

# RISK COMMITTEE REPORT



**Richard Dakin**  
Chair of the Risk Committee

## 2022 FOCUS AREAS

- Ongoing monitoring of the Group's principal and emerging risks
- Monitor the risks arising from material shortages, labour shortages and inflation (see page 107)
- Ensure health and safety risks are being effectively managed across the Group (see page 161)
- Review results of the energy performance certificate (EPC) feasibility and costs report (see page 55)
- Review the outcome, and potential impact, of the Planning Bill reforms

## Dear Shareholder,

I am pleased to present our Risk Committee report for 2021 which describes our activities and areas of focus during the year.

### Risk profile of the Group

2021 continued to be a challenging year for the Group, our occupiers and the wider economy. The risks arising from Covid-19 and the implications of the lockdown restrictions, continued to have an impact through the first half of 2021 and required careful management. Following the completion of the UK Government's roadmap to ease restrictions, we saw a stronger second half with the economy showing signs of recovery. Despite the easing of restrictions, uncertainty and risk remained.

The emergence of the new Omicron variant of Covid-19 in early December, led to the implementation of 'Plan B' restrictions which were later lifted from 26 January 2022. With the lessening of restrictions, the successful vaccination programme, and as guidance is shifting towards 'living with coronavirus', the outlook for the UK economy is looking more positive.

Arising from the upturn in the economy, the new challenges facing the Group and the wider economy are, material and labour shortages and inflation (see pages 101 and 107).

### Independent assurance

An important part of our overall risk governance is to review the results of independent external reviews on a variety of risks. During 2021, we received the following independent assurance:

- annual independent façade/fire risk assessments;
- annual Planned Preventive Maintenance surveys, which are conducted across the managed portfolio;
- six monthly risk assessment checks by external specialist water consultants;
- an independent risk analysis of the Group's key climate change-related risks;
- IT Governance performed an independent cyber security health check and vulnerability scan (penetration test); and
- RSM performed function specific audits during 2021, which included audits on our IT controls, lease management and procurement/contract management (see page 155).

### Key activities of the Committee during 2021

A significant proportion of the Committee's time this year was spent on overseeing the management of risks arising from the Covid-19 pandemic and the identification of emerging risks within the context of the Group's changing risk profile. We have again focused our attention on a variety of risks within four key categories: our business and clients, economic and political, environmental and technology.

I am grateful to the executive team and management for their proactive approach to the changing environment throughout the year. Particular focus was given to:

- Health and safety matters, including protecting our occupiers and employees, and statutory compliance
- Our occupiers, including their financial wellbeing, covenant strength and ability to use their office spaces (see page 106)
- Environmental risks and opportunities, including EPC regulatory compliance (see page 161)
- Cyber risk management (see page 162)
- Asset management risks, including lease expiries and vacancy rate exposure (see page 106)
- Development and supply chain risks (see page 107)

The Risk Committee remains satisfied that the Group's non-financial internal controls and risk management processes continue to operate effectively, and that its reviews did not reveal any significant weaknesses or failures.

### Further engagement

The forthcoming AGM is on 13 May 2022 and I will be available 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](mailto:company.secretary@derwentlondon.com)).

### Richard Dakin

Chair of the Risk Committee  
23 February 2022

### Committee composition and performance

The Committee's membership for the year under review is detailed in the table below. Helen Gordon will join the Committee as a member from 1 March 2022.

In addition to the Committee members, the Board Chairman, other Directors, senior management and the internal or external Auditors, may be invited to attend all or part of any meeting as and when appropriate or necessary.

During the year under review, the Risk Committee met three times (2020: four meetings). The meeting in August included a joint session with the Audit Committee to review the outcome of the internal auditor's reviews (see page 155).

	Independent	Number of meetings	Attendance <sup>(i)</sup>
Richard Dakin, Chair	Yes	3	100%
Lucinda Bell	Yes	3	100%
Sanjeev Sharma <sup>(i)</sup>	Yes	1	100%
Cilla Snowball	Yes	3	100%

Note:

<sup>(i)</sup> Percentages are based on the meetings entitled to attend for the 12 months ended 31 December 2021. Sanjeev Sharma joined the Committee following his appointment to the Board on 1 October 2021.

The Committee's role and responsibilities are set out in the terms of reference, which were last updated in November 2020, and are available on the Company's website at: [www.derwentlondon.com/investors/governance/board-committees](http://www.derwentlondon.com/investors/governance/board-committees)

The 2021 evaluation of the Board, its committees and individual Directors, was internally facilitated by Mark Breuer, the Non-Executive Chairman, in accordance with our three-year cycle of evaluations (see page 141). The review confirmed that the Committee continues to operate effectively, with no significant matters raised.

### 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 the Group's robust risk identification and management procedures, certain risk management activities are delegated to the level that is most capable of overseeing and managing the risks.

### Our risk management structure [page 160](#) →

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, taking 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. The Schedule of Principal Risks also includes an assurance framework to evidence how each control is managed, overseen and independently verified.

Due to its importance, changes to the Schedule of Principal Risks can only be made with approval from the Risk Committee or Board (changes made to our principal risks during 2021 are on page 101).

Risks not deemed to be principal to the Group are documented within the Group's Risk Register which is maintained by the Executive Directors, with assistance from 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.

### Risk documentation and monitoring [page 102](#) →

During the annual strategic review and approval of the five-year plan, the Board conducts a robust assessment of the Group's emerging risks, being those that could impact on the business in the medium- to long-term. Emerging risks are identified through roundtable discussions and horizon scanning. Emerging risks are discussed by the Committee at each meeting.

### Emerging risks [page 104](#) →

The Audit Committee reviews the adequacy and effectiveness of the Group's system of internal financial controls which are described briefly in the table on page 154. The Audit Committee remains satisfied that the review of internal financial controls did not reveal any significant weaknesses or failures and they continue to operate effectively.

### Internal financial controls [page 154](#) →

During 2021, we commenced a review into the assurance which can be evidenced in respect to corporate reporting and, the handling of risks and internal controls (both, financial and non-financial). Further information on the initial outcomes of this review is detailed in the Audit Committee report.

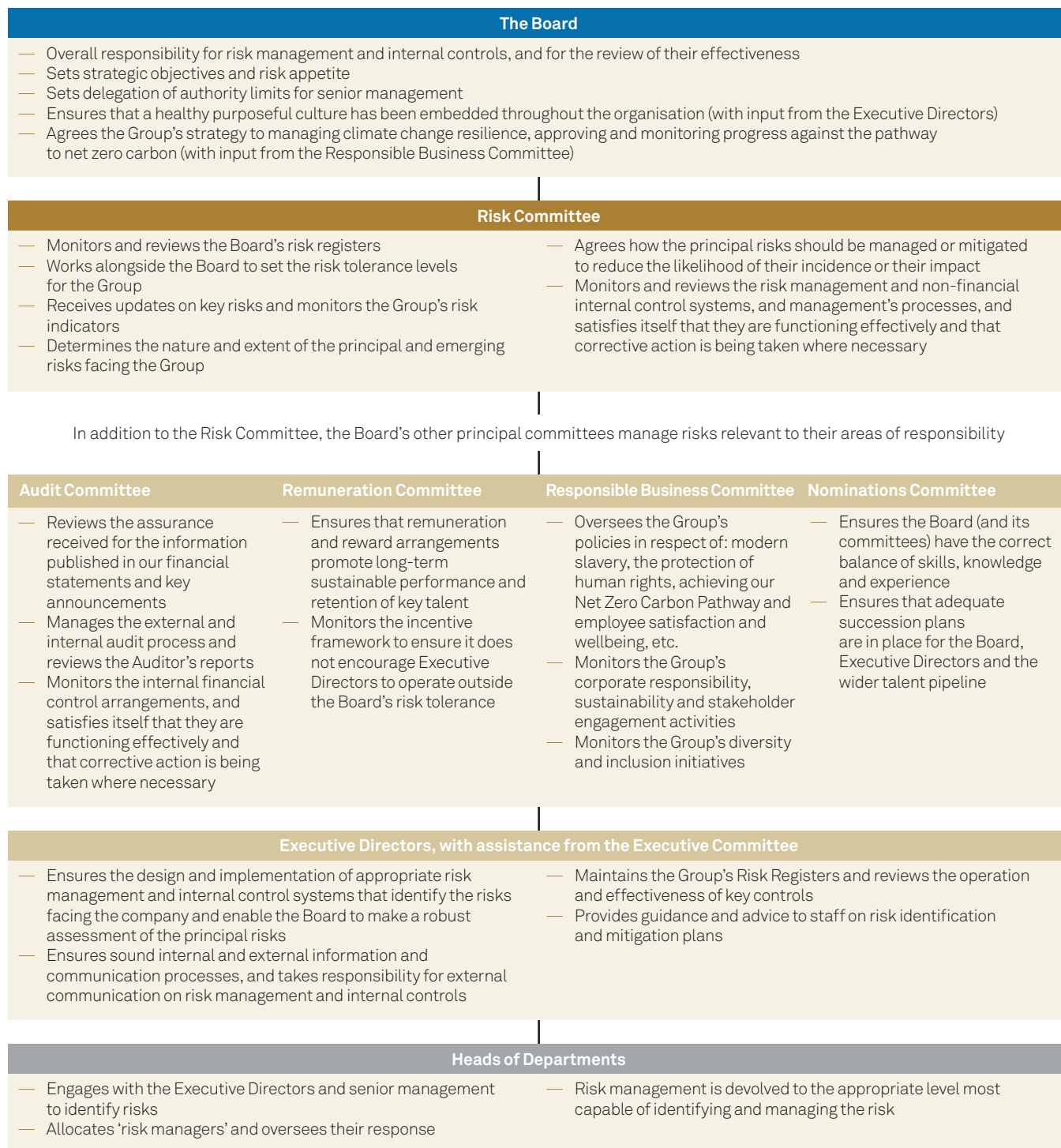
### Assurance [page 153](#) →

Following the Audit Committee's and Risk Committee's reviews, the chairs of each committee confirmed to the Board that it is satisfied that the Group's internal control framework (financial and non-financial) and risk management procedures:

- operated effectively throughout the period; and
- are in accordance with the guidance contained within the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

# RISK COMMITTEE REPORT CONTINUED

## Our risk management structure



## Health and safety

At each Committee meeting, a detailed update is provided on health and safety matters on both the managed portfolio and the development pipeline.

[Health and safety page 63](#) →

### Fire risk management

Our buildings are subject to annual fire risk assessments, regular fire alarm testing, six-monthly fire door surveys, smoke extract and ventilation testing, and sprinkler testing (where applicable). Fire strategy documents are routinely reviewed, and where necessary updated by our Fire Engineers, OFR Consulting.

Our façade fire risk assessments have confirmed that our managed portfolio does not contain any ACMs (aluminium composite material) or HPLs (high pressure laminates). To manage our fire risks, upon acquisition of a new building, a full façade fire survey is undertaken to maintain compliance and identify any issues promptly.

We continue to monitor fire safety best practice and regulation and have determined the actions required to ensure our compliance with the new Fire Safety and Building Safety Acts.

### Water hygiene management

Legionella bacteria is commonly found in water. Although it is impossible to completely eradicate the risk of legionella, Derwent London have robust risk management procedures in place to ensure that the legionella risk is appropriately managed to ensure that incidences are low, and if an incident does occur, it can be quickly identified and rectified.

The primary methods used to manage and mitigate the risk from legionella are:

- weekly water temperature control checks;
- monthly water samples;
- legionella awareness training; and
- assurance from six monthly risk assessment checks by external specialist water consultants.

Our independent water consultants also review our procedures and processes to ensure they remain sufficient to effectively manage legionella risk. Whilst we have proactively dealt with a number of instances in our portfolio, to date, there have been no notifications of legionella illness.



## Energy performance certificates (EPCs)

An independent risk analysis of the Group's key climate change-related risks was conducted (see page 49 of the 2020 Report & Accounts), which identified compliance with EPC legislation as an emerging transition risk which could have a material impact on the Group.

From 1 April 2023, a minimum EPC rating of E will apply to all operable leases but excluding leases over 99 years or less than six months (the 2023 regulations).

The Committee reviewed regular updates on the work performed by the Sustainability, Development and Asset Management teams and was pleased to note that our portfolio was fully compliant with the 2023 regulations (excluding the properties acquired during the year).

In preparation for the proposed 2030 regulations, we commissioned an independent review during 2021 to assess the suitability of our buildings to achieve EPC B ratings and the required capital expenditure. In Q1 2022, the Committee will review the results of these surveys and, alongside senior management, agree next steps (see page 55).

### Compliance training

The Group operates a compliance training programme which is mandatory for all employees and members of the Board. The Risk Committee oversee the programme, agree the topics to be covered and receive an update on completion rates. The programme covers a range of risk and compliance topics (including anti-bribery and corruption, unconscious bias, data protection and modern slavery).

At the launch of each training topic, 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 topics covered during 2021 included:

- social media awareness;
- data privacy; and
- unconscious bias/respect in the workplace.

The Committee was pleased with the level of engagement from employees with, on average, 97% of all participants (inclusive of the Board) completing each training module.

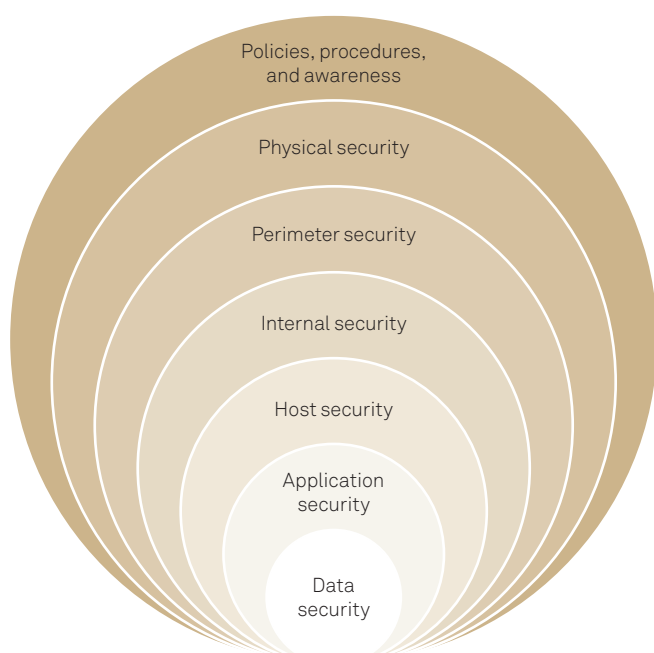
Members of the Health and Safety and Soho Place Building Management teams

## RISK COMMITTEE REPORT CONTINUED

### Cyber security

Our cyber security controls 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. We adopt a layered approach to cyber security which provides multiple opportunities for threats to be identified before they can cause harm.

Our layered security approach consists of the following:



We recognise that ransomware has been identified by the National Cyber Security Centre as the most immediate threat to UK businesses. In addition to our layered security approach, we maintain a 'ransomware security incident response playbook'. During 2022, we will perform a detailed review of our ransomware playbook and will update our Business Continuity Plan to incorporate ransomware as a potential scenario for disaster recovery. Additionally, during Q1 2022, an independent review of our controls in respect to ransomware will be conducted.

Our Digital Innovation & Technology (DIT) team tested the effectiveness of our ongoing security awareness programme in 2021 by sending fake phishing emails to staff in November and monitored 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. Each year, all staff participate in mandatory information security training and, throughout the month of October, the DIT team promoted Cybersecurity Awareness Month by sharing cyber security themed tips and guidance.

Our cyber security procedures are subject to regular independent reviews and tests. In December 2021, IT Governance conducted a cyber security health check consisting of a review of our information security governance framework, an internal/external vulnerability scan and an employee questionnaire to gauge cyber awareness levels. The Committee receives updates on the outcome of these tests/assessments and monitors the implementation of any arising recommendations.

The Committee reviews a dashboard of key risk indicators at each meeting which includes information security and cyber risk-related KPIs. During 2021, there were 131,319 (2020: 109,735) attempted attacks on our systems, none of which were successful and 99.97% (2020: 99.96%) of the attempts were stopped before they reached the intended targets, with the remaining attempts immediately being reported to our DIT team – this highlights the robustness of our cyber security posture and awareness campaigns.

### Cyber Essentials accreditation

As part of our ongoing commitment to cyber security, on 30 July 2021 our Cyber Essentials accreditation was renewed, 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 security

We have robust procedures in place to safeguard the security and privacy of information entrusted to us. This ensures that we:

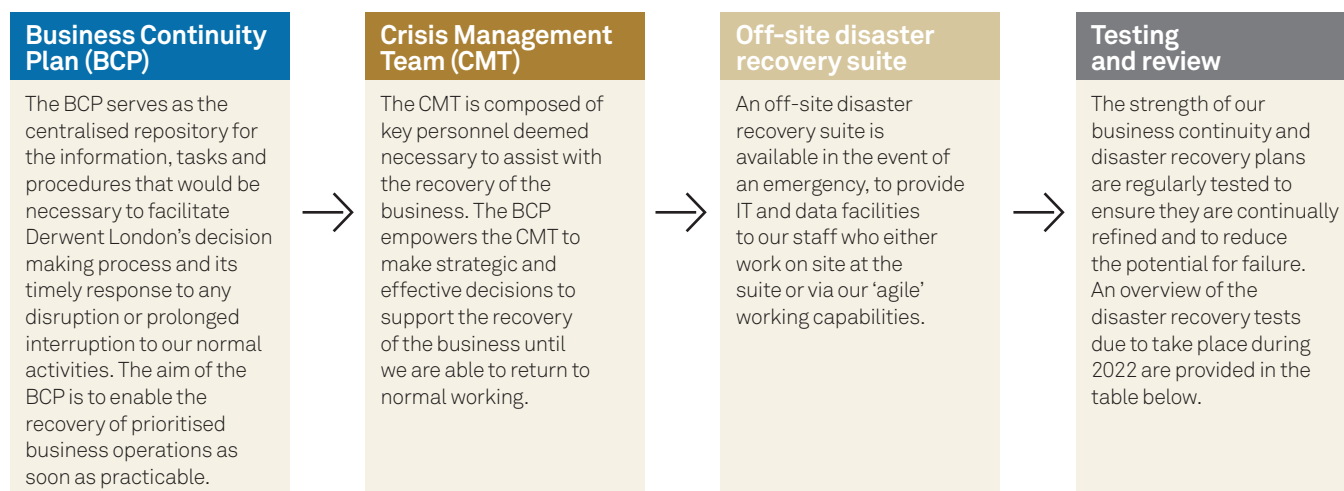
- maintain the confidentiality, integrity and availability of data and safeguard the privacy of our customers and employees, to ensure that the business retains their trust and confidence;
- protect the Group's intellectual property rights, financial interests and competitive edge;
- maintain our reputation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

We operate a data protection steering committee, which is comprised of Data Protection Champions from each department and meets on a monthly basis. In August 2021, the Committee was provided with an update on the work performed by the data protection steering committee, which included mandatory refresher training to all employees on protecting personal data.

[Compliance training page 161](#) →

## Business continuity and disaster recovery

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



The pandemic has provided an opportunity to stress test our infrastructure and demonstrate our ability to provide reliable, remote connectivity to the entire workforce over a prolonged period.

On 23 April 2021, the DIT team completed a technical test to ensure the resilience of our IT infrastructure in the event of a complete outage at 25 Savile Row. The test was successful; and we were able to confirm that all failover mechanisms for critical IT services functioned as expected and all services continued to operate from backup infrastructure at our disaster recovery site.

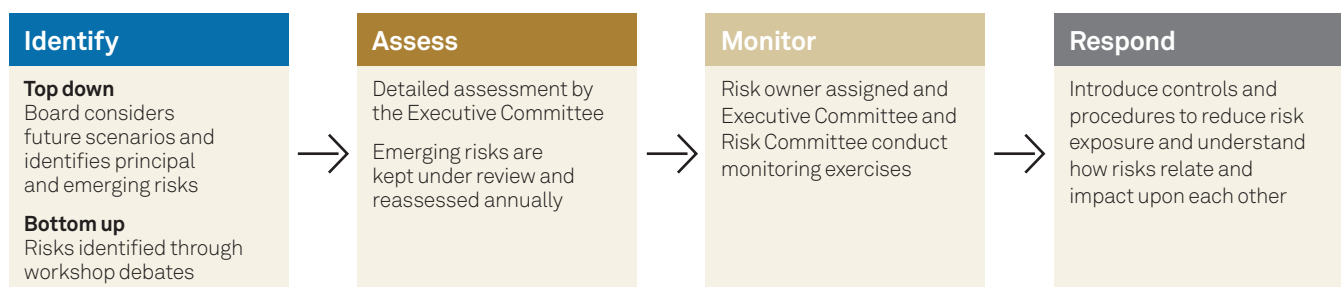
On Friday 25 June to Saturday 26 June, a full disaster recovery test was successfully completed. This included a failover of all critical IT infrastructure/services to our disaster recovery suite and all business applications were tested by a group of stakeholders from across the business. The entire process, from the failover to our disaster recovery suite, to restoring services at 25 Savile Row, took six hours and 25 minutes (a 20 minute improvement on our previous full test completed in October 2018).

During 2022, we will be changing the location of our off-site disaster recovery suite. Once the change has been finalised, a full IT disaster recovery test will be performed to ensure that all IT functions and business-related activities can be adequately performed.

Test	Purpose	Date
Business Continuity Plan review	The CMT team meet regularly to review and update the business continuity plan and cascade list, review current threat levels and agree on any action points.	Ongoing during 2022
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 2022
Full IT disaster recovery test	A full IT systems failover from our offices to our disaster recovery suite and testing that all IT functions and business-related activities can be adequately performed.	Q2 2022
Desktop review	A desktop exercise focusing on ransomware to rehearse scenarios to ensure we are adequately prepared.	Q2/3 2022

# RISK COMMITTEE REPORT CONTINUED

## 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 reviews, scenarios for the future are considered which assist with the identification of principal and 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, analysis, independent reviews and use of historical data and experience. Risk registers are maintained at a departmental/functional level to ensure detailed monitoring of risks. Since 2020, the DIT department has maintained an additional risk register with respect to homeworking and Covid-19 related IT risks. Risks contained on the departmental registers are fed into the main Group Risk Register depending on the individual risk probability and potential impact.
- **Independent assurance:** the Group's outsourced internal audit function perform reviews of the Group's departments and key activities which provide assurance to the Board and Committee that risks are being identified and effectively managed. In addition, these reviews highlight any recommendations for further action.

### 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 at each Risk Committee meeting and are 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 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, Schedule of Emerging Risks and the Group's Risk 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 108 to 119.

## 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. An overview of our policies and procedures in this area is contained in the table below. All employees will receive refresher training on anti-bribery and corruption during 2022 as part of the mandatory compliance training programme.

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. During the past two years, due to the Covid-19 pandemic, there has been a significant reduction in hospitality.
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 169).
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 139 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 reporting helpline is available for staff to raise concerns anonymously (see page 136).

[Compliance training page 161](#) →

## 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 report to the Risk Committee on an annual basis. We have a long-standing relationship with our property insurers, who perform regular reviews of our properties that aim to identify risk improvement areas. Due to our proactive risk management processes, Derwent London has a low claims record which makes us attractive to insurers.

During 2021, as we were operating within a Long Term Agreement for our key property-related insurances, our occupiers were not impacted by the hardening insurance market. Following the transaction with Lazari investments, which led to the creation of the 'Baker Street joint venture' (see page 21), we acquired professional indemnity insurance to offset any risks arising from the operation of the joint venture.

Over the past two years, the insurance market has hardened with insurers reducing the amount of capacity they are willing to allocate to any one risk. This resulted in an overall capacity contraction, conservative underwriting and a significant rise in premiums. It is predicted that premiums will continue to rise above inflation in 2022.