

Risk management

IHG believes that an essential part of being a responsible business is having in place robust and effective risk management and internal controls. This supports our business to be resilient, successful and trusted.

Risk management system

IHG has an effective risk management system and internal controls which provide assurance to its shareholders. These are well established and help IHG to protect against known and emerging risks and to cope with the unexpected. The Group develops the risk management system, strategies and controls as a result of continuous learning by management, which in turn drives the focus of the Major Risk Review and Global Internal Audit programme. Our internal controls and risk management system aims to support the achievement of business objectives and protect our business, in particular:

- our brands, business model and reputation across key stakeholders;
- the delivery of our strategy, commercial targets and plans for change; and
- the safeguarding of physical assets, people, systems and processes.

The risk environment that we operate in can be difficult to predict and is rapidly changing. There are many risks that could impact the Group's brands and reputation and, therefore, IHG is giving particular emphasis to developing its reputation risk management capability and strengthening its culture of doing business responsibly.

The key features of IHG's risk management system are:

- embedded risk management processes to consistently identify and manage key risks to the business;
- a holistic approach to risk assessment applied through Strategic, Tactical and Operational risk perspectives;
- risk strategies, controls and outcomes that support the business and reduce unnecessary risk exposure; and
- a proactive risk and crisis management culture, through leadership and training.

Embedded risk management processes

IHG has a Major Risk Review process in place to identify, manage, monitor and report the principal risks and uncertainties affecting the Group (the Major Risks). The Board has ultimate responsibility for the Group's strategy and risk management as explained on page 70 and the Audit Committee annually reviews the effectiveness of the Group's systems of internal control and risk management. In addition, the Executive Committee as a whole is accountable for managing risks and as such all Major Risks have named Executive Committee members who ensure that effective risk mitigation and control strategies are in place.

Underpinning the Group's Major Risk Review process, each of the regions and functions have their own risk profiles which are updated biannually in line with the activities of the strategic planning cycle. During the interim periods, continuous dialogue

takes place between risk owners and the Global Risk Management team to develop, execute and monitor detailed risk plans and strategies for key risk exposures.

The Risk Working Group (RWG) provides a long-term, global and strategic perspective to the risks faced by IHG. Its mandate is to improve cross-functional working and effective risk management of the highest priority and emerging risks affecting IHG. The RWG is chaired by the General Counsel and Company Secretary and comprises the Heads of Global Risk Management, Global Strategy, Programme Office and Global Internal Audit. Major Risks are regularly discussed as part of Board, Executive Committee and senior leadership meetings. In addition, the Major Risks are collectively discussed at least twice annually at the meetings of the Executive Committee, Audit Committee and the Board.

Holistic approach to risk assessment

IHG conducts risk assessments to identify, prioritise and distinguish risks it wishes to take from those it must mitigate. IHG thinks broadly about potential threats – whether they are strategic, tactical or operational in nature.

Strategic risks: these are risks arising from IHG's relationship with the external environment and can impact on IHG's ambition and strategy over the long term. Strategic risks are a key feature of the Board and Executive Committee agendas, regional and functional strategy setting and are considered during decision-making on strategic issues such as the selection of future growth markets, the selection of strategic business partners and decisions pertaining to potential new initiatives.

Tactical risks: these are risks that could impact the delivery of IHG's one to three-year targets including implementation of projects. These include factors influencing IHG's ability to sign and open new hotels, the performance of existing hotels and delivery of projects. These are managed by senior operators and overseen by the Regional Operating Committees. In addition, project risks are managed by project management teams and business sponsors with oversight provided by the Programme Office.

Operational risks: these include a wide spectrum of day-to-day risks that front-line hotel colleagues and corporate teams face when dealing with guests or ensuring corporate systems and processes are running smoothly. A critical aspect of this is managing the safety and security of our people and assets and the continuity of the business. For some parts of the business, operational risks also include managing third-party service providers and the wider supply chain. Due to the nature of operational risks, IHG typically mitigates these through internal controls, operational and business processes, systems and tools. Oversight roles exist through the management line, the Regional Operating Committees and functional leadership teams.

External recognition



IHG's Risk Management team working in conjunction with Oxford Brookes University was awarded the 2013 Best Partnership of the Year at the Institute of Risk Management Global Risk Awards.



Our risk management training programmes were awarded Gold Award for the Best e-Learning Widespread Adoption at the 2013 LearnX Impact Awards.

Risk actions and outcomes

Fundamental to IHG's approach to risk management is that it is action-oriented and yields tangible outcomes in the business, thereby reducing risk exposures. There are numerous risk management programmes and activities that achieve this, including our hotel safety and security action plans, business continuity plans and crisis management programmes.

In developing our plans and programmes, we considered both our first-hand experience in managing events at our hotels, such as natural catastrophes and civil unrest and other possibilities which may impact IHG's central operations, brands and reputation. We have also linked our crisis management programme with the IHG Shelter in a Storm Programme (explained on page 32).

Proactive risk and crisis management culture

IHG believes the value of risk management is realised through a proactive risk management culture and capability. To this end, IHG has developed numerous support and guidance materials, implementation toolkits, training and control systems and made these available to all hotel and corporate colleagues in various languages in order to build our risk management maturity and culture.

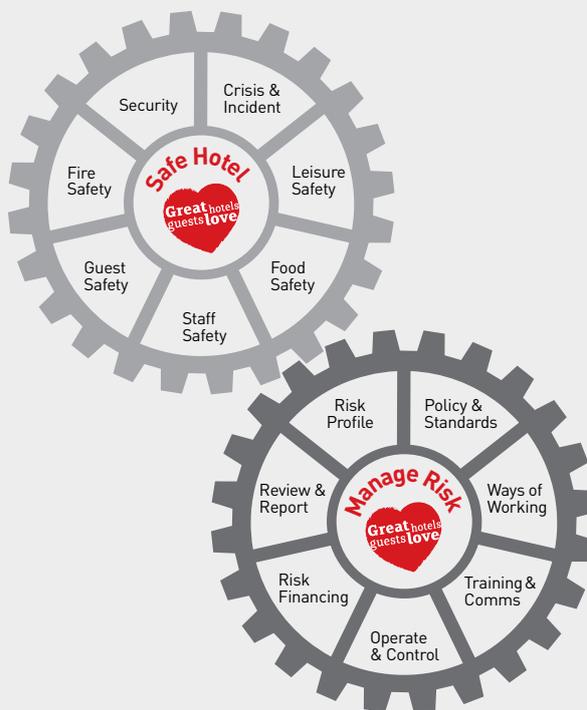
Ensuring health, safety and security

Providing and supporting a safe and secure environment for our guests, employees and those working at or otherwise visiting our hotels and corporate offices is paramount, and therefore IHG applies high standards of health and safety across the Group. We ensure the protection and wellbeing of those working for IHG through suitable work-based strategies; minimise the risk of injury from work activity; ensure that sufficient information and systems are in place to address health and safety concerns; and involve employees in the continuous improvement, reporting and review of health and safety matters. We have established a set of policies, procedures and measures and require all to comply with relevant legislation.

Hotel health, safety and security

Recognising the importance of operating safe hotels, our commitment to safety, security and crisis management in hotels is a fundamental part of being a responsible business. We therefore require hotels to comply with a set of global Brand Safety Standards. We also support hotel owners, General Managers and hotel employees to manage risk effectively by giving them a systematic approach and framework to follow and providing them with user-friendly tools and training. Where appropriate, IHG's risk management training is accredited by relevant recognised bodies such as the Chartered Institute of Environmental Health.

We have developed a Safe Hotel/Manage Risk framework (depicted on the right), which enables a consistent approach to managing safety and security risk in IHG hotels. It comprises two mechanical cogs meshed together, showing different types of safety and security risks in the 'Safe Hotel' cog meshed against the actions described in the 'Manage Risk' cog. This framework is actively promoted by IHG's risk managers around the world, working with hotels and their management teams in order to keep IHG hotels safe and secure.



Hotels are assessed by various methods, including self-assessment, guest satisfaction surveys, design and engineering plans, incidents, intelligence gathering, quality audits and risk management reviews. Hotel management teams discuss issues at monthly safety meetings and develop action plans. Risks are prioritised, responsibilities assigned and improvement actions identified, progressed and monitored. Action plans are reviewed as necessary by appropriate people to escalate and drive action or develop common solutions.

Risk management continued

Managing risks in a changing environment

We continue to experience a dynamic external risk environment with changes in political, economic, social, technological, legal and environmental risks. However, we do see the global macroeconomic conditions improving. We see the Group's business model, diversity of brand portfolio and wide geographical spread contributing to our resilience to events that could affect specific hotels, local areas or all but the most significant countries.

The table below sets out the principal risks and uncertainties (the Major Risks) in the context of delivering against our strategy for high-quality growth (as described on pages 18 to 33). These are perceived as the most dynamic risks and are therefore proactively managed and monitored by senior management. These complement the wider comprehensive risk factors set out on pages 164 to 167.

Risk description	Control and mitigation activities
<p>Preferred brands Having a portfolio of preferred brands with a clear, distinct brand proposition (delivering a consistent guest experience, regardless of our predominantly managed and franchised business model) and a global presence aimed at meeting the changing needs of our guests, is crucial to creating brand preference, loyalty and advocacy. Failure to achieve this could impact on IHG's competitive position and its reputation with owners, investors and guests.</p>	<ul style="list-style-type: none"> • IHG has a complementary and differentiated portfolio of nine brands (see page 17), each of which is designed to meet a wide demographic of guests and differing guest occasions and needs through distinct brand propositions (see page 29). • IHG continues to review and refresh both its brands and brand standards, giving particular consideration to the optimisation of global requirements while retaining local distinctiveness. • IHG has built awareness and loyalty, particularly across our priority markets, through a blend of global and local marketing promotions, sponsorships and brand initiatives. • In 2013, IHG relaunched its loyalty programme to IHG Rewards Club to clearly communicate to consumers that all of our brands are part of the same IHG brand family and to therefore encourage guest loyalty and cross-sell opportunities. • IHG manages brand consistency through the entire hotel life cycle commencing with development through to due diligence and deal approval processes, which help us select appropriate sites and owners. This is supported by clear contractual terms, new hotel opening processes, brand standard requirements and quality compliance processes. We also provide central support tools, training and guidance to assist those working at our hotels and owners to enable them to deliver brand consistency and thereby support the success of the hotel. However, to maintain high-quality growth in the IHG System, IHG may be required to exit non-compliant hotels.
<p>People, talent and culture IHG must recruit and retain the right people, give them the tools, guidance and support to be successful and to influence behaviour and culture in order to deliver a preferred brand promise. High growth and emerging markets are a particular challenge, and ensuring we have the right leadership is crucial. Failure to manage our people, talent and culture could impact on our service delivery, financial performance and longer-term growth.</p>	<ul style="list-style-type: none"> • IHG has in place a comprehensive global people strategy to ensure we are able to find and retain the right people to deliver our preferred brands at our hotels and corporate offices and we continually review the tools, systems and guidance we offer them. • We are constantly evolving our recruitment strategies. We have in place different strategies for different markets to ensure we have the most appropriate and effective methods and channels for talent attraction and recruitment. The IHG Academy also assists us with recruiting for our talent pipeline. • IHG proactively manages succession planning and has formal programmes in place to help its people grow their careers. Incentive plans for senior leaders are aligned to IHG's strategy to ensure longer-term growth.
<p>Channel management and technology platforms Travellers now have access to far more information through comparison websites, search engines and online travel agents. Booking channels and technological systems are a key part of the guest journey and an important value driver for our owners. This is also an area where there is rapid change in terms of technology, guest expectations and relationships with online travel agents and other intermediaries.</p> <p>Threats to information security, from payment card information to other information held in IT systems or, in paper format and other media, remain of concern.</p> <p>Failure to effectively manage and keep under review our channels, information technology infrastructure and technological systems to optimise performance and resilience could impact on the Group's revenue and delivery channels, guest experience, return for our owners and investors and the Group's future performance.</p>	<ul style="list-style-type: none"> • IHG recognises that technological advances and changing guest expectations mean that we must continually invest in and improve our systems and reservations channels. We have in place a multi-channel management strategy that focuses across the entire guest journey and encourages guests to book directly through IHG's channels and reservation systems. • Recognising the growing trend amongst some travellers to book through online travel agencies and intermediaries in search of better value, IHG proactively manages and seeks to improve terms and conditions of our relationships with these partners and continues to support roomkey.com, a meta-search website launched in 2012 in partnership with other hotel companies. These activities compliment our wide programmes and activities to encourage guests to book direct. • IHG's Global Technology function works collaboratively with specialist third-party technology partners to continuously monitor, manage and optimise our systems and channels, including their resilience through backup systems and business continuity practices, to enhance all aspects of the guest journey. • Operating in nearly 100 countries and territories, IHG takes information security very seriously and has applied risk-based methods to build capability and resilience into our systems and processes. The Group manages data security to contain the risk and reduce the Group's exposure, tightly controlling sensitive data through limited and monitored access. • IHG continues to aim to be fully compliant with Payment Card Industry – Data Security Standards (PCI-DSS) using tools and services from a leading specialist third-party provider with respect to payment card processing.

Risk description**Control and mitigation activities****Owner proposition**

As a result of IHG's predominantly franchised and managed business model, managing relationships with our existing, new and potential owners is important. General trading conditions and the economic outlook also affect the availability of capital to current and potential owners. Failure to manage relationships and the macroeconomic outlook may have an impact on the existing IHG System, our operations and our development pipeline.

- To ensure that IHG is continually considering its owners, the IHG Owners Association is the primary channel through which IHG engages with them. In addition, regional teams build relationships with owners through a variety of methods, including formal and informal communications and owner conferences. By agreeing a set of priorities together, and continually reviewing and updating our central support tools and systems, including revenue management tools, we aim to offer a compelling owner proposition.
- The use of the System Fund (described on page 16) is also managed by IHG for the benefit of all our hotels with the objective of driving revenue for them. The use of this fund is reviewed annually in collaboration with the IHG Owners Association.
- IHG's scale, diverse portfolio of brands, segments, countries of operation and mix in business model positions it well from short-term macroeconomic impacts and we continue to monitor macroeconomic conditions and make necessary adjustments, including cost optimisation programmes where appropriate. However, we recognise that macroeconomic issues can impact upon potential and existing owners and we therefore continue to review our business model and the owner proposition in light of these.

Reputation and brand protection

IHG recognises the importance of its brands and reputation as important assets for the business. Protecting them requires IHG, all those working in our hotels and corporate offices, owners and business partners to behave responsibly.

Failure to safeguard the reputation of IHG and its brands could have severe impacts on the Group's future performance.

There is also a constant need to protect the safety and security of our guests, employees and visitors.

- Responsible business underpins our strategy, by being an essential part of Disciplined Execution. Our Business Reputation and Responsibility function comprises a team of lawyers, brand standard compliance managers, chartered secretaries, corporate responsibility specialists, risk managers and internal auditors who work together to champion and protect the trusted reputation of IHG and its brands, including brand and intellectual property protection.
- IHG aims to embed a responsible business culture throughout the organisation, leveraging our Winning Ways (see page 21) to encourage those working at IHG to promote and protect our trusted reputation. To assist with this, we have in place various internal programmes, policies and training, including our Code of Conduct.
- IHG's proactive risk-based approach to hotel safety and security (summarised on page 35) aims to ensure guest and employee safety and the security of hotels and office buildings. IHG has also put in place a crisis management programme to ensure our hotels and corporate offices are prepared for unexpected or unknown events.