

Arising from the upturn in the economy, the new challenges facing the Group and the wider economy are, material and labour shortages and inflation. Overall, our risk profile remains elevated but is expected to slowly stabilise to pre-Covid levels during 2022.

During 2021, we further strengthened our financial position through the raising of additional funds (see information on our new 'Green Bond' on pages 13, 96 and 97) and the renewal of our Revolving Credit Facilities (RCFs) for an additional year. Our strong financial position and proactive stakeholder-focused approach will help us to weather the current uncertainty.

Demand for office buildings remains polarised. Well-designed, energy efficient, amenity rich, modern buildings with adaptable floor plans and good floor-to-ceiling heights are proving more desirable and easier to lease than older, less attractive buildings which may require refurbishment. Without additional capital expenditure to improve energy efficiency, our ability to lease certain properties in our portfolio could be impacted.

[Delivering net zero carbon buildings page 22](#) →

[Qualifying 'green' expenditure page 96](#) →

Changes to our principal risks

The principal risks and uncertainties facing the Group in 2022 are set out on pages 108 to 119 together with the potential impact and the mitigating actions and controls in place. We define a principal risk as one that is currently impacting on the Group or could impact the Group over the next 12 months.

During the year under review, there has been the following changes to our principal risks:

- **Implications of Brexit:** We are now classifying Brexit as a general business risk rather than a standalone principal risk and it has been incorporated into 'Failure to implement the Group's strategy' as a factor which could impact on London.
- **Introduction of a new tax to replace or complement business rates:** The likelihood of a new tax being introduced to replace or complement business rates, which would negatively impact on landlords, is now deemed less likely and has been declassified from 'principal'. This risk is now being managed on the Group Risk Register.

Risk tolerance

Like any business, we face a number of risks and uncertainties. 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 working 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
		Climate change resilience	Low
		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
		Corporate 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: Zero tolerance to risk-taking

Low: Not willing to take any significant risks

Medium: Willing to take measured risks if they are identified, assessed and controlled

High: Willing to take significant risks