



Risk Management Policy

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1. Purpose

The purpose of this “**Risk Management Policy**” (hereinafter, the “Policy”) is to reflect the main characteristics of the Risk Management System of Millenium Hospitality Real Estate (together with its subsidiaries, referred to collectively as “MHRE”, or the “Company”).

Specifically, this policy is aimed at:

- Establishing the basic principles and general frame of action for the control and management of the risks that MHRE faces.
- Promoting the implementation of the Risk Management System in MHRE.
- Formalising the commitment to proactive risk management undertaken by the management of MHRE.

The Board of Directors (hereinafter, the “Board”) is responsible for MHRE’s Risk Management System as a whole and establishes, through this Policy, the following **specific and fundamental objectives** for the adequate management of risks:

- Promote compliance with the strategic objectives of MHRE.
- Provide the highest level of assurance to shareholders and interested parties (i.e. employees, suppliers, customers etc.).
- Align risk management in MHRE with the COSO ERM 2017 methodology, as the most habitual risk management practice at international level.
- Establish, for its Subsidiaries, the minimum risk management guidelines that must be followed.
- Understand the main risks and avoid losses derived from the materialisation of such risks, in both MHRE and its Subsidiaries.
- Ensure sustained business stability and financial soundness.
- Protect the image and reputation of MHRE and its brand.
- Ensure continuity in the analysis and detection of potential threats and new risks in order to analyse their impact and likelihood of occurrence.

In this vein, the Board of Directors, as the body responsible for MHRE’s Risk Management System, shall entrust the Chief Executive Officer (CEO) of MHRE with the development of the aforementioned objectives.

The CEO, on its part, shall be able to delegate these functions to a member of the management team.

2. Scope

This Policy applies to all the administrators, directors and employees of MHRE (hereinafter, “Subject Persons”) and its subsidiaries, irrespective of their geographic, hierarchic or functional location and contractual arrangement that determines their relationship with the company. This Risk Management Policy establishes the minimum instructions that MHRE shall abide by.

3. Definitions

Below is a glossary of some of key terms used in this document:

- **MHRE:** Millenium Hospitality Real Estate, as defined at the beginning of this Policy.
- **Event:** incident or event that could become a risk and affect the attainment of MHRE's objectives.
- **Risk:** any event or contingency, internal or external, which in the event of occurring, would prevent or hamper the attainment of MHRE's strategic objectives.
- **Risk Catalogue:** list of risks that might affect MHRE.
- **Impact:** economic, legal or reputational consequence of the materialisation of a risk which may adversely affect the attainment of MHRE's objectives.
- **Likelihood of Occurrence:** likelihood of a risk materialising in the future.
- **Control:** activity, procedure or process designed to reduce the likelihood of a risk occurring or mitigate its impact in the event that it materialises.
- **Risk Appetite:** level of risk that MHRE is willing to accept in order to achieve its strategic objectives.
- **RMS:** Risk Management System

4. Risk Management System

4.1. Basic principles of risk management

MHRE's Risk Management System shall, at all times, consider the following principles:

- **Strategy:** the RMS shall be integrated in the strategic planning and day-to-day activity of MHRE. Likewise, MHRE shall ask its subsidiaries to implement risk systems aligned with its own risk management system, albeit adapted to their specific needs and circumstances.
- **Time horizon and anticipation:** The RMS shall consider the relevant events for MHRE in the short, medium and long-term, in order to facilitate the anticipation of their materialisation and enhance the response capacity.
- **Governance:** The management of MHRE seeks to align itself with good corporate governance practices through an adequate RMS.
- **Culture:** the RMS is a key element in preserving the values of MHRE and its response mechanisms for events that might pose risk.
- **Transparency:** The RMS promotes an adequate flow of information on the Company's main risks to the Board of Directors and other interest groups. In this respect, the Company's main risks shall be reported to the Board at least once a year.
- **Responsibilities:** The RMS is the responsibility of the Board of Directors of MHRE. Responsibility for the management of this system lies with the CEO of MHRE, who shall clearly assign responsibilities for the management of each risk.

4.2. Risk typology

MHRE's risks are classified into the following categories according to their nature:

- **Strategic risks:** these are risks that affect high-level objectives linked to the achievement of the strategic plan (relating to the external and internal environment).
- **Operational risks:** these are risks that affect objectives linked to the effective and efficient use of resources throughout the value and support chain processes.
- **Financial risks:** these risks are associated with financial information, changes in the market and in the value of investments, interest rates.
- **Compliance risks:** these are risks that affect objectives linked to compliance with applicable laws, rules and internal procedures.

4.3. Risk Management Process

The **approach**, steps and main activities of MHRE's Risk Management Process are set out below:

4.3.1. Risk identification

The risk identification process used to create MHRE's Risk Map is based on the creation of a Risk Catalogue, organised by categories, based on an analysis of the internal and external environments in which MHRE operates.

4.3.2. Definition of criteria and rating scales

At MHRE, risks are assessed in terms of **Likelihood of Occurrence and Impact** and based on Risk Appetite, in accordance with the following criteria:

- **Financial:** negative deviation from the financial objectives of the Organisation.
- **Compliance:** legal consequences (e.g. penalties, fines, legal proceedings etc.) resulting from non-compliance by the Organisation.
- **Strategic:** negative deviations that affect the attainment of high-level objectives (e.g. Macro-economic and socio-political factors, competitors, etc.)
- **Operations:** deviations that adversely affect the attainment of all those objectives linked to the effective and efficient use of resources (e.g. Sale and selling prices, relationship with wholesalers, etc.).

4.3.3. Risk analysis, assessment and prioritisation

Once the risk catalogue and rating scales have been defined, the risk assessment, in terms of Likelihood of Occurrence and Impact (on a scale of 1 to 5 in both cases), is carried out by key staff of MHRE, based on their experience and knowledge of MHRE.

The risk assessment results in the calculation of the severity of the risk, expressed on a scale of 1 to 25, with 1 being the lowest residual value and 25 the highest (result of multiplying probability by impact).

4.3.4. Creating a Risk Map

The results of the risk assessment are consolidated in the Risk Map, a graphic, systematic and organised representation of the Risk Catalogue, which enables visualisation of the magnitude and relevance of risks on an axis of co-ordinates based on the previously defined Likelihood of Occurrence and Impact criteria (Axis X: risk impact; Axis Y: likelihood of occurrence).

5. Organisational structure of the Risk Management System

The duty to control and manage risks in MHRE falls on all members of MHRE, under the leadership of the CEO.

5.1. Risk Co-ordinator

The Risk Co-ordinator, role assumed by the risk manager, is the person designated by the Board of Directors, at the proposal of the Board of Directors, as the person responsible for day-to-day co-ordination tasks relating to the RMS.

To this end, the functions and responsibilities assigned to the Risk Co-ordinator are:

- Defining, and where appropriate, updating the Company's Corporate Risk Catalogue.
- Conducting risk assessment interviews with key staff members of the Company and consolidating and prioritising the Company's risks in a Corporate Risk Map.
- Overseeing the risk information sheets completed by the risk managers, based on the following information reported by the providers of risk-related information:
 - Trends in the KPIs associated with the risk.
 - Execution, design and effectiveness of control measures designed and implemented to mitigate risk.
 - Developments in action plans.
- Reporting the following to the CFO:

(i) Corporate Risk Map:

- Consolidated and prioritised risk map based on the assessment of the interviewees.
- Summary of the comments and knowledge obtained during the interview, i.e. areas of special concern, cause, effect, risk tendencies, new controls, etc.
- Key changes in relation to the previous year's risk map.
- Dispersion analysis of the risk assessment

(ii) Risk information sheets

- Current risk status of the Company, specifying (i) whether any risks have been subject to change prior to the annual risk assessment process; and (ii) which ones have been assigned as risk owner, as well as any change in the current assignees.
- New emerging risks and/or new causes/effects associated with existing risks.
- Developments in the control design and implementation process/ KPI.
- Trends in KPIs associated with key risks, i.e. those with incidents or close to the threshold defined by the risk owner.
- Developments in action plans associated with key risks.

5.2. CFO

The CFO is responsible for the following:

- Proposing the key staff to be interviewed for the updating of the Corporate Risk Map.
- Reviewing and proposing adjustments to the work carried out by the Risk Co-ordinator, i.e. prioritisation of the Company's main risks, the manner in which risks are presented, etc.
- Validating that the action plans conform to the Company's capacity to mitigate its key risks.

Furthermore, the CFO reports a summary of the information that is reported to it by the Risk Co-ordinator to the CEO, or person designated by the latter, highlighting the key elements that should be reported to the Board of Directors.

5.3. CEO

The person assigned by the Board of Directors as responsible for developing the specific and fundamental objectives of the RMS, the CEO is responsible for overseeing the RMS.

To this end, the CEO shall carry out and/or delegate the following functions and responsibilities:

- Validating the key staff to be interviewed for the updating of the Corporate Risk Map and persons assigned as risk managers.
- Reviewing and proposing adjustments to the work carried out by the Risk Co-ordinator, i.e. prioritisation of the Company's main risks, the manner in which risks are presented, etc.
- Presenting the results obtained from the risk management system to the Audit Committee.

5.4. The Audit Committee

The Body assigned by the Board of Directors as responsible for overseeing the management system for financial and non-financial risks, including tax risks, is the Audit Committee.

To this end, the Committee shall carry out and/or delegate the following functions and responsibilities:

- Overseeing the efficiency of the management system for financial and non-financial risks, including tax risks.
- Reviewing and proposing recommendations to the Board of Directors in the event of identifying weaknesses and establishing timeframes for the monitoring thereof.

Moreover, the Audit Committee is responsible for submitting to the Board of Directors the updated Corporate Risk Map and the most noteworthy aspects of the RMS.

5.5. The Board of Directors

As body responsible for the RMS, the Board of Directors is responsible for assigning roles and responsibilities to the persons involved in the Company's risk management and overseeing the functioning of the RMS.

Specifically, the functions and responsibilities assigned to the Board of Directors are:

- Establishing action guidelines and policies to be followed in relation to risk management.
- Ensuring that the instructions and policies indicated by MHRE are correctly followed and implemented.
- Approving the management/mitigation measures and action plans undertaken to reduce the Company's risks.
- Approving the Company's corporate risk maps.

6. Acceptance and compliance

This Policy is disseminated to all Persons Subject, who are required to comply with the Policy from the moment they join MHRE and during the performance of their professional duties for the latter, leaving evidence in writing of their acceptance.

7. Period of validity

This Policy has been approved by the **Board of Directors** and is incorporated into the internal regulations of MHRE, remaining in force until such time as its cancellation or alteration is approved. Any alteration to this Policy requires the approval of the **Board of Directors**.

8. Appendix: Adhesion to the Risk Management Policy

I, *[Full Name]*, employee of Millenium Hospitality Real Estate (MHRE), declare that I have received a copy of the Risk Management Policy and that I know and understand its contents which I hereby accept.

Signature:

Name:

Date
