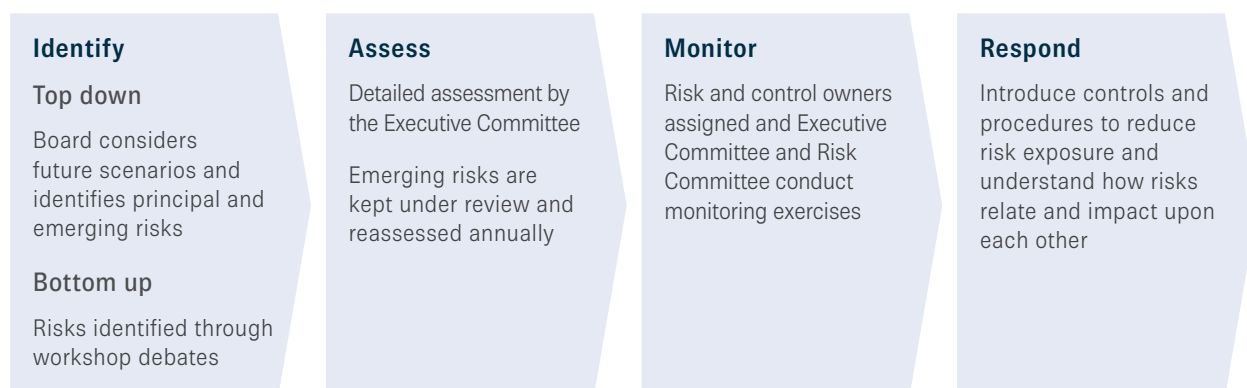


# RISK COMMITTEE REPORT continued

## RISK MANAGEMENT FRAMEWORK



## Risk documentation and monitoring

<b>Schedule of Principal Risks</b> (see pages 116 to 123)	Contains the risks which are classified as the Group's main risks which are currently impacting on the Group or could impact the Group over the next 12 months. The Schedule of Principal Risks 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. As at 31 December 2022, the Schedule of Principal Risks contains 14 risks (2021: 13 risks).
<b>Schedule of Emerging Risks</b> (see pages 124 to 125)	Contains the internal and external emerging risks that could significantly impact the Group's financial strength, competitive position or reputation within the next five years. Emerging risks could involve a high degree of uncertainty. As at 31 December 2022, the Schedule of Emerging Risks contains eight risks (2021: nine risks).
<b>Group Risk Register</b>	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. As at 31 December 2022, the Group Risk Register contains 37 risks (2021: 34 risks).
<b>Key risk indicators</b>	The Risk Committee has identified risk areas which could indicate an increase in the Group's risk profile. These indicators are reviewed at each Risk Committee meeting and are compared against the Board's risk tolerance framework (see page 115). Any deviance or significant increase is subject to challenge by the Risk Committee. The risk indicator contains 10 risk areas including cyber security, cost inflation, project status, data protection, and health and safety incidents etc.
<b>Functional/departmental risk registers</b>	Risk registers are maintained at a departmental/functional level to ensure detailed monitoring of risks, where necessary. These registers are the responsibility of each department and are periodically reviewed by the Risk Committee during risk-specific presentations. Examples of these registers are the development risk registers for each building project and the 'tenant on watch' register.

## Risk rating

We operate multiple risk registers depending on their potential impact on the business, from function-specific registers to our Schedule of Principal Risks (see table above). As part of the Directors' assessment process, we estimate the likelihood of the risk occurring and the potential quantitative and qualitative impacts. Risks are rated in accordance with the Board's risk appetite statement.

A simplified version of our risk rating criteria is provided below. Risks which are graded 'red' on a net basis (after mitigation) are included in the Group's Schedule of Principal Risks.

	Impact				
	1. Very low	2. Low	3. Medium	4. High	5. Very high
<b>1. Almost certain</b>					
<b>2. Highly probable</b>					
<b>3. Possible</b>					
<b>4. Unlikely</b>					
<b>5. Very unlikely</b>					

### 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 annual 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, where necessary. 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 performs reviews of the Group's departments and key activities which provides 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 Board's 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 implement mitigation plans. In addition, under the Board's assurance framework, a control owner is assigned who can monitor and assess the effectiveness of the controls in place to address each principal 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 on pages 116 to 123. We use insurance to transfer risks which we cannot fully mitigate.

Related information is on the following pages:

➤ INTERNAL AUDIT / See page 165

➤ EXTERNAL AUDIT / See page 166

➤ ASSURANCE OVER EXTERNAL REPORTING / See page 162

### Insurance

Our comprehensive insurance programme covers all of our assets and insurable risks. We are advised by insurance brokers, who provide a report to the Risk Committee on an annual basis. We have a longstanding 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.