Our risk management

Our growth ambition in a fast-moving and innovative business environment means that we must consider risk as a central part of the definition and execution of our strategy. The Board and Executive Committee have collaborated closely throughout 2019 to ensure that risk assessment, mitigation strategies and plans are integrated into broader consideration of our short-term goals and longer-term strategic initiatives and key projects.

The Board’s role in risk management – stewardship and partnership

The Board is ultimately accountable for the effectiveness of our risk management and internal control systems, and is supported by the Audit Committee, Executive Committee and delegated committees. Our regional and functional leaders, supported by the Risk & Assurance team, conduct strategic planning and business performance reviews throughout the year which monitor emerging risks – new or changing factors which require further consideration to determine the potential significance to our business. Our governance framework and committee agendas establish procedures for Board members to receive information from the Executive Committee and Senior Leaders and a range of other internal and external sources on emerging risks. More detail on the topics covered by the Board and committees is available in the Corporate Governance section, pages 78 to 117.

During 2019 the topics have included:

- many long-term industry and macroeconomic risk factors (within Board strategy meeting and committee discussions), often alongside management’s own presentations of plans and projects;
- discussion of risks relating to longer-term sustainability, shifting societal expectations, human rights and our evolving responsibilities across our supply chain (Corporate Responsibility Committee);
- emerging tax, treasury and regulatory risks, for example relating to privacy and data protection (Audit Committee);
- cultural, succession and retention risks and the competitiveness of director and executive remuneration (Remuneration and Nomination Committees).

While the Board oversees the risk management system to ensure that risks and opportunities are appropriately identified and managed to an acceptable level, it works in partnership with the Executive Committee and Senior Leaders to maintain and, where necessary, accelerate the understanding of key risk topics. This is particularly relevant in relation to cybersecurity, where the Board have met regularly with management outside of formal meetings to enable a more detailed appreciation of the risks and risk management strategies available to us to manage them.

Our enterprise risk management framework adopts a mitigate/transfer/accept approach, taking into account the potential impact on the ability of the Group to execute and deliver our objectives and strategy.

Risk appetite

IHG’s risk appetite is visible through the nature and extent of risk taken by the Board in pursuit of strategic and other business objectives. We cascade this appetite through the goals and targets we set, our Code of Conduct and other global policies, our formal Delegation of Authority policy including the governance structure of approval committees, decisions we make and how we allocate resources. It evolves with the IHG strategy. Our Annual Report and Form 20-F describes risk appetite in a number of places. For example, our appetite for financial risk is described in note 24 to the Group Financial Statements, see page 182. As a day-to-day example, decision makers in the business can refer to guidelines which articulate parameters for new hotel development deals.

This section should be read together with the rest of the Strategic Report, Governance on pages 78 to 117, the going concern statement on page 224, and Risk Factors on pages 226 to 230.

Risk management supports decision making

Our risk management and internal control system is fully integrated with the way we run the business and how we create and protect value in pursuit of our objectives.

Our culture, values and behaviours, see pages 26 and 27, establish authorities, capabilities and appropriate incentives for empowered and agile decision-making across our portfolio of risks by teams across IHG, supported by functional expertise.

Formal and informal monitoring, reporting and assurance arrangements, see page 27, enable the Board and Executive Committee to maintain ongoing oversight of key areas of uncertainty and the effectiveness of our risk management and internal control arrangements.

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IHG’s principal risks and uncertainties

Our risk profile is structurally similar to that of a year ago, although the context within which we operate is highly dynamic reflecting the cyclical nature of our industry and global macroeconomic uncertainties.

Our discussions of risk also take place within a context of increasing scrutiny of the impact of our business on our stakeholders, and our longer-term sustainability. We have therefore split out our consideration of external factors to recognise both the risks relating to political and economic headwinds on our growth ambitions (for example disruption in key markets and trade wars) and also the requirement to anticipate and respond appropriately to the risks and opportunities relating to our environmental and social responsibilities.

We have also refreshed our crisis and incident management procedures during 2019, with the Executive Committee and many regional and functional leadership teams working through training and tabletop crisis scenarios to review and practice ways of working. The Risk and Assurance team provides support and intelligence on emerging threats and will continue to provide advice to management on procedures for risk identification and mitigation and control. We are continuing to monitor the evolving situation relating to Covid-19 and its impact on both our business and the industry as a whole, and we are working closely with relevant authorities. The Group’s asset-light business model, diverse brand portfolio and wide geographical spread contribute to IHG’s overall resilience to events that could affect specific segmental or geographical areas.

Our programme to realise savings for reinvestment has led to a range of changes to organisation, accountabilities and processes, and a wide portfolio of initiatives is in place to pursue growth opportunities. Our approach to risk management has therefore also evolved as part of our organisational focus on growth and how we take informed decisions in a fast moving environment. The Risk and Assurance team has continued to coordinate assessments of the principal risks facing the Group, including those which would threaten its business model, future performance, solvency or liquidity and reputation. These risks are formally reviewed with the Group’s Directors on a bi-annual basis and considered in more detail through the activities of the Board and committees, however risks are also discussed as an integral part of decision making across the year. In addition, focus on the behaviours necessary to drive growth has included cross-business participation in virtual learning summits, including how to make decisions at pace with the right governance and structure to maintain control.

Our strategy requires us to work increasingly with partners, intermediaries and other third parties, and access expertise and services which enable us to anticipate and respond to the needs of our owners, guests and colleagues, and to work efficiently and at scale. Many of our risks therefore reflect the changing nature of our extended enterprise and our responsibilities to our stakeholders. Some of these responsibilities, particularly in relation to our stewardship of data, are subject to significant changes in law and therefore highlighted as dynamic and demanding regular attention by senior management and the Board.

We continue to conclude that the potential impact of Brexit on IHG is not likely to have a material impact on our overall strategy or operations although, as with other external factors, this is considered as part of operational risk management and resilience planning, and a standing group reviews our preparedness for operational disruption. The impact of a potential movement in the value of sterling is articulated in note 24 of the Group Financial Statements, see pages 182 to 185.
Risk trend and speed of impact
We assess whether the risk area is stable or dynamic in its impact and/or likelihood (inherent risk trend), and the rate at which there could be a material impact on IHG. The trend and speed of impact are summarised in the diagram with further detail on activities to manage each of these risks in the table below.

Principal risk – assessment of trend and speed of impact
- Dynamic/Rapid
- Dynamic/Gradual
- Stable/Rapid

Risk description | Trend | Impact | Initiatives to manage these risks
---|---|---|---
Inherent threats to cybersecurity and information governance remain significant and dynamic. We are aware of our responsibilities in relation to a range of high-value assets (critical systems & guest, employee and other sensitive data) which may be targeted by various threat ‘actors’ (including organised criminals, third parties and ‘threat actor-employees’), and rapid evolution in societal, regulatory and media scrutiny of privacy arrangements mean that the potential impact of data loss to IHG financially, reputationally or operationally remains a dynamic risk factor.

- Effective and appropriate leveraging of data that we have a right to use is a key aspect of the interface between our marketing and our commercial and technology activity. We take account of regulatory and ethical factors as part of the decision-making processes in relation to marketing and technological initiatives, and we also rely on appropriate governance and control arrangements to mitigate risks that the validity of data that we use is undermined by cyber-attacks or operational failures.
- Our 2019 focus has been on progressing a Board-endorsed roadmap of the highest priority and highest-value initiatives to build and maintain core elements of our cybersecurity posture.
- During the year our Chief Information Security Officer has worked with teams across IHG to increase sophistication in how we identify, protect, detect, respond and recover in relation to cyber risks. This has involved developments in our security governance and risk tracking, including discussion and assessment of an approach to high-value assets with the Executive Committee.
- We have continued to drive awareness of cybersecurity risk, including an anti-phishing campaign which tested corporate employees on phishing attacks. We also developed a cybersecurity incident response playbook which is aligned with wider IHG resilience and incident preparation protocols.
- The nature of our operating model means that significant amounts of IHG’s confidential information assets are also held by or shared with third-party suppliers and owners, and we review those risks as part of our broader supply chain risk management arrangements.
- Our information security programme is supported and reviewed by internal and external assurance activities, including our Internal Audit and SOX teams and PCI assessments.
- During 2019 we have reported regularly to the Board and the Executive Committee on the information security roadmap using key risk indicators to track trends in risk and mitigation initiatives. We also continue to work closely with our insurers to review the adequacy of protection for our risks and have assessed potential cyber incident scenarios, including quantification of value at risk, to better aid in risk-based discussions on remediation investment against risk acceptance and available risk transfer opportunities.
Risk description

Failure to deliver preferred brands and loyalty could impact our competitive positioning, our growth ambitions and our reputation with guests and owners. Competitor and intermediation activity creates inherent risks and opportunities for the hospitality industry and is relevant to the longer-term value of IHG’s franchised/managed proposition and our ability to deliver returns to current and potential owners of our various brands.

In a fast growth environment, it is essential that we attract, develop and retain leadership and talent and failure to do this could impact our ability to achieve growth ambitions and execute effectively. Our people are essential to delivering our objectives, and our ability to develop talent is a key way we can deliver value to our existing and potential owners of both managed and franchised hotels. It is also essential that we retain key executive talent, both at the corporate and hotel levels, in the face of attractive roles and competitive rewards available in the global markets where we operate and compete.

Trend Impact Initiatives to manage these risks

- To enable our growth ambitions, we need to continuously strengthen our portfolio of brands to build an industry-leading offer which delivers leading-edge guest preference, and competitive owner returns. For a description of our brands and brand initiatives see pages 14 to 17, and page 23.
- We are building the underlying capabilities to achieve our vision by: strengthening our new brand development; enhancing our marketing capability; refining our brand portfolio strategy; building improved data analytics capabilities; and scaling the production and efficiency of our global marketing assets.
- During 2019, our Global Marketing team has continued to evolve an operating framework to provide additional clarity and alignment on prioritisation and focus areas. We have also implemented changes to several ways of working between our global functions and regional operations teams to drive commercial performance, supported by learning events and engagement sessions.
- We are also executing a loyalty roadmap that includes tactical improvements to drive short-term performance and foundational levers to enable a longer-term step change to improve member benefits, owner economics and programme technology. See page 20 for more details on our 2019 initiatives.

- Our approach to managing our people is outlined in detail on pages 28 to 31 and our annual business planning process includes a review of workforce risks. We consider workforce risks when designing business initiatives and we regularly review talent and succession across the organisation. Our Human Resources team partners across IHG, and performs regular reviews including in relation to the diversity of our talent and competitiveness of our compensation and benefits plan.
- IHG has the ability to manage the risk directly in relation to IHG employees but relies on owners and third-party suppliers to manage the risk in related activities. Our Procurement, Legal and Risk teams also consider more indirect workforce risks relating to our third-party relationships.
- During 2019, we have continued to refine and streamline our performance management systems and embed a common set of leadership behaviours across IHG through employee participation in various virtual learning summits.
- Several policies supporting our Code of Conduct (for example our Human Rights Policy which is reviewed annually) relate to the management of our people, describing our intolerance for inappropriate behaviours, and appropriate adherence to those helps manage our risk.
- As our business expands through mergers and acquisition, we also undertake due diligence prior to transactions, and as part of integration activities, to evaluate and adapt relevant people practices.
### Risk management continued

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<td>The global business regulatory and contractual environment and societal expectations continue to evolve. Failure to ensure legal, regulatory and ethical compliance would impact IHG operationally and reputationally. Regulators are moving to impose significant fines for non-compliance, most notably in relation to privacy obligations and data security, and there is increasing attention on environmental, social and governance matters (for example relating to consumer protection, human rights including modern slavery, human trafficking and labour laws, and financial crime) from a range of external stakeholders such as corporate sales clients, investors and NGOs. With trading headwinds in some markets, increased pressure can be placed on compliance programmes, and a heightened risk of liabilities relating to our franchise model both in relation to brand reputation issues as well as litigation. Failure to capitalise on innovation in booking technology and to maintain and enhance the functionality and resiliency of our channel management and technology platforms (including those of third-parties on which we rely directly or indirectly), and to respond to changing guest and owner needs remains a dynamic risk to IHG’s revenues and growth ambitions. The pace of change in the hospitality industry continues to accelerate and IHG must evolve to effectively grow and compete in the marketplace. Technology is crucial to our strategy as we face increasing competition from both existing and new players in the travel space.</td>
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<td>• Our global Ethics and Compliance team (E&amp;C team) are focused on ensuring IHG has a globally coordinated approach to material ethical and compliance risks, taking into account the regulatory environment, stakeholder expectations and IHG’s commitment to a culture of responsible business.</td>
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<td>• The overarching framework for Ethics and Compliance is the IHG Code of Conduct (Code), (see pages 26 and 27). In addition to the Code, the E&amp;C team manage the global compliance programmes for Anti-Bribery and Corruption, Antitrust/Competition Law, Sanctions and Human Rights.</td>
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<td>• A number of processes and initiatives are used by the E&amp;C team to manage ethical and compliance risks. For example, IHG is a member of Transparency International UK’s Business Integrity Forum and participates in its annual Corporate Anti-Corruption Benchmark. The findings from the Benchmark assessment are utilised predominantly by the E&amp;C team to identify improvements to the design of the IHG Anti-Bribery and Corruption programme.</td>
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<td>• The E&amp;C team are also responsible for, and have oversight of, the owner legal due diligence process. This is designed to ensure that risk-based due diligence is carried out on third-parties with whom IHG enters into hotel relationships. This includes sanctions monitoring, third-party screening and internal communications – for example, an annual update is communicated to the Legal, Development and Strategy teams and other relevant colleagues providing a reminder of ‘No Go’ countries and sanctions issues that may restrict IHG.</td>
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<td>• The E&amp;C team currently monitor training completions, gifts &amp; entertainment reporting and owner due diligence escalations. These areas help demonstrate whether the design of the Ethics &amp; Compliance framework and core processes of the underlying programmes are operating effectively. The E&amp;C team monitor activity of the Confidential Disclosure Channel operating effectively. The E&amp;C team monitor activity of the Confidential Disclosure Channel and have regular discussions with regional Legal teams to help identify emerging issues. In addition, the E&amp;C team receive informal queries/escalation of issues via an Ethics and Compliance email channel, which is publicised in training and awareness materials, and directly from employees, for example in face-to-face training sessions.</td>
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<td>• The Board receives regular reports on the Confidential Reporting Channel and matters directly related to our responsible business agenda.</td>
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<td>• Our comprehensive channels strategy is a key driver and enabler of accelerated growth. We continue to seek opportunities to align and innovate our channels and technology platforms (see page 21). Our IHG Concerto™ platform is operating at all IHG hotels, and we are continuing to add more capabilities to the platform to enhance revenue delivery.</td>
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<td>• Our Guest Reservation System (GRS) is hosted by a third-party vendor, Amadeus, in the cloud and supported by infrastructure which serves to decrease the likelihood of downtime. Availability of GRS and other key systems continues to be monitored on a 24/7 basis by the Network Operations Centre. Metrics are regularly reported to Commercial and Technology leaders so they can monitor performance.</td>
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<td>• As our industry evolves, and with our acquisition of new brands, we have continued to review the capabilities of our systems in relation to market trends and expectations.</td>
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<td>• In 2019, we also introduced regional revenue forums to focus on forecasting future business and determining integrated commercial plans to address challenges.</td>
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IHG’s continuing agenda to **accelerate growth** gives rise to inherent risks, for example as we transition systems, operating models and processes. The potential exists to impact commercial performance and financial loss, and undermine stakeholder confidence. As we move towards larger, more strategic outsourcing relationships for business-critical services, inherent risk levels are also raised.

**Macro external factors** such as political and economic disruption, the emerging risk of infectious diseases, actual or threatened acts of terrorism or war, natural or man-made disasters could have an impact on our ability to perform and grow. Heightening of macro-economic tensions could lead to a downturn impacting our ability to grow.

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<td>• The progress of our Group-wide efficiency programme has been tracked by the Board and Executive Committee, and the majority of our centrally driven transformation activity has now transitioned to Senior Leaders.</td>
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<td>• Following the changes to our organisational structure in 2018, in 2019 we conducted corporate-wide virtual learning summits and we maintain a central digital hub for process and learning materials to enable our employees to find details about processes, learning content and key process owners.</td>
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<td>• Our focus on accelerating growth has included review of risks relating to offshoring and outsourcing by Senior Leaders and the Board. Our Strategic Supplier Management Office has been established to manage existing critical supplier relationships as well as new outsourcing and/or business-critical relationships driving our strategic objectives. Our legal teams review contracts and provide advice on litigation, where required, and our insurance programme also provides a degree of protection in the event of supplier failure.</td>
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<td>• Oversight teams, including our finance experts, have evolved governance and control frameworks and we also regularly review delegated approval authorities and processes to enable decisions on investments to be made quickly and efficiently with consideration of the risks involved. HR Business Partners continue to work with Senior Leaders to identify and retain key individuals across the business, and succession planning practices are in place to ensure continuity of key initiatives and business operations.</td>
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<td>• During 2019 we reviewed our financial governance and controls relating to the integration of our acquisitions. For example, the integration of Six Senses into IHG’s financial control environment has been overseen by a dedicated governance committee.</td>
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<td>• We have an established approach to System Development Lifecycle, and specific risks to delivery of the Global Reservations System have been managed throughout the programme of implementation (including those relating to technical delivery, business process testing and operation readiness testing).</td>
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<td>• While these factors are mostly outside our direct control, we track uncertainties which may impact the hospitality industry and which need to be considered in our strategic and financial planning. These types of risks are addressed in strategic review, including our market participation choices, particularly in emerging and key growth markets.</td>
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<td>• During 2019, many leadership teams have used formal and informal scenario planning to anticipate the potential impact of these risks. The Board and Executive Committee receive regular updates on these types of factors from both operational and subject matter experts so that possible implications for IHG can be considered.</td>
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<td>• Our in-house threat intelligence capability, supplemented by third-party expertise and methodology, supports development, hotel operations and customer-facing sales teams with planning and response to macro factors, for example concerns relating to terrorism, extreme weather events, or infectious diseases such as Covid-19. We are also increasingly able to complement more traditional sources with digital intelligence to anticipate potential impacts on IHG’s interests.</td>
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As a global business, we are conscious of greater focus from a wider range of stakeholders on environmental and social mega-trends. These include regulators and investor groups (such as the Task Force on Climate-related Financial Disclosures (TCFD)), and emerging risks presented by climate change which have the potential to impact performance and growth in key markets.

Failure to maintain an effective safety and security system and to respond appropriately in the event of disruption or incidents affecting our operations more broadly could result in an adverse impact to IHG, such as reputational and/or financial damage and undermining confidence from our colleagues, guests, major sales accounts and wider stakeholders. This risk relates both to our direct operations in hotels and other locations where we have management responsibility, and also to outsourced activities and others with whom we collaborate and trade, including the owners of our franchised hotels which operate as independent businesses.

- During 2019, our Corporate Responsibility team worked collaboratively with teams across IHG (including Human Resources, Business Reputation and Responsibility and Procurement) to consider the broader environmental and social risks associated with our business. These risks and opportunities are considered as an integral part of Board strategy discussions in relation to our commitment to responsible business. In 2019, this culminated with the approval of a science-based target relating to carbon reduction.
- As part of our responsible business strategy refresh work, we are also working with third-party experts to develop our responsible business targets for post 2020 and have made a formal commitment to implement the recommendations of the TCFD. In 2020 we will be developing a disclosure roadmap for the coming years. More broadly we recognise that continued collaboration across the wider industry is required to collectively combat climate change. We are taking an active role in this via our membership and active participation in several industry bodies, including the International Tourism Partnership (ITP) and the World Travel and Tourism Council (WTTC).
- Our values and behaviours, underpinned by our Code of Conduct, inform our decision-making at all levels. For example, specific elements of our Code of Conduct define expectations for IHG employees in relation to human rights and the environment. Our Supplier Code of Conduct and Human Rights Policy have been updated during 2019 and our Procurement, Legal and Risk teams monitor supply chain and human rights risks, see pages 26 and 27.

The environment in which IHG develops and operates hotels continues to evolve and impacts the safety and security risks faced by IHG. These risks are assessed as stable overall, but our approach is reviewed continuously to ensure that it remains fit for purpose, and able to anticipate and respond to the risk of an incident damaging the Group’s reputation.

- Our design and engineering, hotel opening and operations teams work together with our risk management experts to evaluate standards and develop capability to respond to an incident via training, intelligence tracking and standard operating procedures, and also deploy crisis management procedures where required for less predictable events.
- For example, the risks of epidemics such as Covid-19, earthquakes and extreme weather events continue to pose a threat to IHG’s operations, and are managed through refresher training, advanced monitoring and warning and standard operating procedures.
- In relation to geopolitical and terrorism risks, we deploy external industry benchmarking to allocate all pipeline and operational hotels a threat category. The category definitions are designed to guide hotels to make their own risk-based decisions on how to mitigate local security threats. Categories are reviewed regularly to adjust to the dynamic threat environment in which IHG develops and operates hotels.
- We continue to monitor UK Government and Local Authority investigations into the Grenfell tragedy. We will review our own fire and safety requirements once any changes and/or recommendations to building regulations and best practice are published, and will work with owners and operators of IHG branded hotels to provide appropriate support and guidance.
- IHG has also created a toolkit and resources for hotels to use to provide guests with menu allergen information, making it easier for them to identify ingredients they need to avoid.
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| A material breakdown in financial management and control systems would lead to increased public scrutiny, regulatory investigation and litigation. This risk includes our ongoing (and stable) operational risks relating to our financial management and control systems; the continuing expectations of IHG’s management decision making and financial judgements, in response to evolving accounting standards, which have added complexity to our control responsibilities; and our own business model and transactions. | ![Trend Icon] | ![Impact Icon] | • We continue to operate an established set of processes across our financial control systems, which is verified through testing relating to our Sarbanes-Oxley compliance responsibilities. See pages 73 and 160 to 163 for details of our approach to taxation, page 73 for details of our approach to internal financial control, and pages 182 to 185 for specific details on financial risk management policies. These processes and our financial planning continue to evolve to reflect the changes in our management structure and business targets.  
• To mitigate risks from adoption of the new accounting standard, IFRS 16 ‘Leases’, existing controls were modified and new controls added. Controls are revisited at least once a year for modification or addition.  
• As our hotel estate evolves and grows, we also adapt our approach to financial control. Given the differences in the culture and ways of working across our regions, we apply globally and/or regionally consistent policies and procedures to manage the risks, such as fraud and reporting risks, wherever possible.  
• Our Group insurance programmes are also maintained to support financial stability. |