Risk management

As with any business, Taylor Wimpey faces risks and uncertainties in the course of its operations. It is only by timely identification, effective management and monitoring of these risks that we are able to deliver our strategy and strategic goals.

Governance

The Board has overall responsibility for risk oversight, for maintaining a robust risk management and internal control system and for determining the Group's appetite for exposure to the Principal Risks to the achievement of its strategy.

The Audit Committee supports the Board in the management of risk and is responsible for reviewing the effectiveness of the risk management and internal control processes during the year.

The Board recognises the importance of identifying and actively monitoring our strategic, reputational, financial and operational risks, and other longer term threats, trends and challenges facing the business.

The Board takes a proactive approach to the management of these and regularly reviews both internal and external factors to identify and assess the impact on the business and in turn identify the Principal Risks that would impact delivery of Group strategy.

The Chief Executive is primarily responsible for the management of the risks, with the support of the Group Management Team (GMT) and other senior managers located in the business. In line with the 2018 UK Corporate Governance Code, the Board holds formal risk reviews at least half yearly and routinely considers risk at each Board meeting as appropriate.

The formal assessment includes consideration of the Principal Risks to ensure they remain appropriate as well as the key risks identified by the business, their risk profile and mitigating factors.

At the Board meeting in February 2020, the Board completed its annual assessment of risks. This followed the Audit Committee's formal assessment of risk in December 2019, which was supported by a detailed risk assessment by the GMT and their review of the effectiveness of internal controls.

The diagram below illustrates the internal governance process within the Group around risk management.

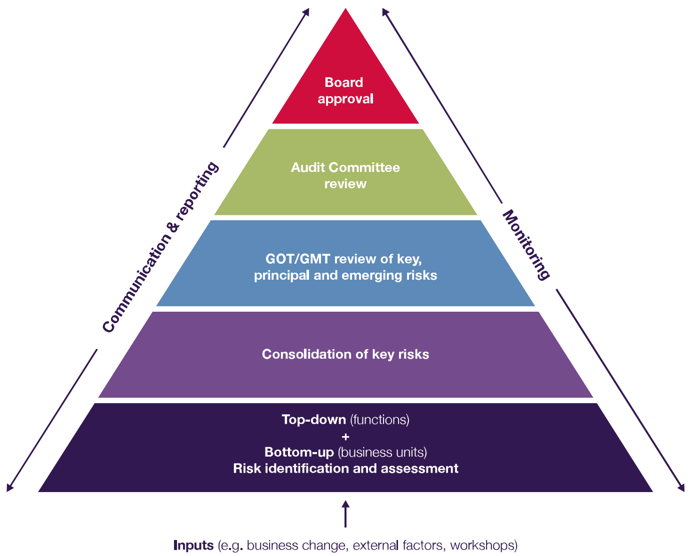
Identification of risks

Our risk management and internal control frameworks define the procedures to manage and mitigate risks facing the business, rather than eliminate risk altogether and can only provide reasonable and not absolute assurance against material misstatement or loss.

Identifying risks is a continual process and risk registers are maintained throughout the Group at an individual site level, at the business unit level and at Group-wide functional levels. The business unit and functional registers are reviewed twice a year as part of our formal risk assessment process. In determining the risk, consideration is given to both internal and external factors. The registers document both the inherent risks before consideration of any mitigations and residual risks after consideration of effective mitigations.

A consolidated view of the risk environment, including potential emerging risks, is discussed, challenged and approved by the Group Operations Team (GOT), GMT and Audit Committee before being presented to the Board, ensuring all key risks to the Group are known and are being actively monitored and appropriate mitigations / actions are in place to ensure risk falls within the tolerance set by the Board.

Risk Management Framework



Our approach to identifying and managing risk continued

Evaluation of risks

A risk scoring matrix is used to ensure risks are evaluated on a consistent basis. Our matrix considers likelihood based on probability of occurrence and impact based on financial, reputation, customer, health & safety, employees, environment, operational, legal & regulatory and IT perspectives, to help determine those risks that are considered to be key in delivering our strategy. Key risks are defined as those with a score equal to or greater than 12 and these are reviewed and monitored by the Board as part of a bi-annual risk assessment process.

Each risk is evaluated at the inherent level, at the residual level and consideration is given to the target level where we want the risk level to be based on our risk appetite. All identified risks are aligned to our Principal Risks to help validate the continuance of such or the identification of potential new Principal Risks.

Management of risks

Ownership and management of the Principal and key risks is assigned to members of the GMT or senior management as appropriate. They are responsible for reviewing the operating effectiveness of the internal control systems, for considering and implementing risk mitigation plans and for the ongoing review and monitoring of the identified risk. This includes the monitoring of progress against agreed KPIs as an integral part of the business process and core activities.

Risk appetite

The risk appetite for the Group is set by the Board. In defining this, the Board has considered the expectations of its shareholders and other stakeholders and recognises the distinction between those risks we can actively manage, for example around our landbank and those against which the Group would need to be responsive as and when they became known, for example transitional arrangements for changing building regulations.

Agreed risk appetite and risk tolerance levels for each of our Principal Risks are detailed in the table below. The residual risk ratings of all our Principal Risks are within our established risk tolerance levels.

Principal Risk	Risk Appetite	Risk Tolerance	Commentary
A. Government policy and planning regulations	Low	Low to moderate	We operate in an increasingly regulatory and compliance based environment impacting all aspects of our business operations. We are committed to ensure we 'do the right thing' in this respect and as such we have a low risk appetite in this area, using this to set us apart from competitors.
B. Impact of the market environment on mortgage availability and housing demand	Low	Low to moderate	During the year there was heightened political uncertainty and the short-medium term implications remain unknown. We continue to keep a watching brief over the situation and we have a low risk appetite in this area, due to the impact changes could have on the business.
C. Material costs and availability of subcontractors	Low to moderate	Moderate	Economic and political factors impact this risk but we believe the actions we have put in place provide us with strong foundations going forward, therefore we have a low to moderate risk appetite in this area.
D. Ability to attract and retain high-calibre employees	Moderate	Moderate	People are the foundation of our organisation. To deliver our objectives we need the right calibre of employees and we have implemented a number of initiatives in this area. These and other existing mechanisms to retain and develop our employees leads us to having a moderate risk appetite in this area.
E. Land purchasing	Moderate	Moderate	We continue to have a strong landbank, including our strategic pipeline. We continue to look for opportunities in the right location that optimise our value and we have a moderate risk appetite in this area.
F. Quality and reputation	Low	Low to moderate	Fundamental to our business model is the quality of our build and maintaining our strong reputation. Conscious that there are an ever-increasing number of sources that could have a detrimental impact on our reputation, starting with build quality, we have a low risk appetite in this area.
G. Site and product safety	Low	Low	Safety of our staff, indirect and direct, and in the products we supply and fit is of paramount importance not only to our business but also to our values, therefore we have a very low risk appetite in this area.

Emerging risks

In accordance with the 2018 UK Corporate Governance Code, we are including a section on our process around emerging risks. A formal risk workshop was held in November 2019 with the Group's senior management teams with the aim of identifying emerging risks to the Group. The emerging risks are defined as those where the extent and implications are not yet fully understood, and consideration is given to the potential timeframe and velocity of impact that these could have on the Group. As part of our risk management process, these were discussed and agreed by the Board.

These emerging risks were grouped into the following categories:

- Environmental / climate
- Operational / build
- Political / economic
- Technological
- Social
- Governmental

These will be monitored and reviewed as part of the ongoing risk assessment process.

Specific risk areas other than the Principal Risks

The Group considers other specific risk areas recognising the increasing complexity of the industry in which it operates and are in addition to its identified Principal Risks. These include risks from a wider technology, cyber and climate perspective. We also give consideration to widespread emerging health risks and monitor accordingly. At the time of writing we do not consider coronavirus to pose an immediate risk to our business, but we will continue to monitor closely with our supplier base. We continue to improve and invest in our information technology to mitigate ever-increasing cyber threats and data loss, theft or corruption. Our Sustainability and Climate Change Risk and Opportunity Register highlights the material risks and opportunities facing the Group in relation to sustainability and climate change as well as those monitored on the Group Risk Register. In addition, our climate change related risks and opportunities are available as part of our 2019 CDP submission. More information is available at www.taylorwimpey.co.uk/corporate

Together these support both the Audit Committee and the Board in their evaluation of the identified risks facing the Group.

Housing remains high on the agendas of the Government and the main political parties. The sector faces increasing scrutiny and pressure from social media and pressure groups, together with greater oversight from Government through a planned Design Champion and a single New Homes Ombudsman. We endeavour to deliver both the letter and the spirit of regulations and maintain this same ethos in our relationships with our customers.

Climate change governance, strategy and risk

Our current target is to achieve a 50% reduction in our direct emissions (scope 1 and 2) intensity by 2023 against our 2013 baseline (tonnes of CO_2 per 100sq metres of completed homes).

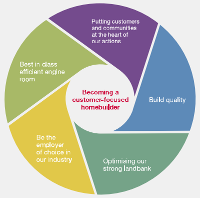
Last year we conducted a review of our target. We identified that deeper emission cuts are needed to align with climate science and the rules governing the setting of science-based targets, whilst also allowing for the construction of more much-needed homes in line with Government plans. We plan to develop a science-based carbon reduction target by the end of 2020.

We support the aims of the Task Force on Climate-related Financial Disclosures and aim to increase our disclosure in line with its recommendations. We have summarised our approach below. Further details are included in our Sustainability Report and submission to CDP, both available on our website.

Our approach to managing climate change-related risk

Governance	Our Legacy, Engagement and Action for the Future (LEAF) committee, chaired by a member of our Group Management Team (GMT), is responsible for reviewing climate strategy, risks and opportunities and meets four times a year. The LEAF Chair reports to the Board twice a year. Ultimate responsibility for our approach to climate change resides with our Chief Executive. Below Board level, the Director of Sustainability is responsible for monitoring climate-related issues as part of the overall risk management process. They report on risk and progress against targets to the GMT on a monthly basis. Our Audit Committee reviews financial and non-financial risks included in the Group Risk Register, which includes climate change. They receive an update on sustainability risks every six months.
Strategy	Climate change risks have the potential to impact our business strategy through increased costs, reduced productivity and reputational damage. We assess climate risks to the business using short (0-5 years), medium (6-10 years) and long term (11+ years) horizons. The most material climate-related risks are: changes in weather patterns and an increase in severe weather events which could affect the availability and cost of raw materials, impact energy and water use, increase flood risk and impact productivity; and increased regulation and taxation. The most material opportunities in the short term relate to the financial benefits associated with our use of low carbon goods and services as well as shifts in consumer preference to favour low carbon homes and products. In the longer term, the most material opportunity relates to improved business resilience due to implementation of climate change adaptation measures. We have conducted analysis on increased flood risk relating to climate change and are exploring the potential to conduct further scenario analyses.
Risk management	Climate change and biodiversity are included as key risks in our consolidated Group Risk Register. Sustainability risks are also integrated into our corporate risk management framework, through function risk registers and our Climate Change and Sustainability Risk and Opportunity Register. Our Climate Change Register guides the climate change adaptation of our business practices and the homes we build. For each climate-related risk and opportunity the register identifies: risk driver, description of risk, potential impact, timeframe, whether the risk or opportunity is direct or indirect, likelihood and magnitude of impact. This is a standing item on every LEAF committee agenda. The committee makes recommendations to the GMT on how to mitigate, transfer, accept, or control climate-related risks. We prioritise our climate change risks and opportunities based on their materiality to our business, measured in % of profit before tax (PBT). A % PBT greater than 20% is considered a major impact. A large risk in terms of likelihood is a greater than 50% chance.
Metrics and targets	We have set a reduction target for our scope 1 and 2 emissions and report progress on a range of key performance indicators, covering our direct and value chain emissions. We will set a science-based carbon reduction target by the end of 2020.

Our principal risks and uncertainties



Robust risk management underpins our strategic approach, with each risk area identified and carefully monitored by the Board and management team.

Principal Risks overview

The table opposite summarises the Group's Principal Risks and uncertainties, showing how each links to our corporate values and strategic objectives. Control of each of these is critical to the ongoing success of the business. As such, their management is primarily the responsibility of the Chief Executive and the GMT, together with the roles noted in the Principal Risks tables on pages 49 to 52. The Board has finalised its assessment of these risks and how the residual risk profile risk has changed in the year.

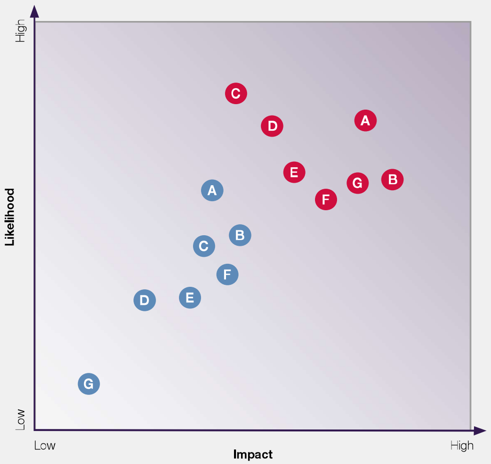
	Our values	Strategic objectives	Risk change in year
A. Government policy and planning regulations			
B. Impact of the market environment on mortgage availability and housing demand			
C. Material costs and availability of subcontractors			
D. Ability to attract and retain high-calibre employees			
E. Land purchasing			
F. Quality and reputation			
G. Site and product safety			

Key to our values

Respectful and fair
Take responsibility
Better tomorrow
Be proud

Principal Risks heat map

The heat map illustrates the relative inherent and residual positioning of our Principal Risks from an impact and likelihood perspective. As an outcome of our risk management process a new Principal Risk was agreed by the Board around 'Quality and reputation', recognising that both elements are fundamental to the achievement of our strategy. Further details on our Principal Risks can be found on the following pages.



Key

Residual
Inherent

Principal Risk	Accountability	Key mitigations	Residual risk change in year	Opportunity
A. Government policy and planning regulations The industry in which we operate is becoming increasingly regulated. Any adverse changes to Government policy, for example around changes to building regulations, could impact our ability to effectively meet our strategic objectives. Planning delays could result in missed opportunities to optimise our landbank, affecting profitability and production delivery.	– Group Operations Director – Regional Managing Directors	– Ground Rent Review Assistance Scheme – Ongoing and regular review of building regulations – Consultation with Government agencies	2019 saw heightened economic and political uncertainty. There were also a number of new and proposed policies on climate targets and future home standards and the short-medium term implications remain unknown. As we look ahead we see the removal of Help to Buy as a continued risk but having had visibility of, and time to plan for the changes, we consider that this risk can be managed. Overall, we see an increase in both the inherent and residual risk profile.	To build enhanced collaborative networks with stakeholders and peers, to monitor the implications of regulatory change. Lead the business in addressing pressing environmental issues, including reducing our carbon footprint and targeting biodiversity.
Link to strategy	**Link to values**	**Residual rating** Moderate	**Risk appetite** Low	**Example key risk indicators** – Removal of Help to Buy – New Government regulations (e.g. around planning and climate) – Delays in planning

Principal Risk	Accountability	Key mitigations	Residual risk change in year	Opportunity
B. Impact of the market environment on mortgage availability and housing demand Sustained growth in interest rates, together with low wage inflation or reduced confidence in continued employment, could challenge mortgage affordability resulting in a direct impact on our volume targets.	– UK Sales and Marketing Director – Regional Sales and Marketing Directors	– Evaluation of new outlet openings based on local market conditions – Pricing and incentives review – Review of external data (e.g. HBF, mortgage lenders)	Despite wider macro-economic and political uncertainty, the UK market for new build housing remained stable during 2019. Affordability remains good with low interest rates and widespread availability of mortgages. Page 19 provides further analysis of these key drivers and our medium term expectations.	To continue to develop strong working relationships with established mainstream lenders and those wishing to increase volume in the new build market.
Link to strategy	**Link to values**	**Residual rating** Moderate	**Risk appetite** Low	**Example key risk indicators** – Interest rate increases – Levels of unemployment – Volume of enquiries / people visiting our developments – UK household spending – Loan to value metrics

Principal Risk	Accountability	Key mitigations	Residual risk change in year	Opportunity
C. Material costs and availability of subcontractors A continued increase in housing demand and production may further strain the availability of skilled subcontractors and materials and put pressure on utility firms to keep up with the pace of installation resulting in increased costs and construction delays.	– Group Operations Director – Head of Procurement – Regional Commercial Directors	– Key supplier agreements – Trials of build methods – Direct trade and apprenticeship programmes	There continues to be pressure on the availability of certain build materials and a shortage of skilled labour in the housebuilding industry. However, we consider the inherent risk around this to be unchanged and, based on the mitigations in place, so too the residual risk.	To develop and implement different build methods as alternatives to conventional brick and block. To continue to develop our direct trade and apprenticeship schemes to build further expertise and capability in the business.

Link to strategy	Link to values	Residual rating	Risk appetite	Example key risk indicators
	Respectful and fair; Take responsibility; Better tomorrow	Moderate	Low-moderate	– Material and trade shortages – Material and trade price increases – Level of build quality and waste produced from sites – Longer build times – Number of skilled trades

Principal Risk	Accountability	Key mitigations	Residual risk change in year	Opportunity
D. Ability to attract and retain high-calibre employees An inability to attract, develop, motivate and retain high-calibre employees, together with a failure to consider the retention and succession of key management could result in a failure to deliver our strategic objectives, a loss of corporate knowledge and a loss of competitive advantage.	– Group HR Director – Every employee managing people	– Production Academy – Management training – Graduate programme – Apprenticeship programme	People are the foundation of our business and whilst the inherent risk may have increased slightly, the strong mechanisms we have established enable us to consider that the residual risk remains unchanged.	To further develop in-house capability, expertise and knowledge.

Link to strategy	Link to values	Residual rating	Risk appetite	Example key risk indicators
	Respectful and fair; Better tomorrow; Be proud	Low	Moderate	– Employee engagement score – Number of, and time to fill, vacancies – Employee turnover levels

Key to our values

Respectful and fair · Take responsibility · Better tomorrow · Be proud

Principal Risk	Accountability	Key mitigations	Residual risk change in year	Opportunity
E. Land purchasing The purchase of land of poor quality, at too high a price, or the incorrect timing of land purchases in relation to the economic cycle could impact future profitability.	– Divisional Managing Directors – Regional Managing Directors – Regional Land and Planning Directors – Strategic Land Managing Directors	– Critically assess opportunities – Land quality framework	We continue to hold a strong landbank, including our strategic land pipeline and consider both the inherent and residual risk levels to remain unchanged.	A strong balance sheet allows us to invest when land market conditions are attractive.

Link to strategy	Link to values	Residual rating	Risk appetite	Example key risk indicators
	Respectful and fair; Take responsibility	Low	Moderate	– Movement in landbank years – Number of land approvals – Timing of conversions from strategically sourced land

Principal Risk	Accountability	Key mitigations	Residual risk change in year	Opportunity
F. Quality and reputation The quality of our products is key to our strategic objective of being a customer-focused business and in ensuring that we do things right first time. If the Group fails to deliver against these standards and its wider development obligations, it could be exposed to reputational damage, as well as reduced sales and increased costs.	– Customer Director – UK Production Director – Group Director of Design	– Customer-ready Home Quality Inspection (HQI) – Consistent Quality Approach (CQA) – Quality Managers in the business	This is a new Principal Risk identified in 2019, recognising the fundamental nature of maintaining both our quality and reputation in the delivery of our strategy and their importance to our customers and stakeholders.	To better understand the needs of our customers enabling clearer transparency of our build profile. To lead the industry in quality standards (our Construction Quality Review score) and reduce the number of reportable items identified through monitoring defects at every stage of build.

Link to strategy	Link to values	Residual rating	Risk appetite	Example key risk indicators
	Respectful and fair; Take responsibility; Better tomorrow; Be proud	Moderate	Low	– Customer satisfaction metrics (9 month and 8 weeks) – Number of NHBC claims – CQR scores – Average reportable items per inspection

Principal Risk	Accountability	Key mitigations	Residual risk change in year	Opportunity
G. Site and product safety The health and safety of all our employees, subcontractors, visitors and customers is of paramount importance. Failure to implement and monitor our stringent health, safety and environment (HSE) procedures and policies across all parts of the business could lead to accidents or site-related incidents resulting in serious injury or loss of life	– Director of Health, Safety and Environment – Group Operations Director – Group Director of Design – Every employee and subcontractor	– Embedded HSE system – HSE training and inductions	No change in risk in year. This is an ever-present risk in our industry and the inherent risk remains unchanged. This is an area where we continue to maintain the highest possible standards and we consider the mitigations we have implemented enable us to determine the residual risk being unchanged.	To lead the industry in health and safety and to reduce the amount and level of incidents.
Link to strategy	**Link to values**	**Residual rating**	**Risk appetite**	**Example key risk indicators**
		Low	Low	– Increase in near misses and fatalities – Health and safety audit outcomes – Number of reportable health and safety incidents

Key to our values

Respectful and fair · Take responsibility · Better tomorrow · Be proud

Viability Statement

In accordance with the 2018 UK Corporate Governance Code, the Directors and the senior management team have assessed the prospects of the Company for a period longer than the 12 months required by the 'going concern' provision.

Time period

The Directors have assessed the viability of the Group over a five-year period, taking account of the Group's current financial position and the potential impact of the Principal and emerging risks facing the Group. The Directors have determined this as an appropriate period over which to assess the viability based on the following:

- Five years is a reasonable estimate of the typical time between purchasing land (obtaining planning permission, putting in place infrastructure and commencing build) and selling homes to customers from a development
- Our Group strategy is underpinned by our short term landbank, which supports c.4.8 years of development at current completion levels

The time period is challenged annually to ensure that it remains appropriate. In determining the appropriate time period the Directors also considered:

- The cyclical nature of the market in which the Group operates, which tends to follow the economic cycle
- The nature of the economic cycle and our expectations of how this will impact us
- Consideration of the impact of Government policy, planning regulations and the mortgage market
- Long term supply of land, which is supported by our strategic landbank
- Changes in technology and customer expectations

Assessment of prospects

We consider the long term prospects of the Group in light of our business model. Our strategy to deliver sustainable value is achieved through delivering high-quality homes in the locations where people want to live, with excellent customer service, whilst carefully managing our cost base and the Group's balance sheet.

Management re-evaluates the medium to long term strategy, in light of external, economic and industry changes. If appropriate, management adapts the strategy accordingly, in light of changes; for example, for material changes in planning and the wider housing market fundamentals.

In assessing the Group's prospects and long term viability due consideration is given to:

- The Group's **current market position and performance**, this includes the current year performance (pages 18 to 21), the output from the annual business planning process and financing arrangements
- **Strategy and business model flexibility**, including build quality, customer dynamics and approach to land investment. Further detail is provided on pages 24 to 29
- **Principal Risks** associated with the Group's strategy and those risks that could most impact our ability to remain in operation and meet our liabilities as they fall due and how we have taken these into consideration when making our assessment of the Group's viability

Principal Risks

The schedule of Principal Risks is routinely subject to a comprehensive review by the executive committee and Board. Consideration is given to the risk likelihood based on the probability of occurrence and potential impact on our business, together with the effectiveness of mitigations. The quality of our product and the strength of our reputation are key to our strategy and the Board has identified a new standalone Principal Risk of 'Quality and reputation' to reflect this (page 51). It was agreed that none of the changes in risks, their likelihood or probability during the year had a significant impact on the Group's viability.

The Directors have considered the impact of the Principal Risks (see pages 48-52 for full details of the Group's Principal Risks) on the viability of the business by performing a range of sensitivity analyses including severe but plausible scenarios together with the likely effectiveness of mitigating actions by the Directors. The Directors identified the Principal Risk relating to the potential impact of an economic downturn on mortgage availability and demand as most important in the assessment of the Group's viability. The following Principal Risks; 'Quality and reputation' and 'Government policy and planning regulations' were also considered to have the potential to impact on customer demand and, in turn, the volume and price of our sales and this was also factored into the scenario analysis.

Assessment of viability

The Group adopts a disciplined annual business planning process which involves the management teams of the 24 business units and senior management and is built from a bottom up basis. This planning process comprises a budget for the next financial year, together with a forecast for the following four financial years.

The financial planning process considers the Group's profitability and Income Statement, Balance Sheet including landbank, gearing and debt covenants, cash flows and other key financial metrics over the plan period.

These financial forecasts are based on a number of key assumptions, the most important of which include:

- Timing and volume of legal completions of new homes sold, this includes annual production volumes and sales rates over the life of the individual developments
- Average selling prices achieved
- Build costs and cost of land acquisitions
- Working capital requirements
- Capital repayment plan continues to operate with an ordinary dividend at a minimum of £250 million or 7.5% of the Group Net Assets and special dividends where free cash is generated by the Group after land investment, all working capital, taxation and other cash requirements of the business in executing our strategy in the near term and after the payment of the Group's ordinary dividend
- In February 2020, the Group's £550 million revolving credit facility was extended by one further year to mature February 2025

Stress testing our risk resilience

The assessment considers sensitivity analysis on a series of realistically possible, but severe and prolonged, changes to principal assumptions. In determining these we have included macro-economic and industry-wide projections as well as matters specific to the Group.

This downside scenario reflects the potential impact of a sharp decline in customer confidence, disposable incomes, and higher mortgage interest rates. To arrive at our stress test we have drawn on experience gained managing the business through previous economic downturns. We have applied the sensitivities encountered at those times as well as the mitigations adopted to our 2020 expectation in order to test the resilience of our business. As a result, we have stress tested our business against the following downside scenarios;

- **Volume** – reduced volumes from 2019 levels by 30% with no recovery
- **Price** – reduced selling prices by 20% with no recovery
- **Cost** – build cost reductions at a modest 5% and inclusion of a one-off exceptional charge and cash cost of £150 million for an unanticipated event or fine

The mitigating actions considered in the model include a reduction in land investment, a reduction in the level of production and work in progress held and optimising our overhead base to ensure it aligns with the scale of the operations through the cycle.

The Group's liquidity (defined as cash and undrawn committed facilities) was £1,180 million at 31 December 2019. This is sufficient to absorb the financial impact of each of the risks modelled in the stress and sensitivity analysis. If these scenarios were to occur, we have a range of additional options to maintain our financial strength, including; reduction in capital expenditure; the sale of assets; raising debt; and reducing the dividend.

Confirmation of viability

Based on the results of this analysis, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five-year period of their assessment.