

# Risk Management Report

The Board is responsible for ensuring good corporate governance and prudent risk management is implemented by the Group. The Board has approved the Group's Risk Management Framework which provides a common risk management process across the Group to identify, assess, mitigate, monitor and report risks which impact the Group. The Group's risk management process is a bottom up integrated approach that aims to ensure that all risks to which the Group is exposed are identified, understood and appropriate mitigating controls are implemented to manage the risks effectively and protect the Group.

As part of its oversight responsibilities, the Audit and Risk Committee is responsible for reviewing the adequacy and effectiveness of the Group's internal controls and risk management process. The Group's risk register and principal risks are a standing agenda item for each Audit and Risk Committee meeting. The risk register is used to support the risk management process and document the Group's risks, controls and their approved ratings based on likelihood and impact from both an inherent and residual risk perspective. The Board formally reviews and approves the risk register on at least a bi-annual basis.

The Group has implemented a three line of defence model.

Line of defence	Function	Responsibilities
<b>First line</b>	Department heads	<ol style="list-style-type: none"> <li>Responsible for identification of operational &amp; strategic risks.</li> <li>Responsible for implementing controls to mitigate risks identified.</li> <li>Responsible for implementing action plans.</li> </ol>
<b>Second line</b>	Executive committee	<ol style="list-style-type: none"> <li>Supports department heads.</li> <li>Responsible for monitoring the identification and mitigation of operational &amp; strategic risks.</li> <li>Responsible for monitoring the implementation of action plans.</li> </ol>
<b>Third line</b>	Internal audit	<ol style="list-style-type: none"> <li>Responsible for providing additional assurance to the Audit and Risk Committee and Executive Committee the key risk areas are identified and have the necessary mitigating controls in place.</li> <li>Completes independent reviews on the effectiveness of internal controls.</li> <li>Reports on management actions.</li> </ol>

## Risk Assessment Process

Management continued to review the risk register during the year following which the Board has carried out a robust assessment of the principal risks facing the business. Arising from the risk review process a number of principal risks and uncertainties have been identified which could have a material impact on the Group in achieving its strategic objectives. The Board and Audit and Risk Committee have reviewed the Group's principal risks and have considered the new risks introduced for 2018. The main risk categories that the Board considered are the following:

### Risk Categories

#### Financial Risk

**Investment Risk** is defined as the probability or likelihood of occurrence of losses relative to the expected return on any particular investment.

**Market Risk** is the risk of loss to the Group arising from market volatility or adverse movements in the level or volatility of market prices of equities, currencies or property. Market Risk includes **Interest Rate Risk** which is the risk to earnings and capital associated with changes in the level or volatility of interest rates.

#### Non-Financial Risk

**Compliance risk** is the risk of legal sanctions, material financial loss, or loss to reputation that the Group may suffer as a result of its failure to comply with legislation, regulations, code of conduct, and standards of best/good practice.

**Operational and IT risk** is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

**Reputational risk** is a risk of loss resulting from damage to the Group's reputation.

**Strategic risk** is the loss or unplanned/unfair gains resulting from adverse strategic initiatives.

#### External Risk

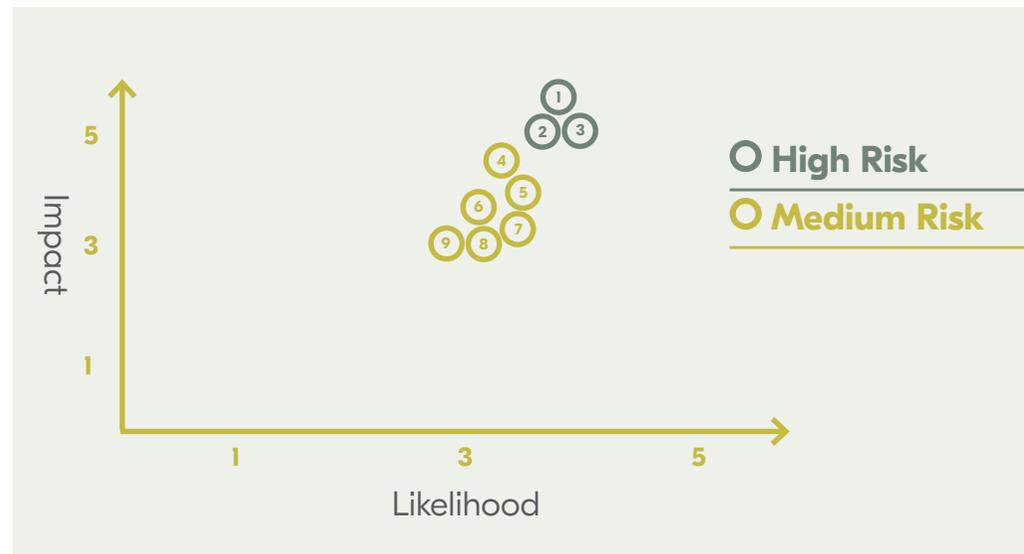
**External Risk** is the risk to the Group of potentially failing to meet its strategic objectives following significant changes to the external environment in which it operates.

The risks and uncertainties together with key mitigating considerations that fall into each of these risk categories are set out below.

Our risk category	Risk or uncertainty and potential impact	Risk rating change
External risk	1. Adverse macroeconomic conditions	↑
	2. Adverse changes to government policy and regulations	↔
	3. Mortgage availability and affordability	↑
Operational risk	4. Availability and increased cost of materials and labour	↑
	5. Inadequate project management	↔
	6. Insufficient health and safety procedures	↔
	7. Employee development and retention	↔
	8. Data protection and cyber security	↔
Reputational risk	9. Decline in product quality	↔

**Table legend**

No change to risk rating in 2018 ↔  
Increased risk rating in 2018 ↑



Our risk category	Risk title	Risk description and potential impact	Key Mitigating Considerations	Risk rating change
External risk	<b>Adverse macroeconomic conditions</b>	Glenveagh operates in a property market that is cyclical by nature which can lead to volatility of property values and market conditions.	<p>The Group aims to maintain a reasonable but limited stock of land (generally 5-7 years).</p> <p>The Group typically avoids any longer exposure through strict land acquisition policies.</p> <p>The Group has a robust acquisition policy and approval process in place to ensure the best value is achieved on assets and that assets acquired are aligned to the strategic objectives of the Group.</p> <p>Living will assist in reducing the Group's exposure to the cyclical nature of a traditional homebuilding business through the delivery of apartments and houses for the rental market as well as the alternative offering its Partnerships business will provide to State bodies and Local Authorities.</p>	↑

Our risk category	Risk title	Risk description and potential impact	Key Mitigating Considerations	Risk rating change
<b>External risk</b>	<b>Adverse macroeconomic conditions (continued)</b>	Geopolitical uncertainty (including Brexit) could lead to a potential adverse impact on the Group's asset valuation and financial performance due to factors such as slowdown in economic growth, increased interest rates and decline in consumer confidence.	<p>The Board and senior management have been monitoring closely the potential implications of Brexit on the business with a particular focus on the Group's ability to source necessary labour and materials.</p> <p>The outcome of the UK's departure from the European Union remains unclear and its potential impact on the movement of people and distribution of goods is difficult to quantify. Management have carried out a full assessment of our supply chain's exposure to the UK in light of a "Hard Brexit" and determined that Brexit will not have a material impact on the Group's ability to source the necessary labour and materials. The Board and senior management will continue to monitor closely and assess the potential impact on the business of the UK's departure from the European Union both pre and post Brexit and will alter our strategic plans to meet the challenges of Brexit if necessary.</p>	
<b>External risk</b>	<b>Adverse changes to government policy and regulations</b>	A change in the domestic political environment and/or government policy (including tax legislation, support of the housebuilding sector, Part V allowance and first-time buyer assistance including the Help to Buy initiative could adversely affect the Group's financial performance.	<p>The Group's management and Board monitor government policy on an ongoing basis.</p> <p>Group management's site by site forecasts are conservative by nature and allow for expected negative changes in government policy and regulation.</p> <p>The Group has the capability to redesign developments as appropriate should it be required.</p> <p>The Group will consider alternative sales strategies where required to align to any changes in the domestic political environment.</p>	↔

Our risk category	Risk title	Risk description and potential impact	Key Mitigating Considerations	Risk rating change
<b>External risk</b>	<b>Mortgage availability and affordability</b>	<p>Glenveagh understands that affordable mortgage finance is a crucial funding source for buyers in the residential property market in Ireland.</p> <p>Constraints on the availability and cost of mortgage financing may have an adverse impact on sales of the Group's homes due to a potential decline in customer demand and ultimately the profitability of the Group.</p>	<p>Management and the Board continuously monitor government policy around mortgage availability.</p> <p>The Group regularly engages with mortgage advisors and financial institutions to gain valuable insights into the market and the impact of regulatory changes impacting mortgage lending.</p> <p>The Group's strategy can facilitate the adjustment of delivery velocity if required.</p> <p>The Group is focused on the sub €350k per unit sector being the deepest segment of the market which also mitigates this risk.</p>	↑
<b>Operational risk</b>	<b>Availability and increased cost of materials and labour</b>	<p>Shortages or increased costs of materials and labour could lead to an increase in construction costs and delays in the completion of homes.</p> <p>If the Group is unable to control its costs or pass on any increase in costs to the purchasers of the Group's homes, source the requisite labour, and / or renegotiate improved terms with suppliers and contractors, the Group's margins may reduce which could have an adverse impact on the Group's business operations and financial condition.</p>	<p>The Group has put fixed cost agreements in place with sub-contractors and suppliers where possible.</p> <p>The Group has the potential to expand its purchasing network should it be required and maintains flexibility by not having an over reliance on any one supplier.</p> <p>The Group engages in financial planning and continuously monitors and reviews the project budgets versus actual costings and forecast outturn.</p>	↑
<b>Operational risk</b>	<b>Inadequate project management</b>	Inadequate oversight of the cost and delivery of development projects adversely affects expected return on investment.	<p>The Group has put fixed cost agreements in place with sub-contractors and suppliers where possible.</p> <p>The Group employs highly experienced and qualified project managers who oversee a robust financial planning process for each development and on a monthly basis monitor and review the project budget versus actual costings. This includes regular updates to the Executive Committee and Board of Directors.</p>	↔

Our risk category	Risk title	Risk description and potential impact	Key Mitigating Considerations	Risk rating change
<b>Operational risk</b>	<b>Insufficient health and safety procedures</b>	<p>Glenveagh is focused on the wellbeing of its employees, contractors / sub-contractors and the general public.</p> <p>The Group understands that failure to implement and adhere to the highest standard of Health &amp; Safety practices can lead to a significant risk to safety, health and welfare of staff and other parties resulting in increased costs and negatively impact the timely and safe delivery of a project.</p> <p>Additionally, any failure in health or safety performance or compliance, including any delay in responding to changes in health &amp; safety regulations may result in financial and / or other penalties.</p>	<p>The Group has appointed a new Head of Health &amp; Safety with extensive experience in the Sector who oversees both the corporate and site specific Health &amp; Safety policies and procedures.</p> <p>These policies and procedures are considered industry best practice and are subject to monthly review from both internal and external auditors.</p> <p>Each site has a dedicated Health &amp; Safety Officer in place.</p> <p>The Group ensures all staff are appropriately and adequately trained.</p> <p>The Group has a Safe-T certificate which is the industry Health &amp; Safety auditing standard.</p> <p>There is adequate insurance cover in place to deal with any claims that may arise from claims due to injury.</p>	↔
<b>Operational risk</b>	<b>Employee development and retention</b>	<p>The success of the Group is dependent on recruiting, retaining and developing highly skilled, competent people. The Group is aware that loss of key personnel and / or the inability to attract / retain adequately skilled and qualified people could lead to:</p> <ul style="list-style-type: none"> <li>- Poor operational and financial performance;</li> <li>- Inadequate staff knowledge and understanding of policies &amp; procedures;</li> <li>- Reduced control environment;</li> <li>- Insufficient transfer of knowledge amongst staff to allow for succession planning;</li> <li>- Demotivated staff; and</li> <li>- Failure to achieve / deliver on the Group's strategic objectives.</li> </ul>	<p>The Group offers competitive and attractive remuneration packages and where appropriate long-term interest alignment.</p> <p>The Group offers the opportunity for advancement through creating a positive working environment.</p> <p>The Group has implemented a performance management and appraisal process which includes open channels of communication and feedback and development plans for employees.</p> <p>The Group is developing a succession plan to ensure continuity of quality service and knowledge retention.</p> <p>The Group ensures that all staff have access to relevant internal and external training.</p>	↔

Our risk category	Risk title	Risk description and potential impact	Key Mitigating Considerations	Risk rating change
<b>Operational risk</b>	<b>Data protection and cyber security</b>	<p>The Group uses information technology to perform operational activities and to maintain its business records.</p> <p>A cyber-attack could lead to potential data breaches or disruption to the Group's systems and operations which in turn could lead to damage to the Group's reputation and potential loss of customers and revenue.</p> <p>Any security or privacy breach of the information technology systems may also expose the Group to liability and regulatory scrutiny.</p>	<p>The Group is continually monitoring data storage across all business areas.</p> <p>The Group uses internal and external back-up systems under the supervision of a third-party service provider pursuant to agreements that specify certain security and service level standards.</p> <p>The Group is proactively managing the cyber threat and recently engaged a third-party to perform a system hygiene check to identify and remediate any potential weaknesses or control gaps.</p>	↔
<b>Reputational risk</b>	<b>Decline in product quality</b>	<p>Delivery of the highest quality homes is central to the success of Glenveagh.</p> <p>The Group continues to focus on ensuring our products meet the desired standards and is aware that significant negative incidents including construction defects, material environmental liabilities (including hazardous or toxic substances), quality deficiencies or perceptions thereof could adversely impact the Group's sales and possibly result in litigation cases against the Group with a potentially negative impact on the Group's brand and customer satisfaction which are crucial to the Group's performance.</p>	<p>The Group has implemented robust quality control procedures and strictly adheres to Building Control (Amendment) Regulations requiring (among other stipulations) the appointment of suitably qualified engineers and architects</p> <p>The Group has an experienced and professional support team in place.</p> <p>The Group has a dedicated customer service after-sales team.</p>	↔