
From: Mark R Davies [GRO]
Sent: Fri 09/10/2015 7:03:12 AM (UTC)
To: Paula Vennells [GRO]
Cc: Tom Wechsler [GRO]; Jane MacLeod [GRO]; Avene O'Farrell [GRO]
Subject: Re: Speaking notes for BNR re Lyca & text of email to Chairman

My suggestions would be:

- our transformation is accelerating and there are a number of important other issues I would like to update you on
- next week we will be informing our Crown branch staff that the network has hit break even (run rate), triggering pay awards. This is a great achievement when one considers the multi-million pound losses we had on separation from RMG
- last week we announced the first acquisition in our 370 year old history: our new insurance business, acquired from Bank of Ireland. A huge step forward and sign of confidence in our strategy
- we are closing in on having transformed 5000 branches: we will be talking to your office about possible opportunities for you to be involved in marking this moment
- at the same time we are updating colleagues on some difficult changes: in our supply chain this week, with the closure of a depot and some redundancies
- we will be making similar announcements in back office functions in a couple of weeks
- we are handling these issues carefully and updating your officials. Our first priority is to our people but we are well prepared should we face strike action or adverse media coverage.
- so while I am grateful for the chance to talk to you on these other issues I did want to highlight some of the other key issues and the way we are making real progress

Mark Davies
Communications and Corporate Affairs Director
Post Office Ltd

Mobile: [GRO]

From my iPhone and therefore possibly in transit so please forgive spelling mistakes or brevity!

On 9 Oct 2015, at 07:51, Paula Vennells [GRO] wrote:

Thanks Mark.

Btw I'd like to tell BNR about crown breakeven and any other 'good' news eg., union consultation /no strike re SC? Pension trustee outcome? What would be helpful/safe to share -

can I have some suggestions/words?

The point being, if she's been wobbly and worried it would be good to show her the business is still progressing strongly. P

Paula Vennells
Chief Executive
Post Office Ltd

T: **GRO**

GRO

Sent from my iPad

On 9 Oct 2015, at 07:43, Mark R Davies **GRO** wrote:

Hi Paula

The firm makes (or made) multiple deposits on different days into different branches, which explains the 240k figure: Jane will correct me if I am wrong.

Mark

Mark Davies
Communications and Corporate Affairs Director
Post Office Ltd

Mobile: **GRO**

From my iPhone and therefore possibly in transit so please forgive spelling mistakes or brevity!

On 9 Oct 2015, at 07:38, Paula Vennells **GRO** wrote:

Jane,
thanks very useful brief and notes.
One question: if the deposit made (presumably we can check) was £240k, then surely we were in breach of our obligations as the cap is £120k? I hadn't spotted this before but it comes out very strongly below.
Do you need to review what you've written or amend to explain?
Thanks,
Paula

Paula Vennells
Chief Executive
Post Office Ltd

T: **GRO**

GRO

Sent from my iPad

On 8 Oct 2015, at 21:28, Jane MacLeod

GRO

wrote:

Paula,

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Apologies for lumping these together, but it's the easiest way on the iPad! I'll be in the office tomorrow and am available on the mobile if you want to discuss any of the following:

BNR

I note that Patrick has separately supplied Tom with the suggested speaking notes for your call in the morning regarding Sparrow (the proposal that BNR meets with Second Sight and Sir Anthony Hooper). You may also be interested to know that in the conference with Jonathan Swift QC this afternoon, he agreed that the Chairman would need to meet both of those, so you can reassure BNR that their concerns will be heard.

In relation to the Lycamobile discussion, my suggested points for the conversation are as follows:

- under the agreements that PO has with the various banks we can accept deposits from retail customers to be credited to bank accounts, and under the arrangements with some of those banks (including Santander) we can also accept deposits of both cash and cheques from business customers.
- under those agreements, PO acts as the bank's agent and therefore the primary obligation for regulatory compliance (including KYC checks, anti-money laundering and anti-terrorist financing) falls on the banks. PO is required to, and does, comply with various requirements imposed by those banks to support these obligations. This includes observing limits set by the banks on the size of deposits.
- in the case of Lycamobile, the limit imposed by Santander on the amount of cash that can be deposited through nominated Post Office branches, is capped (at £120,000).
- it is not unusual for small businesses - particularly retail businesses, to make material cash deposits and we notice a

significant increase in the level of cash deposits on Mondays.

- while Lycamobile's method of operation (cash in unmarked bags) is unusual, it is not illegal.
- once we became aware of the BuzzFeed investigation, we made our own enquiries to determine whether the facts were as reported by BuzzFeed, and to ensure that PO had operated compliantly. The facts reported by BuzzFeed as regards PO appear to be broadly correct, in so far as they describe a pattern of large cash deposits being made by the same group of individuals on behalf of Lycamobile. These deposits have been within the limits set by Santander.
- allegations were made that phones and other 'gifts' were made to PO staff. This has not been verified.
- PO has consistently stated that we take our regulatory responsibilities seriously. We are not aware of anything that would make this statement untrue.
- as a result of the BuzzFeed allegations we are checking the security arrangements at each of the branches named in the report.
- we are also considering the processes and security checks that need to be embedded to support the future extension of business banking services under the proposed Banking Services Framework.
- [while we don't believe that PO was the target of the investigations, we are monitoring media reports, and are in contact with Channel 4 which has also reported interest in the story.]

Email to the Chairman (please not alternative options (highlighted) in the Sparrow paragraph depending on when you send the email, and the outcome of your discussions with the Minister):

"Dear Tim

While you have been away, two matters have arisen affecting Post Office of which you should be aware. We can discuss these in more detail if you wish on Monday, however the following is a brief summary:

Sparrow

The Minister is under pressure to speak to various parties including representatives Second Sight (forensic accountants) and Sir Anthony Hooper (former Chairman of the Steering Group). We believe that as part of your investigation you should meet with each of these parties, and we have therefore recommended to the Minister that she should not meet with them until (at least) the conclusion of your enquiry. [I have a call with her this morning and will recommend that she should await the conclusion of your enquiry before deciding whether to meet with them.][In my call with her this morning, I emphasised to the Minister that she should allow you to complete your investigation before making a decision. However she did not seem minded to accept this advice.]

There are a number of reasons why we are reluctant for the Minister to speak to these parties (particularly Second Sight) at this point:

- By speaking to these parties, the Minister undermines the rationale for your own independent investigation.
- Second Sight are active on social media and we believe that they would make public the fact of any such meeting. This will only encourage expectation of some form of government intervention.
- We now have the majority of outstanding (non-criminal) cases scheduled for mediation. Any expectation of government intervention is likely to cause Applicants to withdraw from the mediation scheme.

You may wish to speak to the Minister to understand the reason for her views.

Buzzfeed report on Lycamobile on Monday

Buzzfeed (an online media outlet) published an article late on Monday which alleged inappropriate corporate behaviour on the part of Lycamobile, whose owner is a major donor to the Conservative Party. The article includes allegations that

Lycamobile staff have deposited substantial sums (exceeding £240,000) in cash through Post Office branches into accounts with Santander; the implication is that this practice constitutes money laundering. (see

http://www.buzzfeed.com/heidiblake/this-tory-donor-was-secretly-filmed-dropping-cash-stuffed-ru?bftwuk&utm_term=4ldqpgm#4ldqpgm).

The background to this issue is as follows:

- under the agreements that PO has with the various banks we can accept deposits from retail customers to be credited to bank accounts, and under the arrangements with some of those banks (including Santander) we can also accept deposits of both cash and cheques from business customers.
- under those agreements, PO acts as the bank's agent and therefore the primary obligation for regulatory compliance (including KYC checks, anti-money laundering and anti-terrorist financing) falls on the banks. PO is required to, and does, comply with various contractual requirements imposed by those banks to support these obligations. This includes observing limits set by the banks on the size of deposits. PO also complies with relevant anti-money laundering regulatory requirements, including the obligation to file SARs (suspicious activity reports).
- in the case of Lycamobile, the limit imposed by Santander on the amount of cash that can be deposited through nominated Post Office branches, is capped (at £120,000).
- it is not unusual for small businesses - particularly retail businesses, to make material cash deposits and we notice a significant increase in the level of cash deposits on Mondays.
- while Lycamobile's method of operation (cash in unmarked bags) is unusual, it is not illegal.
- once we became aware of the Buzzfeed investigation, we made our own enquiries to determine whether the facts were as reported by Buzzfeed, and to ensure that PO had operated compliantly. The facts reported by Buzzfeed as regards PO

appear to be broadly correct, in so far as they describe a pattern of large cash deposits being made by the same group of individuals on behalf of Lycamobile. These deposits have been within the limits set by Santander.

- allegations were made that phones and other 'gifts' were made to PO staff. This has not been verified.
- PO has consistently stated that we take our regulatory responsibilities seriously. We are not aware of anything that would make this statement untrue.
- As a result of the Buzzfeed allegations we are reviewing the security arrangements in place to protect branches that accept large cash deposits, and we are checking the security arrangements at each of the branches named in the report.
- we are also considering the processes and security checks that need to be embedded to support the future extension of business banking services under the proposed Banking Services Framework.
- while we don't believe that PO was the target of the investigations, we are monitoring media reports, and are in contact with Channel 4 which has also reported interest in the story.

We are continuing to monitor the story, investigate the background facts, and consider what impact similar issues could have on future operations. I will keep you updated on the findings.

[salutations etc]"

Happy to discuss any of this.

Kind regards,

Jane

Jane MacLeod

General Counsel
The Post Office

GRO

Sent from my iPad