

RISK COMMITTEE REPORT



Richard Dakin
Chair of the Risk Committee

2020 FOCUS AREAS

- The ongoing review of the Group's principal (see pages 50 to 57) and emerging risks (see page 45)
- Monitor the impact of the Covid-19 virus on London, our business and supply chain (see page 48)
- Continue to ensure health and safety risks are being effectively managed across the Group (see page 86)
- Review the risks arising at our key developments: 80 Charlotte Street W1, The Featherstone Building EC1 and Soho Place W1
- Continue to monitor trade negotiations with the EU and the possible impact on Derwent London

Dear Shareholder,

I am pleased to present our Risk Committee report for 2019 which describes our activities and areas of focus during the year.

Risk profile of the Group

The Group has been operating through a period of political and economic uncertainty following the referendum decision to leave the EU. Although political risks have decreased following the Conservative majority win in December 2019, the economic risks are likely to continue until a trade agreement is finalised with the EU.

The role of the Committee during this period has been to assure the Board that management are proactively preparing for various Brexit and trade outcomes which could impact on the Group (further information on page 49). This will continue as we await the final trade arrangements with the EU. Of particular concern is the impact unfavourable negotiations could have on the UK economy and specifically the London office market, which will feed through into our leasing and development activities.

Despite the uncertainty, the Group has taken several initiatives to reduce its risk profile, predominantly from a financial and pension perspective (see page 48). Additional information on the Group's management of Brexit-related risks is contained on page 49. The Board's risk tolerance is contained on page 132 of this report.

Key activities of the Committee

2019 was another busy year for the Committee. In addition to proactively reviewing the Group's risk register, the Committee's main areas of focus during 2019 were as follows:

- reviewed detailed Brexit contingency planning in respect of:
 - developments;
 - property management; and
 - investor relations;
- received detailed presentations on the Group's major developments (Soho Place, 80 Charlotte Street, The Featherstone Building) and the management of development risks (see page 132);
- received frequent updates on health and safety matters, including presentations on the management of fire- and water-related risks;
- received regular updates on RSM's progress against the 2019 Internal Audit Plan and performed a detailed review of the outcome of the audit on cyber security and risk management;
- approved a Group-wide mandatory compliance training programme (see page 134);
- received regular updates on IT security and the cyber security initiatives;
- as part of our anti-bribery and corruption controls, the Committee reviewed the Group's gifts and hospitality register (see page 133) and the Group's conflict of interest register on a quarterly basis (see page 110); and
- received an update on recent legal developments which are of particular relevance to the Risk Committee from the Group's legal advisers, Slaughter & May LLP.

Further engagement

The forthcoming AGM is on 15 May 2020 and I will be in attendance to answer any questions on the Committee's activities that you may have. If you wish to contact me, I am available via our Company Secretary, David Lawler (telephone: +44 (0)20 7659 3000 or email: company.secretary@derwentlondon.com)

Richard Dakin
Chair of the Risk Committee
25 February 2020

Committee composition

The Committee’s membership for the year under review is detailed in the table below. In addition to the Committee members, the Board Chairman, other Directors, senior management, the internal or external auditors may be invited to attend all or part of any meeting as and when appropriate and necessary.

	Independent	Number of meetings	Attendance
Richard Dakin, Chair	Yes	3	100%
Cilla Snowball	Yes	3	100%
Lucinda Bell	Yes	3	100%
Stephen Young ⁽ⁱ⁾	Yes	1	100%

⁽ⁱ⁾ Stephen Young attended all meetings until he stepped down from the Board on 17 May 2019.

The Committee’s role and responsibilities are set out in the terms of reference, which were last updated in August 2019, and are available on the Company’s website at: www.derwentlondon.com/investors/governance/board-committees

Meetings of the Committee

During the year under review, the Risk Committee met three times, in May, August and November (2018: three meetings). The meetings in August and November included a joint session with the Audit Committee to review the outcome of the internal auditor’s reviews (further information on page 126).

Committee performance evaluation

As part of the externally facilitated Board evaluation performed during Q4 2019, the Committee’s effectiveness was subject to review. No significant issues arose from the evaluation. However, a few minor improvements/focus areas were identified (further information on page 113).

Risk management

At Derwent London, the management of risk is treated as a critical and core aspect of our business activities. Although the Board has ultimate responsibility for ensuring the Group has robust risk identification and management procedures in place, certain risk management activities are delegated to the level that is most capable of overseeing and managing the risks (see chart 1).

In order to gain a comprehensive understanding of the risks facing the business and the management thereof, the Risk Committee periodically receives presentations from senior managers and external advisers.

A robust assessment of the principal risks facing the Group is regularly performed by the Directors, which takes into account the risks that could threaten our business model, future performance, solvency or liquidity, as well as the Group’s strategic objectives over the coming 12 months. Our principal risks are documented in a schedule which includes a comprehensive overview of the key controls in place to mitigate the risk and the potential impact on our strategic objectives, KPIs and business model. Due to its importance, changes to the Schedule of Principal Risks can only be made with approval from the Risk Committee or Board (changes to the principal risks during the year under review are on page 47).

Risks not deemed to be principal to the Group are documented within the Group’s risk register which is maintained by the Executive Committee. The Board reviews and approves the Group’s risk register on an annual basis and it is reviewed by the Risk Committee at each of its meetings. In addition, risks deemed to be key indicators of changes in the Group’s risk profile, or deviation from the Board’s risk tolerance, are singled out and reported upon at each Risk Committee meeting.

Following the Risk Committee’s reviews, the Committee confirmed to the Board that it is satisfied that the Group’s internal control and risk management procedures operated effectively throughout the period.

During the annual strategic review and approval of the five-year plan, the Board assesses the emerging risks being those that could impact on the business in the medium to long term (see page 45). Emerging risks are identified through roundtable discussions and horizon scanning. Emerging risks are discussed by the Committee at each meeting and are included within the ‘on watch’ section of the Group risk register.

Insurance

We use insurance to transfer risks which we cannot fully mitigate. Our comprehensive insurance programme covers all of our assets and insurable risks. We are advised by our insurance brokers, Marsh, who present to the Risk Committee on an annual basis. The Group’s insurers, RSA, perform regular reviews of our properties that aim to identify risk improvement areas.

p.47 Climate change risk

p.48 Tax risk

Chart 1: Our risk management structure



RISK COMMITTEE REPORT CONTINUED

'ON-SITE' RISK: PILING AT SOHO PLACE

All of our current large development projects utilise piled foundations. Piling work can be complicated by the below ground conditions and the structures beneath all central London sites. For example, transport and utilities infrastructure, past buildings, ordnance, archaeology and contamination can be present and require bespoke solutions to ensure the structural frame can be developed as planned. Piling work also typically occurs at the perimeter of a site, involving large machines working in close proximity to other buildings and members of the public. There can be imprecise or incomplete information of the below ground conditions and an unforeseen issue could lead to cost and time overruns (see 'on-site' risk on page 52).

The Soho Place development requires us to build above a newly redeveloped station (Tottenham Court Road station) containing a range of modern and historical structures that are operational 24 hours a day and can react differently to the redevelopment works being undertaken above them. In addition, the Soho Place site is in close proximity to other buildings and on a busy crossroad (Oxford Street and Charing Cross Road).

The choice of contractor was also heavily influenced by the complex groundworks that were planned. Laing O'Rourke demonstrated an engineering-led approach to the project, good relationships with TfL and a history of successfully delivering challenging groundworks projects in central London.

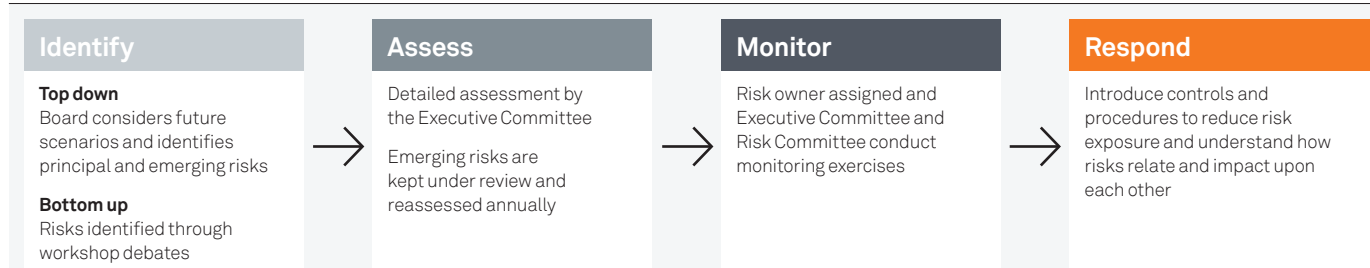
The Derwent London development team alongside the principal contractor, Laing O'Rourke, developed detailed mitigation plans to offset the risks arising at Soho Place including:

- the use of sophisticated equipment to monitor below ground movements to ensure there were no issues for nearby transport links;
- review of possible ordnance and contamination records at an early stage to define the associated risk as being low;
- the utilities on site were exposed and those that clashed with the piling layout were relocated and an accurate 3D model of the reburied services provided to Laing O'Rourke;
- extremely detailed technical alignment of pile locations, design detailing, and associated mitigation measures agreed with the Transport for London (TfL) Engineering Department;
- the employment of dedicated on-site engineers to undertake a series of quality assurance checks on the equipment, the designs and the information available; and
- installation of an innovative walkway system to ensure the public were completely separated from the works by a robust enclosure.

The Risk Committee and Board approved the mitigation plans and received regular updates on progress. The piling work at Soho Place was completed in April 2019, without incident and on programme. The lessons learnt from the Soho Place site were adopted at The Featherstone Building.



RISK MANAGEMENT FRAMEWORK



How do we identify risks?

- Top-down approach to identify the principal risks that could threaten the delivery of our strategy: at the Board’s strategy review on 21 June 2019, scenarios for the future were considered which assisted with the identification of principal or emerging risks and how they could impact on our strategy. The continuous review of strategy and our environment ensures that we do not become complacent and that we respond in a timely manner to any changes.
- Bottom-up approach at a departmental and functional level: risks are identified through workshop debates between the Executive Committee and members of senior management, analytical techniques, independent reviews and use of historical data and lessons learnt. Risk registers are maintained at a departmental/functional level to ensure detailed monitoring of risks. Risks contained on the departmental registers are fed into the main Group risk register depending on the individual risk probability and potential impact.

How do we assess risk?

Following the identification of a potential risk, the Executive Committee undertakes a detailed assessment process to:

- gain sufficient understanding of the risk to allow an effective and efficient mitigation strategy to be determined;
- allow the root cause of the risk to be identified;
- estimate the probability of the risk occurring and the potential quantitative and qualitative impacts; and
- understand the Group’s current exposure to the risk and the ‘target risk profile’ (in accordance with the Board’s risk appetite) which will be achieved following the completion of mitigation plans.

Where necessary, external assistance is sought to assess potential risks and advise on mitigation strategies. Emerging risks are kept under review via the ‘on watch’ register and reassessed during the annual strategy reviews.

How do we monitor risks?

Once a risk has been identified and assessed, a risk owner is assigned who is considered to be in the best position to influence and monitor the outcome of the risk. As part of our risk management procedures, the Executive Committee and Risk Committee routinely conduct monitoring exercises to ensure that risk management activities are being consistently applied across the Group, that they remain sufficiently robust and to identify any weaknesses or enhancements which could be made to the procedures.

Monitoring activities include:

- the regular review and updating of the Schedule of Principal Risks, the Group’s risk register and ‘on watch’ register;
- independent third-party reviews of the risk management process to provide further assurance of its effectiveness;
- alerting the Board to new emerging risks and changes to existing risks;
- monitoring how the risk profile is changing for the Group; and
- providing assurance that risks are being managed effectively and where any assurance gaps exist, identifiable action plans are being implemented.

How do we respond to risk?

We implement controls and procedures in response to identified risks with the aim of reducing our risk exposure, so that it is aligned or below our risk appetite. The successful management of risk cannot be done in isolation without understanding how risks relate and impact upon each other. At Derwent London, we consider the interconnectivity between risks which allows us to prioritise areas that require increased oversight and remedial action. The mitigation plans in place for our principal risks are described in greater detail on pages 50 to 57.

RISK COMMITTEE REPORT CONTINUED

Brexit

The Committee's responsibility was to ensure that management were proactively planning for the risks and challenges which could arise from the Brexit negotiations and the eventual outcome. At each annual strategic review since the referendum decision, the Board as a whole considered potential Brexit scenarios on the Group's five-year strategic plan and long-term viability. In addition, the Committee received regular presentations from senior management on contingency planning for our development projects, management portfolio, investor relations and other matters. An overview of how we are managing Brexit-related risks is on pages 49, 50 and 51.

During the year, the Audit Committee Chair received a letter from the FRC which detailed the critical actions that businesses should be addressing in preparation for Brexit. Management reported to both the Audit Committee and Risk Committee on these matters, and the Committees were assured they were being sufficiently managed.

Development risks

Our developments are large, high-value projects with build life cycles which can be up to five years. The success of our development activities is reliant on taking managed and carefully considered risks, which aims to deliver the office space our occupiers desire when it is needed.

Risk tolerance

Like any business, we face a number of risks and uncertainties. An overview of the Group's risk profile, including commentary on Brexit, is available on pages 46 to 49. The Group's risk tolerance is set by the Board and is the level of risk we are willing to accept to achieve our strategic objectives.

Our overall risk tolerance is low and is contained in our Risk Appetite Statement (see the table below for an overview of this statement). This tolerance, alongside our culture, informs how our staff respond to risk. Due to our open and collaborative work style, any potential problem, risk or issue is identified quickly so appropriate action can be taken.

Category	Risk tolerance		
Operational	Operational risks include health and safety risks, continuity of the IT system and retention of the senior management team.	Health and safety	Zero
		IT continuity	Low
		Staff retention	Medium
		Other operational risks	Medium
Financial	Other than market-driven movements that are beyond the Group's immediate control, the Group will not generally accept risks where it is probable that: <ul style="list-style-type: none"> Asset values decline by more than £100m from the Group's annual budget. EPRA profit before tax deviates by more than £5m from the Group's annual budget. Cost overruns occur on capital projects of more than 5% of the approved capex budget. The Group's interest cover ratio will fall to within 20% of the level set in the Group's borrowing covenants. <p>It is recognised that inherent market risk may result in these financial tolerances, in particular the assets limit, being exceeded. The Board accepts this market risk but seeks to manage and mitigate its impact where possible.</p>	REIT status	Low
		Credit rating	Low
		Decrease in asset value (>£100m)	Medium
		Profits (£5m)	Medium
		Cost overruns (>5%)	Medium
		Interest cover (<20%)	Medium
Reputational	The Group has a low tolerance for risk in connection with reputational risk. In particular, this level of risk tolerance relates to any action that could adversely affect the Derwent London brand.	Brand value	Low
Regulatory	The Group's tolerance for regulatory risk arising from statute or the UK Corporate Governance Code and from adherence to 'best practice' guides.	Statutory	Zero
		Governance	Low

Zero: The Board has a zero tolerance to risk-taking

Low: The Board is not willing to take any significant risks

Medium: The Board is willing to take measured risks if they are identified, assessed and controlled

High: The Board is willing to take significant risks

We have classified three development-related risks as principal to the Group – reduced development returns, 'on-site' risk and contractor/subcontractor default – these are discussed in further detail on pages 52 to 53. Due to the actions we have taken, fixing costs and advancing pre-lets, there has been a general reduction in development risks in 2019.

p.52 Risks arising from our development activities

The Risk Committee's role is to gain assurance that risks are being identified, effectively managed and where possible mitigated. At each meeting during 2019, the Risk Committee met with the Head of Development, Richard Baldwin, and members of the development team to discuss the Group's largest development projects and the management of risks.

In addition, the Committee discussed the Brexit contingency plans in place for our developments (see page 49 for further information).

During 2020, the Committee will visit The Featherstone Building development to see first-hand how construction and health and safety risks are managed.

Health and safety

The Group is committed to providing a safe environment at all our properties for the benefit of tenants, employees, contractors and visitors.

At each Committee meeting, a detailed update is provided on health and safety matters on both the managed portfolio and the development pipeline. The Committee also meets with ORSA, who were appointed as our corporate health and safety advisers for all construction projects from January 2017, on an annual basis. ORSA outlined to the Committee the key health and safety risks at the major construction sites, including 80 Charlotte Street, The Featherstone Building and Soho Place, and how these are being effectively managed.

p.86 Further information on health and safety

Credit Committee

The Credit Committee is a supporting committee within the Group's governance framework which meets on a weekly basis to assess and monitor the financial strength of potential and existing tenants. The Credit Committee is chaired by the CEO and its members include David Silverman (Executive Director) and senior members of the finance, leasing, property and asset management teams.

The Credit Committee's remit of responsibilities includes the assessment of:

- lettings to new tenants;
- additional space for existing tenants;
- renewals/regears;
- an existing tenant moving within the portfolio; and
- assignments/subleases.

The Credit Committee also reviews the 'Tenants at Risk' register to monitor the financial performance of existing tenants. As at 31 December 2019, the 25 tenants included on the 'Tenants at Risk' register represented 4% of the Group's contracted net rental income.

The Risk Committee conducted a review of the role of the Credit Committee during 2018, which was disclosed in the 2018 Annual Report on page 114. The Risk Committee confirmed that it was satisfied with the extensive due diligence process being undertaken by the Credit Committee.

Anti-bribery and corruption

We are committed to the highest standards of ethical conduct and integrity in our business practices and adopt a zero-tolerance approach to bribery and corruption. The Group's Anti-Bribery Policy was reviewed and approved by the Committee during 2019 and updated guidance provided to staff. An overview of our policies and procedures in this area is contained in the table below.

Corporate hospitality	Hospitality must be reasonable in value, appropriate to the occasion and provided openly and transparently. It must not compromise, nor appear to compromise, the Group nor the business judgement of our staff.
Business gifts	Generally, gifts should not be accepted unless valued less than £50, are not cash or a cash equivalent (e.g. gift certificate), are appropriate to the circumstances and are not given with the intention of compromising or influencing the party to whom it is being given.
Hospitality and Gift Returns	All staff are required to complete quarterly Hospitality and Gift Returns which document all instances of third-party hospitality or gifts (given or received) over that three-month period if the value is in excess of £50 for hospitality and £10 for gifts. The Hospitality and Gift Returns are subject to review by the Risk Committee.
Political donations	The Company strictly prohibits any political donations being made on its behalf.
Charitable donations	Charitable donations are handled by the Sponsorships and Donations Committee. 'Know your client' procedures are applied to charitable organisations to ensure we are dealing with a valid body acting in good faith and with charitable objectives.
Contractors and suppliers	Our zero-tolerance approach is communicated to all suppliers, contractors and business partners. Due diligence procedures determine if a third party has previous convictions under the Bribery Act. All contracts with suppliers or contractors prohibit the payment of bribes or engaging in any corrupt practice. The Company has the right to terminate agreements in the event a bribe is paid or other corrupt practice undertaken.
Supply Chain Sustainability Standard	Contains the minimum standards we expect from our major suppliers (further information on page 138).
Payments	All payments made must be warranted, transparent and proper. All payments must be accurately recorded through the normal accounting and financial procedures without any deception or disguise as to the recipient's identity or the purpose of the payment in question. No one approves their own expense claim. All expense claims must be approved by a Director or senior manager.
Facilitation payments	Facilitation payments are bribes and are strictly prohibited.
Conflicts of interest	All conflicts of interest or potential conflicts of interest must be notified to the Company Secretary and a register of such notifications is maintained. The Corporate governance statement on page 110 explains our process for managing potential conflicts.
Training	We provide our employees with guidance notes and regular training on anti-bribery, corruption, ethical standards and the prevention of the facilitation of tax evasion.
Whistleblowing procedures	A confidential helpline is available for staff to report concerns anonymously. Further information on page 109.

RISK COMMITTEE REPORT CONTINUED

Business continuity and disaster recovery

Cyber Essentials accreditation

As part of our ongoing commitment to cyber security, on 2 August 2019, Derwent London achieved Cyber Essentials accreditation having passed an external security scan of all internet-facing services and an assessment of technical and operational controls. Cyber Essentials is a government-backed, industry-supported scheme which helps guard against the most common cyber threats and demonstrates to stakeholders our commitment to cyber security.



Information and cyber security

To safeguard the security and privacy of information entrusted to us, we have robust procedures and a layered defence model in place. This ensures that we:

- maintain the confidentiality, integrity and availability of data and safeguard the privacy of our customers and employees, to ensure that the business retains their trust and confidence;
- protect the Group's intellectual property rights, financial interests and competitive edge;
- maintain our reputation and brand value; and
- comply with applicable legal and regulatory requirements.

Our cyber security procedures have been strengthened considerably in recent years in response to the increasing threat this poses to businesses, and it remains an area that we keep under continuous review.

During 2019, we requested that RSM, our outsourced internal audit function, conduct a review of our cyber security procedures (further information on page 126). The audit report suggested that there were no high-risk category findings requiring immediate action and that the Board can take reasonable assurance that the controls in place to manage this risk are suitably designed and consistently applied.

In November, the Committee reviewed the outcome of the audit and agreed the responses and time frames for implementing the audit recommendations. Management will be required to provide the Committee with a status update on the implementation of the recommendations at the Committee's August 2020 meeting.

The Committee reviews a dashboard of key risk indicators at each meeting which includes information security and cyber risk-related KPIs. During 2019, there were 201,532 (2018: 474) attempted attacks on our systems, none of which resulted in a security breach and 99.98% (2018: 99.9%) of the attempts were stopped before they reached the intended targets – this highlights the robustness of our cyber security posture. The dramatic increase in attempted attacks in 2019 compared to 2018 is predominantly due to enhanced email filtering reporting, which now includes blocked emails which have originated from known IP addresses with a poor reputation.

Our IT team tested the effectiveness of our ongoing security awareness programme in 2019 by sending fake phishing emails to staff in April and August and monitoring their response. Any staff member who clicked on the links contained in the test emails, or entered their credentials was provided with further training on the dangers and tips on how to identify phishing emails.

All staff attend mandatory information security workshops each year which focus on our policies and procedures, cyber and personal security. Our Group intranet also includes a 'tips and tricks' section for our staff with guidance on issues such as cyber security, social media and general security awareness.

p.48 Case study: simulating social engineering attacks

Compliance training

In May 2019, the Risk Committee approved a monthly training programme which aims to provide refresher training on a range of risk and compliance topics (including anti-bribery and corruption, data protection and modern slavery), to all employees and members of the Board.

Each month an introductory email is sent to participants advising them of why the training is important and links to further information (including Company policies and guidance notes). The training is accessed via an online portal and takes approximately 30 minutes per month to complete. The topics covered during 2019 included:

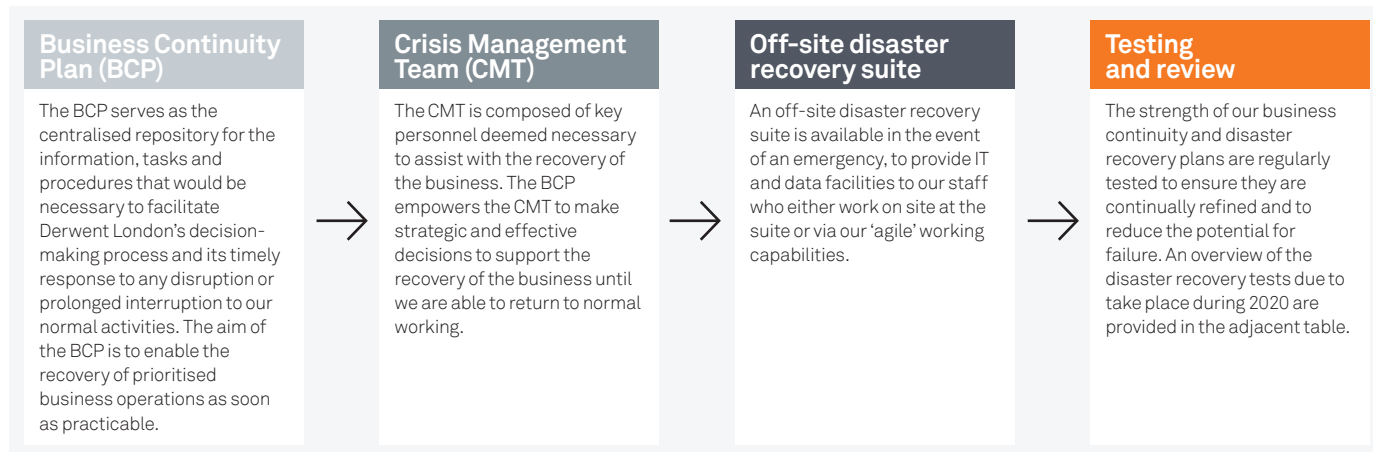
- insider trading;
- modern slavery;
- phishing, social engineering and information security;
- respect at work, preventing harassment and unconscious bias;
- anti-bribery and corruption;
- preventing the facilitation of tax evasion; and
- conflicts of interest.

The Committee were pleased with the level of engagement from employees for the new compliance programme with on average 96% of all participants (inclusive of the Board) completing their training on a monthly basis.

p.111 Board training in 2019

Disaster recovery procedures

Derwent London has formal procedures for use in the event of an emergency that disrupts our normal business operations which consist of:



A full business continuity test was last performed in September 2018 which was staged as a complete loss of power at our head office building at 25 Savile Row. The test was overseen by independent verifiers, IT Governance Limited, who assessed our procedures and efficiency. The entire process from the loss of primary power, transfer to our disaster recovery suite and roll back to Savile Row took 6 hours and 45 minutes (a 3 hour and 20-minute improvement on our last full test completed in October 2016). The next full business continuity test is scheduled for Q4 2020.

Business continuity tests planned for 2020/2021

Test	Purpose	Date
Business Continuity Plan review	The CMT meet to review and update the business continuity plan, review current threat levels and agree on any action points.	Q1 2020
IT Component test	A technical test of the individual components required to carry out a failover of IT services to our disaster recovery suite.	Q1 2020
Desktop review	A desktop exercise which uses a series of scenarios to rehearse decision making and familiarise the CMT members with their roles.	Q2 2020
IT disaster recovery test	A technical test to carry out a full IT systems failover from our offices to the disaster recovery suite.	Q3 2020
Full business continuity test	A full plan invocation exercise covering one disaster scenario and testing all contingency functions at the disaster recovering suite. Representatives from each department will confirm all business-critical functions are still available.	Q4 2020