

RISK COMMITTEE REPORT



Richard Dakin
Chair of the Risk Committee

FOCUS AREAS IN 2019

- The ongoing review of the Group's principal risks
- Monitor health and safety across the Group
- Review the emerging risks which could impact on the Group in the medium to long-term
- Review the risk arising at our key developments: 80 Charlotte Street W1, The Featherstone Building EC1 and Soho Place W1.
- Monitor Brexit and the political environment to assess the potential impact on the Group

Dear Shareholder,

I am pleased to present our Risk Committee report for 2018 which describes our activities and areas of focus during the year.

Risk profile of the Group

The political and economic uncertainty triggered by the referendum decision to leave the EU is likely to continue until the future trade relationship with the EU is finalised.

The Committee's responsibility is to ensure that management are proactively planning for the risks and challenges which could arise from the Brexit negotiations and the eventual outcome. Of particular concern is the impact unfavourable negotiations could have on the UK economy and specifically London which will feed through into our leasing and development activities.

In June 2018, the Board as a whole considered potential Brexit scenarios on the Group's five-year strategic plan and long-term viability (more on page 45). Despite the potential negative impact of 'worst case' scenarios, the Group's strong financial structure and flexible business model provides sufficient flexibility to weather the uncertainty.

Additional information on the potential impact of Brexit on the Group is contained on page 47. The Board's risk tolerance is contained on page 112 of this report.

Key activities of the Committee

2018 was another busy year for the Committee. In addition to routinely reviewing the Group's risk register, the Committee's main areas of focus during 2018 were as follows:

- reviewed the tenant covenant review procedures and the work of the credit committee (see page 114);
- undertook a site tour of the Charlotte Street construction site, including a presentation on the management of construction health and safety risks (see page 112);
- the Board is aware of the well-publicised issues experienced by a number of major contractors, including the insolvency of Carillion, which highlight the ongoing issues within the construction industry. The Committee has been advised of the actions being taken by management to monitor the Group's contractors and are satisfied with the sufficiency of these controls (contractor default is a principal risk, see page 52);
- as part of our anti-bribery and corruption controls, the Committee reviewed the Group's gifts and hospitality register (see page 113) and the Group's conflict of interest register on a quarterly basis;
- 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;
- reviewed frequent updates on the GDPR project (see page 114);
- received regular updates on our cyber security initiatives and received a presentation from Capgemini on the outcome of their benchmarking review (see page 115); and
- received an update on the full testing of the disaster recovery procedures undertaken on 21/22 September 2018 (see page 115).

Further engagement

The forthcoming AGM is on 17 May 2019 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)

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26 February 2019

Committee composition

During the year under review, the Committee was composed of three independent Non-Executive Directors. Lucinda Bell will become a Committee member from 1 January 2019 in advance of Stephen Young stepping down as a Director in May 2019. In addition to the Committee members, the Board Chairman, other Directors, senior management or the external Auditor 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%
Stephen Young	Yes	3	100%

The Committee's role and responsibilities are set out in the terms of reference, which were last updated in November 2018, 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 (2017: four meetings).

Risk management

At Derwent London, the management of risk is treated as a critical and core aspect of our business activities. 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.

In order to gain a more comprehensive understanding of the risks facing the business and the management thereof, the Committee periodically receives presentations from senior managers and external advisers. Following these reviews, the Committee has confirmed to the Board that it is satisfied that the Group's risk management procedures operated effectively throughout the period. During the annual strategic review 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.

Risk management framework

How do we identify risks?

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. At the Board's strategy review on 13 June 2018, 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.

How do we assess risk?

Following the identification of a potential principal 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.

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 48 to 57.

Risk management structure

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. Our risk management structure is illustrated below.



RISK COMMITTEE REPORT CONTINUED

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 page 46 to 47. 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
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

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 meet with ORSA, who were appointed as our corporate health and safety advisers for all construction projects from January 2017. ORSA outlined to the Committee the key health and safety risks at the major construction sites, including 80 Charlotte Street, the Brunel Building and Soho Place, and how these are being effectively managed.

The Committee's meeting in August included a site tour of the 80 Charlotte Street development hosted by Executive Directors and the site Project Manager. The tour enabled the Committee to see first-hand the health and safety procedures in place to protect workers, visitors and the local community.

Further information on health and safety matters can be found on page 80 of the Responsibility report. Although the majority of activities covered under the Responsibility report are under the remit of the new Responsible Business Committee, health and safety remains under the oversight of the Risk 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. 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 & Gift Returns	All staff are required to complete quarterly Hospitality & 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 £25 for hospitality and £10 for gifts. The Hospitality & 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 in the adjacent table).
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 97 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 108.

Summary of the Supply Chain Sustainability Standard

All suppliers with whom we spend more than £20,000 per annum are required to comply with, and provide evidence of how, they are implementing our Supply Chain Sustainability Standard (the Standard), which includes a minimum requirement that any form of corruption, bribery or anti-competitive behaviour or actions are not tolerated within our supply chain.

A summary of the Standard is below. The complete Standard is available to download on our website.

During 2018, we requested evidence that our major suppliers were compliant with the Standard. The Executive Committee reviewed responses and agreed any follow-up actions required. A further audit of our suppliers is scheduled for 2020.

Aspect	Standards expected from our suppliers
Anti-bribery and corruption	<ul style="list-style-type: none"> Operate an ethical business policy which sets out how they govern their business and supply chains. We will not tolerate any form of corruption, bribery or anti-competitive behaviour in our supply chain.
Employment and labour practices	<ul style="list-style-type: none"> Fair pay and working time practices which ensure compliance with the National Minimum Wage and the London Living Wage together with working time legislation. No use of exclusive 'zero hours' contracts. No illegal, forced or child labour. Suppliers to have appropriate equality and diversity policies to ensure the active promotion of employment diversity.
Health and safety	<ul style="list-style-type: none"> Adequate health and safety policies and management systems appropriate to the nature and scale of their business and service provision. To comply with Derwent London's health and safety standards and procedures.
Community	<ul style="list-style-type: none"> Support us in the successful delivery of our Community Strategy. Development contractors on our larger schemes have to achieve a minimum target score, currently 38) in the Considerate Constructors Scheme, and to undertake at least one community day every year during the life of a project. Offer full and fair opportunity for local suppliers to actively participate in our supply chains. Offer local employment and apprenticeship opportunities.
Environmental	<ul style="list-style-type: none"> Suppliers are to have robust environmental management policies and procedures in place. To comply with the Derwent London Sustainability Framework for Developments and/or Assets. We expect our main contractors to have a certified environmental management system (EMS) in place, accredited to ISO14001 or EMAS (Eco-Management and Audit Scheme).
Payment practices	<ul style="list-style-type: none"> Unless otherwise stated, we aim to pay our suppliers within 30 days or otherwise will do so in accordance with specified contract conditions. We are signatories of the Prompt Payment Code. Suppliers are required to adopt similar payment practices throughout their supply chains to ensure fair and prompt payment.

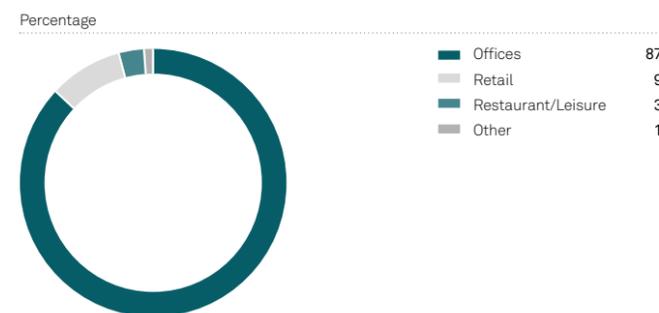
RISK COMMITTEE REPORT CONTINUED

Tenant covenant review

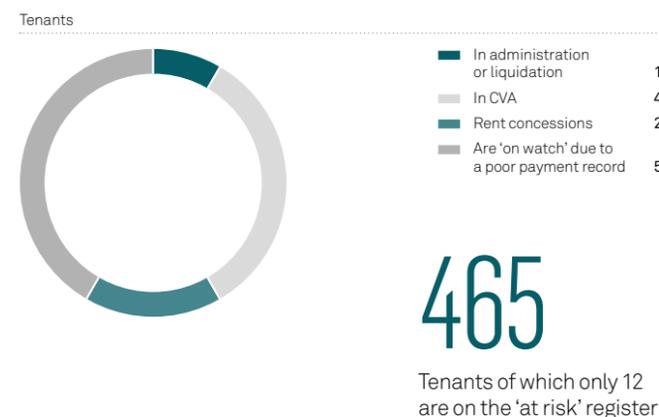
Due to the uncertain economic environment, with a number of large retail businesses going into administration, the Committee conducted a review of how Derwent London assesses and monitors the financial strength of potential and existing tenants. The chart below illustrates that Derwent London has limited exposure to retail or restaurants within our portfolio.

At its meeting in November, the Committee received a detailed overview from the Head of Asset & Property Management and the Group Financial Controller on the workings of the credit committee and how it decides whether potential and existing tenants are financially sound to transact. The Committee was satisfied with the extensive due diligence process undertaken by the credit committee.

Portfolio income



Analysis of the 'tenants at risk' register



Failure to prevent the facilitation of tax evasion

The Company will not tolerate any facilitation of tax evasion by staff, subcontractors or any other of its associates. To address these risks, the Company has established procedures which are designed to prevent its associated persons from deliberately and fraudulently facilitating tax evasion.

All staff have attended compulsory training sessions on our policies and procedures. The training was hosted by our Head of Tax, David Westgate, and included practical examples of how facilitation of fraudulent tax evasion could occur and guidance on how these should be addressed.

General Data Protection Regulations (GDPR)

The GDPR, which came into force on 25 May 2018, require a tougher approach to the handling and using of personal data. Derwent London holds relatively limited personal data, relating mainly to human resources, CCTV and private residential lettings.

The Company's project plan for GDPR commenced well in advance of 25 May 2018 with the establishment of a GDPR Steering Group which met weekly, dedicated Data Protection Champions from each department and compulsory training for all staff. The project to ensure our compliance continued throughout 2018 and included:

GDPR Steering Group	The GDPR Steering Group initially met weekly (for 18 weeks) and now meets fortnightly.
Guidance and training	Ongoing training and support to staff, including compulsory induction training. The creation of a dedicated GDPR intranet page. Short internal video explaining the employee privacy notice.
Contract remediation	Conducted risk assessments of all contracts followed by thorough contract remediation for those processing personal data.
Policies, documentation and procedures	All policies, procedures, guidance notes, contracts of employment, offer letters and consultancy agreements have been updated to be GDPR compliant. New procedures created for subject access requests and Data Protection Impact Assessments (DPIAs). The removal of historical data from our shared drives (soft copies) and the destruction of printed documents (hard copies) is an ongoing exercise.

Since 25 May 2018, all new projects or changes to processes involving data processing are subject to DPIA screening assessments to determine the level of risk. A total of 19 DPIAs have been completed during the year.

The Committee and Board have been routinely updated on the project's progress and, to date, are satisfied that management have undertaken all necessary steps to ensure the Group's ongoing compliance with GDPR. A gap analysis will be performed in 2019 to review our progress and identify areas for further improvement.

CCTV

Our CCTV system is intended to provide an increased level of security for the benefit of those who work in or visit Derwent London properties by acting as a deterrent against crime and protecting our buildings and assets from damage, disruption and vandalism. CCTV images are not released unless satisfactory evidence has been obtained by us that the third party requesting the personal data has a legal and justifiable need.

Since May 2018, we have received 14 access requests for CCTV footage. Requests are authorised in accordance with our CCTV policy and CCTV disclosure procedures. Prior to disclosing CCTV images, we redact any third-party personal data and images (for example, by blurring the images) before saving the images to disc and placing them in a sealed evidence bag.

Privacy notice

Derwent London respects privacy and is committed to protecting personal data. Our privacy notice, which sets out how we use personal data, is available on our website here: www.derwentlondon.com/texts/privacy-policy

We also have tailored privacy notices for employees, recruitment candidates and tenants, which are available upon request from the Company Secretary.

Business continuity and disaster recovery Information and cyber security

To safeguard the security and privacy of information entrusted to us, we have robust procedures in place. The procedures ensure that we:

- safeguard the security and 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 2018, we requested that Capgemini conduct a benchmarking review of our cyber security procedures. In November, the Committee reviewed the outcome of the audit and were pleased that Capgemini had noted the improvements made since the prior audit. The Committee agreed the responses and timeframes 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 2019 meeting.

The Committee reviews a dashboard of key risk indicators at each meeting which includes information security and cyber-risk-related KPIs. During 2018, there were 474 attempted attacks on our systems, none of which resulted in a security breach and 99.9% of the attempts were stopped before they reached the intended targets – this highlights the robustness of our cyber security posture. Our IT team tested the effectiveness of our ongoing security awareness programme by sending fake phishing emails to staff and monitoring their response. Any staff member who clicked on the links contained in the test emails was provided with further training on the dangers.

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.

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:

- **Business Continuity Plan (BCP):** The BCP serves as the centralised repository for the information, tasks and procedures that would be necessary to facilitate Derwent London's decision-making process and its timely response to any disruption or prolonged interruption to our normal activities. The aim of the BCP is to enable the recovery of prioritised business operations as soon as practicable.
- **Crisis Management Team (CMT):** The CMT is composed of key personnel deemed necessary to assist with the recovery of the business. The BCP empowers the CMT to make strategic and effective decisions to support the recovery of the business until we are able to return to normal working.
- **Off-site disaster recovery suite:** An off-site disaster recovery suite is available in the event of an emergency, to provide IT and data facilities to our staff who either work on site at the suite or via our 'agile' working capabilities.
- **Testing and review:** The strength of our business continuity and disaster recovery plans are regularly tested to ensure they are continually refined and to reduce the potential for failure. An overview of the disaster recovery tests due to take place during 2019 are provided in the adjacent table.

FULL BUSINESS CONTINUITY TEST

At 5pm on Friday 21 September, our disaster recovery procedures were tested by staging a complete loss of power at our head office building at 25 Savile Row. The test required the evacuation of the building and the transfer of key systems and personnel to our disaster recovery suite.

The migration was overseen by independent verifiers, IT Governance Limited, who assessed our procedures and efficiency.

The Committee was pleased to note that the test was successful and well managed with no major issues identified and no downtime reported. A number of minor suggestions were raised by IT Governance Limited to further strengthen our robust Business Continuity Plan (BCP) which included:

- using the disaster recovery tests as an exercise to raise the awareness, competence and capability of the CMT;
- appoint an individual responsible for noting all actions taken and logging time-delayed actions; and
- monitor the UPS load as systems migrate to the disaster recovery suite.

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).

Business continuity tests planned for 2019/2020

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 2019
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 2019
Desktop review	A desktop exercise which uses a series of scenarios to rehearse decision making and familiarise the CMT members with their roles.	Q2 2019
IT disaster recovery test	A technical test to carry out a full IT systems failover from our offices to the disaster recovery suite.	Q3 2019
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