RISK GOVERNANCE

Role of the Board

The primary role of the Board of Directors ("Board") of Travellers International Hotel Group, Inc. ("TIHGI") is to promote TIHGI's long-term health and prosperity. The Board is committed to oversee the company's performance, risk management and culture and to promote the creation of enduring value by supporting its purpose to realise opportunities for the benefit of our clients, community, shareholders and our people. The Board is ultimately responsible for the framework, including oversight of its operation by Management.

Role of Management

The Group Heads of the business units are responsible for the implementation of the risk management framework in their groups. They are required semi-annually to attest that key risks have been identified and are adequately controlled in their groups.

Three Lines of Defence

The assumption of risk is made within a calculated and controlled framework that assigns clear risk roles and responsibilities represented by 'three lines of defence':

– primary responsibility for risk management lies with the business. The risk owner is the first line of defence. An important part of the role of all staff throughout TIHGI is to ensure that they manage risks appropriately

– the Risk Management Department (RMD) forms the second line of defence and independently assesses all material risks

– Internal Audit, as the third line, provides independent and objective risk-based assurance on the compliance with, and effectiveness of, the risk management framework on both enterprise-wide and business function levels

RISK MANAGEMENT FRAMEWORK

Overview

TIHGI's risk management framework is the totality of systems, structures, policies, processes and people within TIHGI that identify, measure, monitor, report and control or mitigate internal and external sources of material risk. Material risks are those that could have a material impact, financial or non-financial on TIHGI.

TIHGI material risks include operational, compliance, reputational, financial and strategic risks. The risk management framework applies to all business activities across all operations.

Key components

Core risk management principles

TIHGI's principles have remained stable and continue to be effective. These are:

– ownership of risk at the business level: Group Heads are responsible for ownership of all material risks that arise in, or because of, the business' operations, including identification, measurement, control and mitigation of these risks.

– understanding worst case outcomes: TIHGI's risk management approach is based on examining the consequences of worst case outcomes and determining whether these are acceptable.

Risk Management Department (RMD)

RMD, which forms the second line of defense, is an independent and centralized function responsible for assessing and managing risks across TIHGI. RMD designs and oversees the implementation of the risk management framework and employs an integrated approach to risk analysis and management across risk classes. RMD's assessment and monitoring of risks involves a collaborative effort across the teams to ensure a detailed analysis takes place both at the individual and aggregate risk level. RMD's oversight of risk is based on the following principles:

– Independence: RMD is independent of the Operations Group. The Director of RMD, reports directly to the Board with a secondary reporting line to the CEO.

– Centralized prudential management: RMDs responsibility covers the whole of TIHGI. It assesses risks from a TIHGI-wide perspective and provides a consistent approach across the organization

– Continuous assessment: RMD continually reviews risks to account for changes in the environment developments within TIHGI's business

– Periodic monitoring and reporting: The risk profile of TIHGI with respect to all material risks is monitored by RMD on an ongoing basis. Reporting on all material risks is provided to Senior Management and the Board.

Internal audit

The Internal Audit, as the third line, provides independent and objective risk-based assurance to the Board Risk Oversight Committee (BROC), other Board Committees and Senior Management on the compliance with, and effectiveness of, TIHGI's financial and risk management framework. Internal Audit assesses whether material risks have been properly identified and key controls have been properly designed and are operating effectively and sustainably to mitigate those material risks.

Policies

Policies are a key tool to ensure that risks taken are consistent with the Board's risk appetite. They set out the principles that govern the acceptance and management of risks. They are designed to influence and determine all major decisions and actions, and all activities must take place within the boundaries set by them.

Limits

In many cases, limits translate risk appetite into hard constraints on individual businesses. These consist of granular limits for specific risk types. TIHGI sets limits with reference not only to capital but also to earnings so that in a prolonged, severe downturn, earnings and surplus capital are sufficient to cover losses and maintain market confidence in TIHGI.

Risk culture

TIHGI's approach to maintaining an appropriate risk culture is based on the following components:

Setting behavioral expectations

Senior Management, with oversight from the Board, set behavioral expectations. Staff are made aware of that TIHGI's principles stand for. These behavioral expectations are specified in the company's approved Code of Conduct, which is actively promoted by management and cascaded through the organization.

Leading and executing

Management implements behavioral expectations through:

– leadership actions and communication
– organizational governance
– organizational and individual capability.

Monitoring, and Risk Reporting

RMD continuously identifies risks and establishes the best methods of dealing with those risks.

The implementation of the risk assessment tools (which aim to identify, measure and monitor various business risks) ensures the effectiveness of response measures, and identifies any changes that would impact the risk posture of the company.