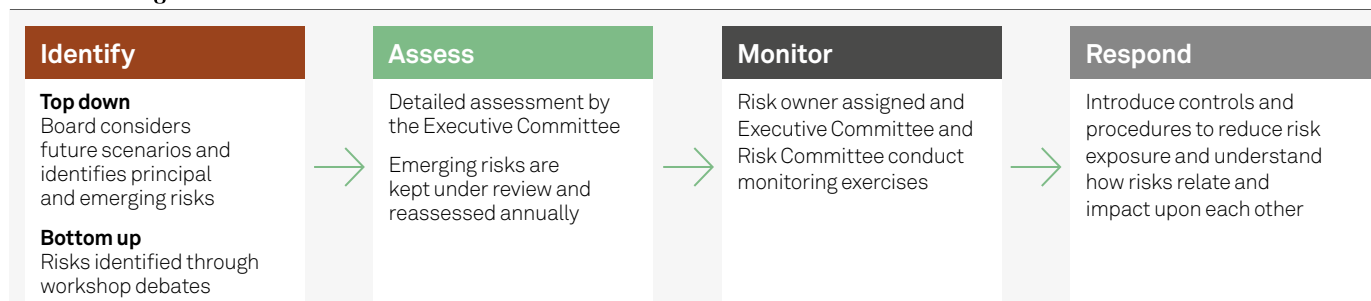


Risk Committee report continued

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. During 2020, the Digital Innovation & Technology (DIT) department maintained an additional risk register in respect to home working and Covid-19-related IT risks (see page 144). 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: RSM, as the Group's independent internal auditors, 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 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 88 to 99.

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 insurers, RSA, who perform regular reviews of our properties that aim to identify risk improvement areas.

During 2020, the insurance market 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. The largest insurance risk for Derwent London relates to construction and Directors' & Officers' insurance as both current policies expire in 2021 and we are expecting to see premiums increase due to current market conditions.

In respect to Property Owners insurance, we were pleased to arrange a new Long Term Agreement in March 2020, which means that both Derwent London, and our occupiers, will not suffer any significant premium increases during 2021.

Compliance training

Since May 2019, the Risk Committee has operated a training programme which provides 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.

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 training is accessed via an online portal and each topic takes approximately 30 to 60 minutes to complete.

The topics covered during 2020 included:

- anti-money laundering;
- competition law;
- fraud awareness; and
- cyber security.

The Committee were pleased with the level of engagement from employees for the new compliance programme with on average 95% of all participants (inclusive of the Board) completing each training module.

p.120 Board training in 2020

Risk tolerance

Like any business, we face a number of risks and uncertainties. An overview of the Group's risk profile is available on pages 84 to 99. 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. During 2020, the Board added climate change resilience to its Risk Appetite Statement and set its risk tolerance as low.

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. 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.	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