basis in order to identify change from the performance level required or expected.

1.1.7 Risk

The chance of something happening that will have an impact on objectives.

NOTE 1: A risk is often specified in terms of an event or circumstance and the consequences that may flow from it.

NOTE 2: Risk is measured in terms of a combination of the consequences of an event and their likelihood

NOTE 3: Risk may have a positive or negative impact.

1.1.8 Risk Identification

The process of determining what, where, when, why and how something adverse could happen.

1.1.9 Risk Analysis

Systematic process to understand the nature of and level of risk.

1.1.10 Risk Evaluation

Process of comparing the level of risk against risk criteria.

1.1.11 Risk Assessment

The overall process of **risk identification, risk analysis and risk evaluation.**

1.1.12 Risk Management Framework

Set of elements of an organization's management system concerned with managing risk.

1.1.13 Risk Management Process

The systematic application of management policies, procedures and practices to the tasks of communicating, establishing the context, identifying, analyzing, evaluating, treating, monitoring and reviewing **risk.**

1.1.14 Risk Criteria

Terms of reference by which the significance of risk is assessed.

1.1.15 Risk Treatment

Process of selection and implementation of measures to modify **risk.**

NOTE 1: The term 'risk treatment' is sometimes used for the measures themselves.

NOTE 2: Risk treatment measures can include avoiding, modifying, sharing or retaining risk.

1.4.16 Stakeholders

Those people and organizations who may affect, be affected by, or perceive themselves to be affected by a decision, activity or risk.

2. RISK MANAGEMENT PROCESS:

2.1 Communication and consultation

The initial draft of the risk management policy is prepared by the Corporate Governance Officer and the CEO has been reviewed by the Board. The Board adopts this policy after amendments.

The CEO communicates the risk policy to all staff and oversees implementation. The Board reviews the policy at least annually. The Company Secretary will incorporate the review into the Board's annual calendar.

2.2 Context

External context

ERC is a master developer and exclusive community manager of fully-integrated, world-class mega communities.

Stakeholders are global, including a concentration of shareholders in Egypt with minority holdings in a number of other countries. The government of Egypt has a tangential interest in the operations of the Company in terms of taxation, licensing and regulatory compliance.

Financially, the group is closely linked to global economic conditions and demand for touristic projects which drive cyclical investor interest in the tourism and real estate sectors.

Internal context

Internal stakeholders are employees, the most precious asset for the Company. Success of the Company relies heavily on experience in infrastructure, project management and sales.

Risk Management context

The context for risk management is company-wide initially; with specific risk management systems being developed to suit various operations (e.g. Safety Management System).

Risk Criteria (The criteria against which risk is to be evaluated)

- Potential for exposure to an event which could cause the default of the Company.
- Potential for generating (or reducing) shareholder wealth. This may involve assessing a mix of elements including financial return, investor sentiment and funding options.
- Potential for damage or improvement to the reputation of the Company and consequently its appeal to investors.

Structure for the rest of the process

The exercise of identifying, evaluating and recommending treatment in relation to specific risks at a company level should be undertaken regularly. This review should be developed for different areas such as technical, marketing, financial, personnel, environmental to structure the process and make needed documentation so that a similar format may be used for more detailed levels within the process.

2.3 Identify Risks

General

This step seeks to identify the risks to be managed. Identification should include risks whether or not they are under the control of the Company.

What can happen, where and when

Sources of risks and events that might have an impact on the achievement of objectives are identified in the context.

Why and how it can happen

Identify possible causes and scenarios.

2.4 Risk Analysis

General

Risk analysis involves consideration of sources of risk, their positive and negative consequences and the likelihood that those consequences may occur.

Evaluate existing controls

Identify the existing processes, devices or practices that act to minimize negative risks or enhance opportunities and identify their strengths and weaknesses.

Consequences and likelihood

Magnitude and consequences of a possible event are assessed in the context of the effectiveness of existing strategies and controls.

Types of Analysis

Qualitative and quantitative.

2.5 Evaluate Risks

The purpose of risk evaluation is to make decisions, based on risk analysis, about which risks need treatment and in what priority.

Evaluation involves comparing the level of risk found during the analysis process with risk criteria established when the context was considered.

2.6 Treat Risks

General

Risk treatment involves identifying the range of options for treating risks, assessing these options, and the preparation and implementation of treatment plans.

Identifying options for the treatment of risks with positive outcomes

Treatment options for risks having positive outcomes (opportunities) which are not necessarily mutually exclusive or appropriate in all circumstances include:

- Actively seeking an opportunity by deciding to start or continue with an activity likely to create or maintain it (where feasible).
- Inappropriate pursuit of opportunities without consideration of potential negative outcomes may compromise other opportunities as well as resulting in unnecessary loss.
- Changing the likelihood of the opportunity, to enhance the likelihood of beneficial outcomes.
- Changing the consequences, to increase the extent of the gains.
- Sharing the opportunity:
 - This involves another party or parties bearing or sharing some part of the positive outcomes of the risk usually by providing additional capabilities or resources that increase the likelihood of the opportunity arising or the extent of the gains if it does.
 - Mechanisms include the use of contracts and organizational structures such as partnerships, joint ventures, royalty.
 - Sharing the positive outcomes usually involves sharing some of the costs involved in acquiring them.
 - Sharing arrangements often introduce new risks, in that the other party or parties may not deliver the desired capabilities or resources effectively.
 - Retaining the residual opportunity:
 - After opportunities have been changed or shares, there may be residual opportunities that are retained without any specific immediate action being required.

Identifying options for the treatment of risks with negative outcomes

Treatment options for risks having negative outcomes are similar in concept to those for treating risks with positive outcomes, although the interpretation and implications are clearly different. Options include:

- Avoiding the risk by deciding not to start or continue with the activity that gives rise to the risk (where feasible).
- Risk avoidance can occur inappropriately if individuals or organizations are unnecessarily risk-averse. Inappropriate risk avoidance may increase the significance of other risks or may lead to the loss of opportunities for gain.
- Changing the likelihood of the risk, to reduce the likelihood of the negative outcomes.
- Changing the consequences, to reduce the extent of the losses. This includes pre-event measures such as reduction in inventory or protective devices and post-event responses such as continuity plans.
- Sharing the risk.
 - This involves another party or parties bearing or sharing some part of the risk, preferably by mutual consent. Mechanisms include the use of contracts, insurance arrangements and organizational structures such as partnerships and joint ventures to spread responsibility and liability. Generally there is some financial cost or benefit associated with sharing part of the risk with another organization, such as the premium paid for insurance.
 - Where risks are shared in whole or in part, the organization transferring the risk has acquired a new risk, in that the organization to which the risk has been transferred may not manage the risk effectively.
 - Retaining the risk:
 - After risks have been changed or shared, there will be residual risks that are retained. Risks can also be retained by default, e.g. when there is a failure to identify or appropriately share or otherwise treat risks.

Assessing risk treatment options

Selecting the most appropriate option involves balancing the costs of implementation of each option against the benefits derived from it.

Preparation and implementation of treatment plans

The purpose of treatment plans is to document how the chosen treatment options will be implemented. Treatment plans should include:

- Proposed actions

- Resource requirements
- Responsibilities
- Timing
- Performance measures
- Reporting and monitoring requirements

2.7 Monitor and Review

Ongoing review is essential to ensure that the management plan remains relevant.

2.8 Record the Risk Management Process

Assumptions, methods, data sources and reasons for decisions should all be recorded. The records of such processes are an important part of good corporate governance.

3. Establishing Effective Risk Management

The organization should develop a risk management policy, plan and support arrangements. This will enable risk management to be implemented effectively throughout the organization.

Evaluate existing practices and needs

Risk management planning:

- Develop risk management plans
- Ensure the support of senior management
- Develop and communicate the risk management policy
- Establish accountability and authority
- Customize the risk management process
- Ensure adequate resources