

Post Office Limited

**POST OFFICE LIMITED**  
**(Company Number 2154540)**

**Meeting of the AUDIT, RISK AND COMPLIANCE SUB-COMMITTEE**  
**to be held at 13.15 on Wednesday 13 February 2013**  
**at 148 Old Street, London, EC1V 9HQ in the Board Room**

- |       |   |  |   |
|-------|---|--|---|
| 13.15 | 1 | Minutes of the last meeting and matters arising  | Alasdair Marnoch                              |
|       |   | <ul style="list-style-type: none"><li>• Minutes of the meeting held on 13 November 2012 and meeting dates for 2013</li><li>• Matters arising:<ul style="list-style-type: none"><li>- Confirmation of external audit fees for 2012/13</li><li>- Minutes of Regulatory Risk Committees and Risk and Compliance Committees</li><li>- Whistle-blowing policy</li></ul></li></ul> |   |
| 13.30 | 2 | Risk Management within Post Office Limited   | Chris Day/Susan Crichton                      |
|       |   | <ul style="list-style-type: none"><li>• Approach to risk management</li><li>• Risk management framework</li><li>• Policies to mitigate against key regulatory risks</li><li>• Treasury Risk Framework</li></ul>  |   |
| 14.10 | 3 | Annual Report and Accounts   | Mark Davies                                   |
|       |   | <ul style="list-style-type: none"><li>• Key Messages</li><li>• Definition of Key Management Personnel</li></ul>  | Sarah Hall                                    |
| 14.30 | 4 | Internal Audit   |   |
|       |   | <ul style="list-style-type: none"><li>• Summary of Internal audit reports completed since April 2012 and status report on audit actions</li><li>• Recent audit results</li><li>• Draft 2013/2014 POL Internal Audit plan</li></ul>   | Malcolm Zack/Stephen Collins <sup>1</sup>     |
| 15.00 | 5 | Specific matters referred by the Board to ARC  |   |
|       |   | <ul style="list-style-type: none"><li>• Update report on information security</li><li>• Eagle contract: termination event scenario planning</li></ul>  | Lesley Sewell<br>Hugh Flemington <sup>2</sup> |
| 15.10 | 6 | Any other business   |   |

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The Operating Plan briefing will begin at 15.30 and finish at 16.45pm.

<sup>1</sup> Stephen Collins of Royal Mail Internal Audit will join the meeting at this point.

<sup>2</sup> Lesley Sewell CIO and Hugh Flemington Head of Legal, will join the meeting at this point



## Post Office Limited

PRESENT: Alasdair Marnoch (Chairman)  
Susannah Storey (Non-executive director)  
Neil McCausland (Non-executive director)

SECRETARY: Alwen Lyons (Company Secretary)

APOLOGIES: Tim Franklin (Non-executive director)

IN ATTENDANCE: Alice Perkins (Company Chairman)  
Paula Vennells (Chief Executive)  
Susan Crichton (HR & Corporate Services Director)  
Chris Day (CFO)  
Sarah Hall (Head of Financial Control and Compliance)

Malcolm Zack (Head of Internal Audit)  
Stephen Collins (Audit Manager, Royal Mail Group Internal Audit)

Lesley Sewell (Chief Information Officer)  
Hugh Flemington (Head of Legal)

**Key Decisions and Actions to be taken by the Committee.**

Item		Action Requested
1	<b>Minutes of last meeting/matters arising</b> <ul style="list-style-type: none"> <li>Minutes</li> <li>Audit fees confirmation</li> <li>Financial regulation regime</li> <li>Minutes of Regulatory Risk Committee</li> <li>Minutes of Risk and Compliance Committee</li> </ul>	Approve Approve Note Note Note
2	<b>Risk Management in Post Office Limited</b> <ul style="list-style-type: none"> <li>Approach to Risk Management and Risk Management Framework</li> <li>Regulatory Policies – status</li> <li>Treasury Risk Framework</li> </ul>	Direct and Approve  Note/Direct as necessary Direct and Approve
3	<b>Annual Report and Accounts</b> <ul style="list-style-type: none"> <li>Key Messages</li> <li>Template for Corporate Governance Statement</li> <li>Timetable</li> <li>Definition of Key Management Personnel</li> </ul>	Discuss and Approve Discuss Approve Approve
4	<b>Internal Audit</b> <ul style="list-style-type: none"> <li>Summary of 2012 Royal Mail audit reports and status of actions</li> <li>Recent Audit Results</li> <li>Draft 2013/2014 Internal Audit Plan</li> </ul>	Note Note/Comment Discuss, Direct and Approve.
5	<b>Specific matters referred by the Board</b> <ul style="list-style-type: none"> <li>Information Security Paper</li> <li>Eagle Contract – Termination event scenario planning</li> </ul>	Note and direct Note and direct

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**POLARC12 (2<sup>nd</sup>)  
POLARC12/8-15**

**POST OFFICE LIMITED**  
(Company no. 2154540)

**Minutes of a meeting of the AUDIT, RISK AND COMPLIANCE SUB-COMMITTEE  
held on Tuesday 13 November 2012  
at 2pm at 148 Old Street, London EC1V 9HQ**

**Present:**

Alasdair Marnoch	Chairman of Committee
Tim Franklin	Non-Executive Director
Neil McCausland	Senior Independent Director
Susannah Storey	Non-Executive Director

**In attendance:**

Alice Perkins (AP)	Chairman, Post Office Limited
Chris Day (CD)	CFO
Paula Vennells	CEO (item 12/11 only)
Sarah Hall (SH)	Head of Financial Control and Compliance
Nick Kennett (NK)	Financial Services Director (item 12/13 only)
Alwen Lyons (AL)	Company Secretary
Hugh Flemington (HF)	Head of Legal Services (item 12/11 only)
Lesley Sewell (LS)	Chief Information Officer (item 12/11 only)
Malcolm Staite (MS)	Interim Head of Risk Governance
Malcolm Zack (MZ)	Head of Internal Audit
Stephen Collins (SC)	Audit Manager, Royal Mail Group Internal Audit (item 12/12 only)
Angus Grant (AG)	Audit Partner, Ernst & Young (item 12/12 only)
Jeremy Midkiff (JM)	Audit Manager, Ernst & Young (item 12/12 only)

**POLARC12/8**

**INTRODUCTION**

- (a) A quorum being present, the Chairman of the Committee opened the meeting and welcomed all those present.
- (b) The Chairman noted that the Committee would not be able at this meeting to discuss Risk Management in detail, as the executive team were still working through the processes and the necessary recruitments had not yet been completed. The approach to risk management would be a matter for particular focus at the next meeting in February.

**POLARC12/9**

**GOVERNANCE**

- (a) The Chairman asked MZ to talk through the new format proposed for the Terms of Reference of the Committee, including an outline schedule of matters to be discussed and a form of standing agenda.

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- (b) Following discussion, it was agreed that the revised Terms of Reference for the Committee, dated November 2012, are approved and adopted subject to an amendment in 2.1 to clarify that the HR & Corporate Services Director and the General Counsel were the same role.
- ACTION: Company Secretary** (c) These Terms of Reference would be included in the pack of corporate governance documents to be approved by the Board in January 2013.
- ACTION: CD** (d) The Committee requested that the banking and treasury delegated authority limits discussed at the Board meeting on 23 October 2012 should return to the ARC in February for discussion and that outstanding balances and any breaches by counterparties be brought to the attention of the ARC.
- ACTION: MZ** (e) The Committee asked for sight of the internal audit reports completed since April 2012, and a status report on the audit actions to be presented at the February meeting.
- (f) The Committee requested discussion at the February meeting on:
  - (i) the policies in place to mitigate against key business risks (a paper to be produced by the Head of Risk Governance); and
  - (ii) the process for establishing and ensuring compliance by the Business with those policies and with regulatory requirements. It was recognised that this exercise would take some time, with priority areas starting to become clear over the course of 2013.
- ACTION:MZ/SC** (g) The CFO and HR & Corporate Services Director would then lead a session at the Board to give comfort that the Business understands its regulatory risks and has the policies in place to monitor and mitigate.
- ACTION: CD/SC**

**POLARC12/10****ANNUAL REPORT AND ACCOUNTS AND HALF YEAR TRADING STATEMENT**

- (a) CD presented the latest draft of the half-year trading statement. It was noted that the DVLA decision had now been announced and could therefore be included in the statement.
- (b) It was noted that the trading statement had not been reviewed formally by Ernst & Young but it was confirmed that the basis of preparation was consistent and that there had been no major changes in accounting policies or practice.
- (c) The proposed date for release of the statement to the press and general public was 22 November 2012. Discussions would be held separately with the Shareholder.
- ACTION: CD** (d) The Committee discussed the tone of the statement and the comments received to date from members of the Board and it was agreed that final comments would be input by 14 November, after which the statement would be re-circulated to the Board for final approval.

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- (e) A copy of the final statement and press release would be circulated to the Board.
- (f) The paper presented by SH, setting out an approach for preparation of the full year accounts for 2012/13, was considered.
- (g) After discussion it was agreed that:
  - (i) Post Office should not take advantage of the exemptions from being a wholly owned subsidiary of a UK parent producing group financial statements;
  - (ii) Post Office should continue to report under UK GAAP but the consolidated financial statements will be under IFRS;
  - (iii) the Post Office Annual Report and Financial Statements should be prepared as one formal document for lodging at Companies House;
  - (iv) Post Office should include the additional Business Review disclosures applicable to quoted companies where appropriate;
  - (v) Post Office should aim to meet the elements of the UK Corporate Governance Code and DTR disclosure requirements on corporate governance that are appropriate; and
  - (vi) Post Office should comply with legal requirements concerning the disclosure of directors' remuneration but would not seek to go beyond the statutory level of disclosure for the financial year 2012/3.

**ACTION: Company Secretary**

A full analysis of Post Office's compliance with the UK Corporate Governance Code was under way and would be provided for discussion by the Committee at its next meeting.

There appeared to be nothing which would prevent the Post Office from confirming that it upheld the principles of the Code, even if some of the detailed recommendations would not be applicable to a Government-owned organisation.

**POLARC12/11****RISKS – HIGH RISK CONTRACTS**

The CEO, LS and HF joined the meeting to provide an update on the information security issue which had recently been faced by the Post Office.

An approach to establishing the risk profile of customer data held within the Post Office had been set out in the paper from LS and this was discussed.

The Committee thanked the CEO and the Business for the rigour with which they had handled the issue and asked for a short update report in mid-December followed by a formal report on information security for the next ARC meeting in February, including a noting paper on High Risk Contracts.



**Post Office Limited – Strictly Confidential****ACTION:LS**

The Committee asked to be kept informed in the meantime of any actions necessary to mitigate against any actual or perceived liability on the part of the Post Office.

**POLARC12/12****INTERNAL AND EXTERNAL AUDIT**

- (a) SC, AG and JM joined the meeting.
- (b) MZ was introduced as the new Head of Internal Audit. He explained the future audit team he was recruiting for the Business and that going forward the audit plan would be based on the key risks which would be signed off by the ARC. He confirmed the activity in the Audit plan for 2012/13 and that Royal Mail's Internal Audit Team would assist Post Office up to 31 March 2012.
- (c) The Committee agreed that there may be a need to monitor the increased strategic risks driven by separation and transformation, but that there also needed to be a focus on compliance within the Network.
- (d) The Committee asked for a summary of the areas covered by RMG Internal Audit reports to be presented to the ARC in February.

**ACTION:MZ**

Stephen Collins left the meeting

- (e) AG, the Ernst & Young Audit Partner responsible for the Post Office external audit, reported that the previous year's audit had been finalised. He expected that 2012/13 would be a challenging year for the Business in several areas because of separation and major change, and that the audit would need to focus on separation, pensions, and taxation with an overlay of IT. He set out the proposed approach to external audit of the full year accounts and the outline timetable. The detailed focus of the audit would be:
  - (i) Revenue recognition and the accounting treatment across diverse revenue streams;
  - (ii) Counterparty risk;
  - (iii) Pension valuation and accounting;
  - (iv) Separation accounting risks; including pensions and treasury;
  - (v) Valuation of accounting provisions;
  - (vi) Risk of fraud/burglary in the Network and Cash operations;
- (f) The ARC was comfortable with the approach, alongside the separate ISAE 3402 IT audit which had been jointly commissioned by the Post Office and Fujitsu.
- (g) The Chairman asked at what level of materiality the E&Y team would report. AG explained that this would be similar to previous years. Although E&Y did put a figure on P&L materiality, they would propose to report any identified audit adjustments above £600k to the Committee and, as a general rule,

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insist on changes to the accounts for any single item or accumulation of items with an effect of over £5-6 million. This was accepted.

- (h) The Chairman informed the meeting that he would pick up the Ernst & Young fees with the CFO outside the meeting

**ACTION:AM/CD**

- (i) The external audit plan was agreed. The external auditors left the meeting.

**POLARC12/13****MATTERS REFERRED TO ARC BY THE BOARD**Governance of the “Eagle” Contract

- (a) NK joined the meeting.

He presented the paper and explained the governance processes now in place with the Bank of Ireland (BoI) following agreement of the new contract. The Committee was informed of the arrangements and the governance committees put in place to monitor performance. The Committee asked that the minutes of future Regulatory Risk Committees (RRC) be provided for the ARC.

**ACTION: NK**

- (b) NK noted the termination rights currently contained in the contract. BoI was obliged to provide certification within 15 days of each quarter end to assure Post Office that BoI was meeting its requirements in respect of:

(i) Tier One Ratio and Capital buffers

(ii) Liquidity

(iii) NSFR requirement

and that it had not breached any of the terms of the contract creating a Termination Obligation.

- (c) The Chairman asked if this gave the Business sufficient warning of any problems. NK assured the Committee that the Bank was obliged to give Post Office early warning of any capital or liquidity problems and Post Office had a buffer above the regulatory and statutory requirements set by HM Treasury (HMT), the Bank of England (BoE) and the FSA.
- (d) Post Office had also established a system for tripartite meetings with HMT and BoE, to which the FSA was also invited. The purpose of this meeting was to give Post Office a medium to long term view of the banking environment and how any developments might affect the Post Office.
- (e) NK explained that the FSA would soon be splitting to form two organisations: the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). This should lead to a strengthening of regulatory relationships and give the Business more comfort.
- (f) The Committee asked NK to provide an interim update on the regulatory position in September 2013, 6 months after the changes had taken effect.

**ACTION: NK**



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- (g) The Chairman noted that it would be useful at the same meeting to look at scenarios in which Post Office would need to respond to a termination event.
- (h) NK reported that Post Office deposits had grown substantially above the planned £16.6 billion target agreed with the FSA. The parties were working together to agree a commercially sustainable position on pricing for Bol whilst ensuring protection for Post Office customer assets and the Post Office brand.

NK explained the securitisation of assets by Bol and noted that the new contract required consent from the Post Office to securitise any Post Office customers' assets. The terms were designed to ensure that Post Office customers' assets were managed effectively but also ring-fenced in the event that a transfer to an alternative provider became necessary.

NK then left the meeting.

Uncommitted Credit Facilities**ACTION:  
CD/Company  
Secretary**

- (i) The CFO asked for the Committee's views on the proposals relating to uncommitted loan facilities which had been put forward to the Board. He noted that banking counterparties would require a resolution of the full Board.
- (j) The Committee discussed the proposals to enter into two loan facilities. CD confirmed that these proposals had been discussed with the Shareholder and no concerns had been expressed.
- (k) The Committee endorsed the following recommendations to the Board:
  - (i) approval for Post Office to enter into external borrowing facilities up to a maximum value of £100m, such that external borrowing of up to £50m may be drawn down at any one time;
  - (ii) approval for the CFO and Head of Corporate Finance to conduct negotiations with counterparties and sign and deliver the loan and related documentation
  - (iii) approval for the form of Board resolution included in the paper, subject to review by Susan Crichton (Head of HR and Corporate Services).

**POLARC12/14****ANY OTHER BUSINESS****ACTION:  
Company  
Secretary**

- (a) It was agreed that the schedule of meeting dates for 2013 should be revised to allow for meetings in February, May, September and November. The Company Secretary was asked to recirculate the dates.

**POLARC12/15****CLOSE**

There being no further business, the meeting was declared closed.

**Post Office Ltd. & Bank of Ireland (UK) Regulatory Risk Committee****QBR Meeting****16<sup>th</sup> November 2012, 11.00 – 1.00pm. Board Room, Bow Bells House, London.****Key Decisions and Actions**

<b>Bank of Ireland Members:</b>	<b>Post Office Members:</b>	<b>In Attendance:</b>	<b>Apologies:</b>
Debra Codack BoI(UK) Alec Hughes BoI (UK) Richard Holden (Chair) BoI (UK)	Roger Gale (POL) Jonathan Hill (POL) Jeremy Law (POL) David Mason (POL) Nick Kennett (POL) Malcolm Staite (POL)	Hope Stack (Secretary)	David Mc Gowan BOI (UK) Kevin Gilliland(POL) Susan Crichton(POL) Nick Fahy BOI (UK)

**Key discussion points:****Governance:**

- Meeting minutes of 19<sup>th</sup> October were approved and matters arising updated.

**BOI (UK) Regulatory & Operational Risk Monitoring:**

- **T&D Reviews** – It was agreed that a full root & branch review of the in-branch T&D framework would take place following the full deployment of the video mystery shopping programme.
- Savings Mystery shopping results for T&D Reviews in Q3 showed some slight improvement on Q2 results; with a caveat that Q3 volumes were lower than those undertaken in Q2. It was agreed that the success of the credit card re-accreditation programme would be assessed at the end of Q4
- **Financial Promotions** – Deterioration in quality of submissions from POL is impacting on Bank ability to sign off promptly. An action was agreed to review stakeholder responsibilities in light of the recent structural change and the need for clarity of accountability in the new structure for the different elements of the FP production and approval cycle. It was agreed that it would be helpful to bring in the Product Managers as part of the review.
- **-Video Mystery Shopping** - Feedback received to-date suggests that the pilot has been a success. However, a date has not yet been agreed for a full rollout. The Committee agreed that the next phase should, include counter staff as Banks risk is not limited just to FS's.

**Compliance Report Highlights:**

- The Mortgage Pilot 3 month interim review showed positive indicators following post validation calls which were carried out on small sample of 14 customers. The Pilot will continue lead by 10 Mortgage Specialists. Further discussions took place re the expected outcome of the pilot and next steps.

**Financial Specialists Capability**

- The red rated issues reported on mystery shopping were to be raised at BOI (UK) BRC and require both short term and long term solutions to address. The Committee noted that significant efforts have been made to improve levels of compliance in relation to the in-branch sale of credit cards and that these should begin to have a positive impact in the near future.

**Top 5 Risks**

- Top 5 Risks to be updated following discussion by the Committee

**Customer Complaints MI & TCF Scorecard**

- Both sets of MI currently under review. AH presented a draft 'PO Distribution - Conduct Risk Dashboard' to the Committee and confirmed the intention that this will replace the distribution related elements of the POFS TCF Scorecard. It was agreed that AH would finalise the proposal in this regard and present the final version to the Committee in January.

**AOB – Terms of References**

- The Committee ToR is to be revised to reflect recent changes and will be presented at the December meeting for approval.

**Open actions out of 16<sup>th</sup> November POL & BOI (UK) meeting**

	Action	Owner	Due Date	Update as at 23rd November	Status
126.	<b>T&amp;D Review Process</b> – J.Law took an action to keep the Committee updated on the progress of the overall review of the T&D framework	<b>JL</b>	n/a		Closed
127.	<b>Crown T&amp;D Reviews</b> – DC took an action to extract the detail (question and results per branch) behind the results reported on page 7 of Monitoring report, and provide these to Roger Gale.	<b>DC/RG</b>	12 <sup>th</sup> Dec	DC to provide detail behind results to RG as agreed. This action was closed as complete 26 <sup>th</sup> November.	Closed
128.	<b>Financial Promotions Submissions</b> – Agreed that a RACI should be completed with all key stakeholders in light of new operating structure.	<b>DC/JH/JL</b>	12 <sup>th</sup> Dec	Provide Committee with an update on the review at the next meeting.	Open
129.	<b>Video Mystery Shopping – Phase II</b>	<b>DC/DM</b>	Dec/Jan	DC/DM to discuss plans for next phase of Video Mystery shopping and advise Committee	Open
130.	<b>Financial Specialists Capability</b>				
	i) Provide paper on summary of the key issues highlighted, the impact of the issues and how they can be addressed in short/long term. ii) Provide NK&JL a copy of RCA paper presented by DM/AH at 19 <sup>th</sup> Oct meeting	<b>RG/JL</b>  <b>NK/JL</b>	Jan  Nov	RG/JL to provide an update on the paper presented by AH to the Committee in September at the January Committee meeting.  HS circulated a copy of the RCA paper as requested	Open  Closed

131.	<b>Regulatory Risk Assessment</b> i) AH to circulate supporting document on the Customer Detriment Risk Assessment Process	JH	12 <sup>th</sup> Dec	JH to provide Committee with update at Dec meeting	Open
		JH/JL	12 <sup>th</sup> Dec	JH to provide Committee with update at Dec meeting.	Open
		AH	Nov	AH provided document and was circulated to the Committee members	Closed
132.	Top 5 Risks to revised reflecting the current relevant risks	AH	Jan	AH to update and present to the next QBR meeting.	Open
133.	AH presented a draft 'PO Distribution - Conduct Risk Dashboard' to the Committee and confirmed the intention that this will replace the distribution related elements of the POFS TCF Scorecard.	AH	Jan	AH to finalise the proposed Dashboard and present the final version to the Committee in January.	Open
134.	The Committee ToR will be revised to reflect recent changes and presented at the December meeting for approval.	RH	12 <sup>th</sup> Dec	Revised ToR to be presented at 12 <sup>th</sup> Dec meeting	Open
135.	Schedule of 2013 meeting dates – JH requested that some of the 2013 meeting dates change to facilitate POL availability.	JH	Nov/ Dec	HS re-sent copy of 2013 schedule to JH for review and feedback	Closed

**Previous actions out of POL & BOI (UK) meetings**

Action		Owner	Due Date	Update as at 23rd November	Status
121.	<b>POL Branch classification and the development of Local Branches</b> – It was agreed SL would circulate here presentation to the Committee and advised she would be available to answer any questions members of the Committee might have following the meeting.	SL	29 <sup>th</sup> Nov	HS circulated a copy of the presented received from SL of POL	Closed

Approved by: Richard Holden, Chairman  
Date: 12<sup>th</sup> December 2012



**Post Office Ltd. & Bank of Ireland (UK) Regulatory Risk Committee**  
**QBR Meeting**  
**12<sup>th</sup> December 2012, 10.00 – 12.00pm. Board Room, Bow Bells House, London.**  
**Key Decisions and Actions**

Bank of Ireland Members:	Post Office Members:	In Attendance:	Apologies:
Debra CodackBoI(UK) Alec Hughes BoI (UK) Richard Holden (Chair) BoI (UK)	Jonathan Hill (POL) Jeremy Law (POL) David Mason (POL) Malcolm Staite (POL)	Hope Stack (Secretary)	Roger Gale (POL) Nick Fahy BOI (UK) Nick Kennett (POL)

**Key discussion points:**

**Governance:**

- Key decisions of 16<sup>th</sup> November were approved and all open actions were updated.

**BOI (UK) Regulatory & Operational Risk Monitoring:**

- **T&D Reviews** – The overall rating of Crown T&D reviews for the month was Amber. Generic Reviews reported no change at amber and significant improvement was noted on the Thematic Mystery Shopping of credit cards with an overall rating graded green (24 green & 4 red). All mystery shops were noted to be carried out post the POL credit card training in early November.  
 Exceptions report was presented with additional detail on each exception following queries raised by POL at November meeting. The Committee was advised that further monitoring would take place in Jan/Feb 2013  
 Generic Compliance Reviews – The Committee was again made aware of the review findings in terms of the number of staff who are unaware of the procedure to follow in the event of a customer wishing to make a complaint - This has now increased to an exception rate of 83% over the last 3 months.
- **-Video Mystery Shopping pilot (phase II)** – All video mystery shops associated with phase II of the pilot (a mix of credit card & savings products) have been completed across a total of 17 locations. The assessment process was confirmed as being underway and DC advised findings to date show an increase in Red results for phase II. . DM advised that POL will be compiling a report in relation to the performance of the pilot, which will be made available to the committee for review once complete. In terms of full roll out of Video Mystery Shopping, POL advised that it would be preferable to first identify whether it could be procured from one of their existing mystery shopping providers such as ABA(POL are subject to public procurement rules which make it simpler to procure services from existing suppliers). RH confirmed that he understood the challenge faced by POL in this respect, but stressed that any party wishing to be considered for the tender process must be capable of demonstrating their ability to deliver the service effectively.

**POJV Compliance update**

**Branch Mystery Shopping**– the monthly report demonstrated continuing improvement in relation to the number of green ratings now being achieved.

AH highlighted the **CPP mis-selling- FSA Fine** and advised that *POJV Compliance would be carrying out an analysis of the sales practices that led to the FSA taking action against CPP to ensure that BOI (UK) has no similar regulatory compliance exposure. An update will be provided at the next meeting.*

**Gender neutral pricing** – It was confirmed gender neutral pricing has been introduced for all insurance products.

**Deposit Protection – Raising Consumer Awareness**- while the FSA's new rules in this regard are not applicable to POL, a range of 'voluntary' measures were to have been considered by the POL Executive Committee. *J.Hill took an action to circulate an update to the Committee ahead of the next meeting in January 2013.*

**Regulatory Risk Assessment & Management Process**

**Regulatory Watch List** – due to the unavailability of data, this report was noted to be incomplete. AH confirmed that, assuming the data is available, an updated report will be produced for the January 2013 meeting.

**BOI (UK) Risk Planning Register** – This report is not available until working day 20, it was agreed the Secretary would circulate once available. *(Secretary issued this report to the committee & attendees 21<sup>st</sup> December 2012)*

**Customer Complaints Report** – The Complaints report *(in a temporary format)* was presented to the Committee and the Chairman confirmed an action to liaise with Bob Tennant in order to agree how future Complaints reports would be presented. Separately, a POL review of Post Office Complaints was noted to be currently underway and JH suggested POL would engage with the BOI (UK) complaints team once their review was complete. AH added that he will restart the production of the quarterly analysis of in-branch complaints in the new year.

**TCF –**

**Outcome 1 – Complaints from CMCs with regards to PPI mis-selling** – It was noted that 91% complaints are not upheld and a very significant percentage (circa 70%) did not have PPI policy for the product against which the complaint was raised. DC advised that work is in progress within BOI UK to implement a simplified process for dealing with DSAR requests from CMC's in relation to PPI claims. Longer term this should see a reduction in the number of speculative complaints that subsequently come in. Several of the larger CMC's have signed up to the simplified process, and BOI UK Risk team would be engaging with Rob Lear of Group Customer Complaints to maximise opportunity.

**Voice of Customer/Social Media Update** - As NF was unable to attend the meeting, it was agreed this item would be carried forward to QBR.

**AOB – Terms of References** - A number of small queries were raised in relation to the TOR:(i) it was advised NK would only attend meetings on a quarterly basis;(ii) Under the "Duties" section of the document, it was requested that "POL" is removed from "Voice of the Customer and Social media reports"; and (iii) there was an action for the Committee to agree how its duties align to those of other POL/BOI (UK) Committees in terms of responsibility and reporting.

**2013 Schedule of meeting dates** – HS confirmed that the proposed set of 2013 meeting dates are with POL for review and approval. JH committed to reverting on the dates w/c 15<sup>th</sup> December.



**Open actions out of 12<sup>th</sup> December 2012 POL & BOI (UK) meeting**

Action		Owner	Due Date	Update as at 23rd November	Status
136.	<b>Video Mystery Shopping phase II</b>	<b>DM</b>	21/01/2013	DM to provide update at QBR meeting.	Open
	i) POL POC Review report to be made available to the committee for review once complete. ii) Full VMS roll out Plan – POL to provide BOI UK with update on the status of the Project	<b>NK/DM/JH</b>	21/01/2013	Update to be provided to Committee at next meeting	Open
137.	<b>CPP mis-selling- FSA Fine</b> – AH to carry out an analysis of the sales practices that led to the FSA taking action against CPP to ensure that BOI (UK) has no similar regulatory compliance exposure. Update to be provided by AH at the January meeting.	<b>AH</b>	21/01/2013	AH to update at next meeting	Open
138.	<b>Deposit Protection – Raising Consumer Awareness</b> - JH took an action to circulate an update to the Committee ahead of the next meeting in January 2013.	<b>JH</b>	Jan 2013	JH to circulate paper presented to Senior Executive	Open
139.	<b>BOI (UK) Risk Planning Register</b> – This report was not available until working day 20, Secretary would circulate once available.	<b>HS</b>	21/12/2012	Secretary issued this report to the committee & attendees 21 <sup>st</sup> December 2012.	Closed
140.	<b>Customer Complaints Report</b>	<b>RH</b>	21/01/2013	Update to be provided at Jan meeting.	Open
	i) The Chairman confirmed an action to liaise with Bob Tennant in order to agree how future Complaints reports would be presented.	<b>JH</b>	21/01/2013	JH to provide update at Jan meeting	Open
	ii) A POL review of Post Office Complaints is work in progress. J.Hill suggested POL would engage with BOI (UK) complaints team once their review was complete.	<b>AH</b>	21/02/2013	Q4 report to be made available at February meeting.	Open
	iii) AH to restart the production of the quarterly analysis of in-branch complaints in the new year.				
141.	<b>Terms of Reference</b> – Further minor changes requested by members to be updated, amended TOR will be presented at the next meeting for approval	<b>RH</b>	21/01/2013	TOR to be amended and represented to for approval	Open
142.	<b>2013 Schedule of meeting dates</b> – POL to confirm approval of all proposed meeting dates for 2013	<b>JH</b>	21/01/2013	JH to provide Committee with agreement on the scheduling of monthly meetings.	Open

**Open actions out of 16<sup>th</sup> November POL & BOI (UK) meeting**

Action		Owner	Due Date	Update as at 23rd November	Status
128.	<b>Financial Promotions Submissions</b> – Agreed that a RACI should be completed with all key stakeholders in light of new operating structure.	DC	Jan 2013	DC engaged with Gp Change Mgt who will arrange RACI review allowing continuity. DC took action to follow up.	Open
130.	<b>Financial Specialists Capability</b> i) Provide paper on summary of the key issues highlighted, the impact of the issues and how they can be addressed in short/long term. ii) Provide NK&JL a copy of RCA paper presented by DM/AH at 19 <sup>th</sup> Oct meeting	RG/JL  NK/JL	Jan  Nov	RG/JL to provide an update on the paper presented by AH to the Committee in September at the January Committee meeting.  HS circulated a copy of the RCA paper as requested	Open  Closed
132.	Top 5 Risks to be revised reflecting the current relevant risks	AH	Jan	AH to update and present to the next QBR meeting.	Open
133.	AH presented a draft 'PO Distribution - Conduct Risk Dashboard' to the Committee and confirmed the intention that this will replace the distribution related elements of the POFS TCF Scorecard.	AH	Jan	AH to finalise the proposed Dashboard and present the final version to the Committee in January.	Open
134.	The Committee ToR will be revised to reflect recent changes and presented at the December meeting for approval.	RH	12 <sup>th</sup> Dec	Revised ToR was presented at 12 <sup>th</sup> Dec meeting with the committee adding some minor amends RH to update	Closed

**Closed actions of previous POL & BOI (UK) meetings**

Action		Owner	Due Date	Update as at 23rd November	Status
129.	<b>Video Mystery Shopping – Phase II</b>	DC/DM	Dec/Jan	DC/DM to update committee re this item under agenda item 2ii of meeting. The action can be closed	Closed

**Approved by: Richard Holden, Chairman**  
**Date: 21<sup>st</sup> January 2013**

**Post Office Ltd – Strictly Confidential****Risk and Compliance  
Committee (R&CC)**

See Distribution

Reference: R&amp;CC/MIN/JAN13

Date: 21 January 2013

**MINUTES OF THE POST OFFICE RISK & COMPLIANCE COMMITTEE HELD IN 148  
OLD STREET AT 13.30 HRS ON 21<sup>st</sup> January 2013**

Present	Susan Crichton Chris Day Paul Brown  Simon Baker  Hugh Flemington Jonathan Hill Mark Pearce Heather Bignell-Blye  Nigel Tuppen Malcolm Zack  Rob Bolton	HR & Corporate Services Director Chief Financial Officer Head of Mails & Retail Services (for Commercial Director) Head of Programme & Planning (for Chief Information Officer & Strategy Director)  Head of Legal Head of Financial Services Risk Head of Information Security Regulatory Risk Business Partner - Data Protection & Privacy Business Risk & Assurance Manager Head of Internal Audit  Risk & Assurance Adviser	Chair Member Member  Member  Report Report Report Report  Report Report  Secretariat
Apologies	Susan Barton Lesley Sewell Martin Moran Nick Kennett	Strategy Director Chief Information Officer Commercial Director Financial Services Director	Member Member Member Report
<b>Item (a)</b>	<b>Discussion &amp; Decisions (b)</b>		<b>Action (c)</b>
1. Introduction	1.1 The Chair welcomed everyone to the meeting. Apologies had been received from Susan Barton, Lesley Sewell and Martin Moran.		
2. Minutes of Previous Meeting	2.1 The minutes of the last meeting had been circulated and were accepted as an accurate record by those present		
3. Outstanding Actions from the Previous Minutes	3.1 The actions from the previous meeting were discussed.  Action 1505 Updated paper had been provided – this is a work in progress but action considered completed  Action 1510 Nothing further, Susan Crichton to discuss with the Communications Director outside of the meeting. Action closed  Action 1512 ExCo meeting now scheduled for 5 <sup>th</sup> February, including Internal Audit, to review proposed risk management strategy for the year. An ExCo risk session to be arranged - Action Completed  Action 1516 Verbal update provided and feedback to be discussed as part of agenda item – Action Completed		

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	<p>Action 1517 Action Completed</p> <p>Action 1518 Agenda item – Action Completed</p> <p>Action 1519 Action carried forward</p> <p>Action 1520 Action carried forward</p> <p>Action 1521 Verbal update provided. It was agreed that any reporting from the Network Compliance Forum to the R&amp;CC should be by exception and that Malcolm Zack should attend the Network Compliance Forum - Action Completed</p> <p><b>Action 1522 Malcolm Zack to be invited to future Network Compliance Forums and any reporting from that forum to the R&amp;CC to be by exception.</b></p>	1522 – NT
4 PCI Update	<p>4.1 As requested at the last meeting Mark Pearce had provided a paper that identified the RAG status for PCI across all channels:</p> <p><b>Horizon – Green</b></p> <p><b>Paystation – Green</b></p> <p><b>Post &amp; Go - Green</b></p> <p><b>RMG Call Centre - Red</b> MP stated RMG red status as RMG not planning to issue a remediation plan until end of January 2013.</p> <p><b>Products: Service Suppliers – Amber</b> MP confirmed amber status due currently 80% through the top 12 suppliers. Planned to complete by the end of February 2013.</p> <p><b>e-Business Platform - Amber</b> MP stated that amber status as not yet confirmed if Capgemini services were out of scope for PCI.</p> <p><b>Homephone &amp; Broadband - Green</b> MP stated there was a requirement for suppliers to be PCI compliant but not certified.</p> <p>4.2 In summary it was agreed that Horizon certification had been achieved which was noteworthy however there was still some work to be done in all of the other areas.</p> <p><b>Action 1523 Provide a summary paper identifying the issues relating to the RMG Call Centre and Capgemini services to assist with the escalation to the MSA Board</b></p> <p><b>Action 1524 PCI issues to be raised at next MSA Board</b></p>	<p>1523 – MP</p> <p>1524 – SB</p>
5. Data Governance	<p>5.1 Heather Bignell-Blye provided a paper over the need for a Privacy &amp; Data Protection Governance structure, explained its recommendations, and that Susan Crichton was the sponsor for Data Governance in the Business.</p> <p>5.2 The need for such a role was agreed but was highlighted by Chris Day that this should be done in a way as not to increase overall head office costs.</p>	



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	<p>5.2 It was agreed in the meeting that the development of Data Governance and the appointment of a Head of Privacy should be aligned to and taken forward within the scope of Project Javelin.</p> <p><b>Action 1525 Progress establishing Data Governance and the appointment of Head of Privacy aligned to and within the scope of Project Javelin</b></p>	1525 – HBB/SC
6. Audit & Risk Committee Update	<p>6.1 Malcolm Zack provided a verbal update from the Audit &amp; Risk Committee (ARC). He stated the Chair of the ARC had requested an update on the policies in place within Post Office Ltd, the availability of these policies and whether the Business was compliant with them.</p> <p><b>Action 1526 Put together a proposal for the next R&amp;CC for the management of policies within Post Office Ltd to ensure all policies are in place, available and that the Business is compliant against them.</b></p> <p><b>Action 1527 Put together a response to the next available ARC, following the March R&amp;CC meeting, identifying Post Office Ltd approach to the management of policies to ensure all are in place, available and that the Business is compliant against them.</b></p>	<p>1526 – MZ/NT</p> <p>1527 – MZ/NT</p>
7. Revised Risk & Compliance Committee Terms of Reference	<p>7.1 The updated terms of reference together with Malcolm Zack's paper relating to the linking of the ARC and the R&amp;CC had been circulated in advance of the meeting. There was no further discussion and the meeting agreed the new terms of reference for the Risk &amp; Compliance Committee.</p>	
8. Enterprise Risk Management Update	<p>8.1 Nigel Tuppen explained that a new Risk Policy had been developed in liaison with Internal Audit and this had been circulated for approval. This was discussed and endorsed by the meeting and it was agreed that the policy be submitted to the ARC for final sign off.</p> <p>8.2 NT gave an update over ERM and stated that Strategy and Network &amp; Sales directorates had not yet fully identified their key risks and that the overall process for identifying risks was still very "bottom up". He stated this should be resolved by planned session with the ExCo to discuss and review key risks.</p> <p>8.3 NT explained that there was an inconsistent approach to the use of the project server programme management tool. He highlighted that some programmes didn't have any risks identified on this tool. He also stated that the development of the interface between project server and the Stratex risk tool was in progress at the technical build stage.</p> <p>8.4 The Key Risks paper was reviewed and discussed. In particular there was a discussion around identified key risks relating to information security and the need for a progress update on this in next meeting.</p> <p>Malcolm Zack highlighted need to show the movement of the key risks for the next update meeting. Also to consider also showing risks that are have a high impact but low likelihood.</p> <p>8.5 The Programme risks were discussed and MZ queried what had happened to justify the downward movement identified on the heat map. It was therefore agreed at the meeting that the SPMO should be invited to attend the R&amp;CC to provide an update on the Network Transformation programme to explain key risks and their movement.</p>	

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	<p>8.6 NT highlighted need for year-end report to be prepared, approved and issued in readiness for end of year. Chris Day confirmed Sarah Hall would pull this report together using the latest key risks identified by ExCo and the Directorates. Agreed this should be ready by early to mid-April.</p> <p><b>Action 1528 Risk Policy to be submitted to the next available ARC for final sign off.</b></p> <p><b>Action 1529 Movement of key risks to be shown in future ERM updates.</b></p> <p><b>Action 1530 High impact and low likelihood risks to be shown within future risk reports to the R&amp;CC.</b></p> <p><b>Action 1531 SPMO to be invited to the next R&amp;CC meeting to provide an update on the Network Transformation programme.</b></p> <p><b>Action 1532 Year-end report to be prepared by mid-April using the latest key risks identified by ExCo and Directorates.</b></p> <p><b>Action 1533 Report on the key information security risks resulting from the Buffalo report to be provided to the next R&amp;CC.</b></p>	<p>1528 – SC/NT</p> <p>1529 – NT</p> <p>1530 – NT</p> <p>1531 – NT</p> <p>1532 – CD/SH</p> <p>1533 – LS/SB</p>
9. Internal Controls Framework	<p>9.1 Nigel Tuppen presented update and stated that a desk top status had now been completed for each of the areas within the framework following discussions with relevant management.</p> <p>9.2 He confirmed that the next step was to perform further testing in each of the areas but initially focusing on the areas specifically related to the end of year assurance statements that are provided to clients. This would be completed by the end of March 2013 and he also advised that he was liaising with Internal Audit &amp; Risk Management as it was planned for them to be involved in some of the testing to be completed. Extended testing in the other areas of the framework would be completed in Q1 of 2013/2014.</p>	
10. Business Continuity	<p>10.1 Nigel Tuppen explained that a new Business Continuity Manager had recently started. He referred to the new Business Continuity Management (BCM) Policy that had been circulated for approval and asked if there any questions or comments. There was nothing further and it was agreed that the new BCM policy be submitted to the next ARC for final sign off.</p> <p><b>Action 1534 Business Continuity Management policy to be submitted to the next available ARC for final sign off</b></p>	1534 – SC/NT
11. Any Other Business	11.1 There was nothing further raised	
12. Next Meeting	The next meeting of the Risk and Compliance Committee is scheduled to be held on 18 <sup>th</sup> March 2013. Meeting to be held in the POL Boardroom from 13.30pm - 15.30pm	



## 1. Minutes of the last meeting and matters arising

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13. Summary of Actions	Ref	Action	Lead	Status
Carried Forward	1519	Enterprise Risk Management to be added to next Transformation Board agenda	Susan Barton	
Carried Forward	1520	Enterprise Risk Management and the identification of risks to be discussed at the next ExCo Strategy Refresh meeting	Susan Crichton / Susan Barton	
New Action	1522	Malcolm Zack to be invited to future Network Compliance Forums and any reporting from that forum to the R&CC to be by exception	Nigel Tuppen	
New Action	1523	Provide a summary paper identifying the issues relating to the RMG Call Centre and Capgemini services to assist with the escalation to the MSA Board	Mark Pearce	
New Action	1524	PCI issues to be raised at next MSA Board	Simon Baker	
New Action	1525	Progress establishing Data Governance and the appointment of Head of Privacy aligned to and within the scope of Project Javelin	Heather Bignell-Blye / Susan Crichton	
New Action	1526	Put together a proposal for the next R&CC for the management of policies within Post Office Ltd to ensure all policies are in place, available and that the Business is compliant against them	Malcolm Zack / Nigel Tuppen	
New Action	1527	Put together a response to the next available ARC, following the March R&CC meeting, identifying Post Office Ltd approach to the management of policies to ensure all are in place, available and that the Business is compliant against them	Malcolm Zack / Nigel Tuppen	
New Action	1528	Risk Policy to be submitted to the next available ARC for final sign off	Susan Crichton / Nigel Tuppen	
New Action	1529	Movement of key risks to be shown in future ERM updates	Nigel Tuppen	
New Action	1530	High impact and low likelihood risks to be identified within future risk reports to the R&CC	Nigel Tuppen	
New Action	1531	SPMO to be invited to the next R&CC meeting to provide an update on the Network Transformation programme	Nigel Tuppen	

## 1. Minutes of the last meeting and matters arising

**Post Office Ltd – Strictly Confidential**

13. Summary of Actions	Ref	Action	Lead	Status
New Action	1532	<b>Year-end report to be prepared by mid-April using the latest key risks identified by ExCo and Directorates</b>	Chris Day / Sarah Hall	
New Action	1533	<b>Report on the key information security risks resulting from the Buffalo report to be provided to the next R&amp;CC</b>	Lesley Sewell / Simon Baker	
New Action	1534	<b>Business Continuity Management policy to be submitted to the next available ARC for final sign off</b>	Susan Crichton / Nigel Tuppen	



## Speak Up Policy

**The Post Office is committed to conducting business with the highest standards of honesty, integrity and openness where our colleagues feel able to raise concerns internally.**

### Main topic areas

- Policy statement
- Confidentiality and protection of workers
- Underpinning legislation
- When should concerns be raised?
- How should concerns be raised?
- How will concerns be dealt with?

### Getting help

**In the first instance, any queries relating to this policy should be directed to your line manager.**

Line managers can obtain advice by contacting the MY HR Help Adviceline

Colleagues should call  
[GRO] / [GRO]  
[GRO]

Alternatively visit the My HR Help website.

**Scope**

This policy applies to all colleagues of the Post Office.

This policy is effective from 01 April 2012.

This policy does not form part of contracts of employment. We reserve the right to amend this policy from time to time.

**Policy statement**

The *Speak Up Policy* sets out the process by which workers, i.e. colleagues and others who are contracted to personally perform work on behalf of the Post Office, can raise concerns in confidence and if required, anonymously about serious malpractice in the organisation in the knowledge that concerns will be acknowledged and action taken where appropriate.

Any worker who raises a legitimate concern in good faith under this process will not in any way be liable to disciplinary action or loss of benefits, rights or prospects as a result of their action.

Disciplinary action may be taken against any worker who is shown to have used these procedures to make malicious or misleading allegations.

**Confidentiality and protection of workers**

Confidentiality is not the same as anonymity. Workers who raise concerns are sometimes understandably concerned about their position, and may wish to remain anonymous.

However, it is often difficult to conduct an effective investigation without being able to discuss it fully with the person who raised the concern. The helpline staff will ask callers if they are willing to provide a contact name and number, but callers do not need to provide contact details.

Although the business will attempt to investigate anonymously raised concerns wherever possible, practical difficulties may prevent investigations from being undertaken in certain cases.

**Underpinning legislation**

Workers are protected by the Public Interest Disclosure Act (PIDA), which provides workers with the right not to suffer any detriment or dismissal by the employer if they raise a concern which qualifies as a protected disclosure.

PIDA identifies protected disclosures as those which are made in good faith and are reasonably thought to show one or more of the following:

- That a criminal offence has been committed, is being committed or is likely to be committed
- That a person has failed, is failing or is likely to fail to comply with any legal obligation to which he /she is subject
- That a miscarriage of justice has occurred, is occurring or is likely to occur
- That the health or safety of any individual has been, is being or is likely to be at risk

- That the environment has been, is being or is likely to be damaged; or
- That information about any of the above matters is being or is likely to be deliberately concealed

A disclosure will not qualify as protected if the person making the disclosure commits an offence by making it.

**When should concerns be raised?**

Workers should raise a concern if they are aware of, or suspect, wrongdoing which affects others (eg. customers, members of the public, colleagues or the Post Office).

Some examples of situations where a worker may raise a concern are:

- Fraud
- Giving or taking of bribes
- Financial malpractice
- Misreporting
- Practices that might put individuals or the environment at risk

**How should concerns be raised?**

In the first instance workers should raise concerns with their line manager, or a senior HR manager in the Post Office. They will either act on the information given to them, or pass it to the relevant person who can deal with it.

It is recognised that sometimes raising a concern directly with the business will not be possible, for example, if the worker considers that the line management may be involved in the issue or if they have a concern about confidentiality.

In such instances workers should contact the "Speak Up" confidential reporting line, which is run by InTouch MCS Ltd, an independent company. Access to the reporting line can be made by phone or via an on-line web service. InTouch will treat concerns in complete confidence and the worker does not have to provide contact details.

The worker will be requested to provide information about their concern, for example the history of the concern, relevant individuals and the reason why they are particularly concerned about the situation.

There is no requirement to provide contact details. However, not providing details may reduce the business' ability to make a thorough investigation into the concerns raised. All calls to the Speak Up line will be acknowledged within five working days.

**How will concerns be dealt with?**

Details of the concern raised will be forwarded to the Post Office who will act on it in the most appropriate way. Any resulting investigations will be made by people with appropriate authority who have the technical and professional knowledge needed for the particular case.

It is possible that the business may wish to directly contact the worker to request additional information. This will be done only where the worker has given express consent and are happy for a representative from the Post Office to



Speak directly to them. In all cases the individual's concern will be treated sensitively and in confidence.

Where concerns about serious malpractice are raised through other routes, such as other business helpdesks, and the concern would appear to be sufficiently serious to be covered by the Public Interest Disclosure Act, this should be investigated and managed in line with this policy.

### Investigation outcome

The Post Office does not have to inform a worker who raises a concern the outcome of any investigation and in some cases the Post Office may need to protect confidentiality or rights of other individuals and workers. However, the Post Office may provide an update on progress where this is deemed appropriate.

### Responsibilities Executive Team

- Approval of the Speak Up Policy
- Ensuring that resources are made available within the Post Office as required

### Risk and Compliance Team

- The development and maintenance of the Speak Up Policy
- The development and maintenance of the framework and associated high level processes
- Coordinating the receipt of cases from the Post Office's helpline provider and reporting back on progress and outcomes
- Reporting incidents and outcomes to the Audit and Risk Committee and to CEC
- Chairing a working group consisting of the subject matter experts, to ensure that serious claims are effectively investigated
- Contractual management of the 3rd party helpline provider

### Where to go for more information

#### Speak Up (whistleblowing)

To report a concern:

- Telephone (  ) and choose to either speak to an operator, or leave a voicemail message
- Alternatively leave a message using the confidential on-line web based service using [www.intouchfeedback.com/royalmail](http://www.intouchfeedback.com/royalmail)

If clarification is required as to whether or not a claim raised by a colleague is relevant to the *Speak Up Policy*, email riskandcompliance  or contact the Risk and Compliance team.

#### Bullying & Harassment Helpline

A free helpline, operated by an independent company, to offer confidential advice relating to bullying or harassment concerns:

Telephone:



1. Minutes of the last meeting and matters arising

**Grapevine**

To report any information about a crime relating to the Post Office:

Telephone: **GRO**

**Forms**

There are no forms relevant to this policy.

**Related  
documents**

There are no related documents to this policy.

**Confidential**

**POST OFFICE LTD AUDIT, RISK AND COMPLIANCE COMMITTEE**

**Risk Management Strategy 2013-2014**

**1. Purpose**

The purpose of this paper is to:

- 1.1 Inform the committee on the current status of the Enterprise Risk Management (ERM) framework in Post Office Limited.
- 1.2 Request that the Committee approves the next stage of the ERM development approved by the Executive Committee as explained in the Executive Committee paper which follows.

**2. Background**

- 2.1 ERM has been implemented by the Post Office Risk and Compliance function during 2012. It has gathered risks using a bottom up method. It now needs a top down view from the Executive Committee and a structured plan for the next stage of its development.

**3. Current Situation and Summary of Action Needed.**

- 3.1 Stage 1 – To commence February 2013
  - Draft and approve Risk Management Policy
  - Confirm Governance of the Risk Management Framework
  - Appoint the new Head of Risk
- 3.2 Stage 2 – Commence April 2013
  - Establish Executive Committee top level business wide view of risk
  - Directorate level risk assessment
  - Communicate with Senior Leadership Team
  - Regular Risk reviews
  - Define Risk Appetite and Risk Tolerance
  - Develop the Business Controls Framework
- 3.3 Stage 3 – January 2014 onwards
  - Develop next stage of strategy
  - Refine techniques
  - Establish ongoing auditing of risk management frameworks

**4. Recommendations**

The Audit, Risk and Compliance Committee is asked to approve the next stage of the ERM development.

**Confidential - Draft for discussion Ver 2.0****POST OFFICE LTD EXECUTIVE COMMITTEE****Risk Management Strategy 2013-2014****1. Purpose**

The purpose of this paper is to:

- 1.1 Inform the committee on the current status of the Enterprise Risk Management (ERM) framework in Post Office Limited.
- 1.2 Request that the Committee approves and visibly leads the next stage of the ERM development.
- 1.3 Recommend approval to the Board.

**2. Background**

- 2.1 ERM has been implemented by the Post Office Risk and Compliance function during 2012. The business has nominated risk champions and risk coordinators in each Directorate and commenced transferring information from spreadsheet-based risk registers into a dedicated software tool called "Stratex".
- 2.2 The approach has built detailed information around risks to business objectives. The "bottom up" approach has been moderated and used to inform the Risk and Compliance Committee of the top risks that could potentially impact the organisation.
- 2.3 The Risk and Compliance team has drafted a risk policy and is building a business controls framework.

**3. Current Situation and Action Needed.**

- 3.1 The output from Stratex provides a partial view of top risks but now needs to be complimented by a top down view from senior executives.
- 3.2 The Executive Committee to support the ERM approach and apply it across the business. The approach will need to:
  - Be proportionate to the current risk maturity of the organisation.
  - Recognise the different risk profiles in each Directorate.
  - Be scalable and grow with the business as it develops over the next few years.
- 3.3 The Executive Committee to provide the strategic top down input to the risk framework and to fully endorse the risk management policy.

**Confidential - Draft for discussion Ver 2.0****4. Plan****Stage 1 – Target 31<sup>st</sup> March 2013**

- 4.1 The Risk and Compliance function will draft a Risk Management Policy to apply across the organisation.
- 4.2 The Executive Committee will review and approve the policy and recommend its approval by the Board.
- 4.2 Confirm the Governance Structure of the Risk Management Framework
  - Agree the position, relationship and relative risk responsibilities of the Audit and Risk Committee, (ARC) and the Risk and Compliance Committee (R&CC). (Refer to Appendix 1)
    - The R&CC will report its activity and highlight key risks and issues to the upcoming ARC.
    - The R&CC will notify the ExCo of key risks and issues for its attention.
    - The R&CC will invite Directorates to present their current views of risk
    - The ARC may also invite Directorates to present and will review the overall ExCo view of risk.
  - The R&CC will finalise the Terms of Reference for the R&CC and primary content of meetings.
  - Agree the linkage between Head of Internal Audit and Head of Risk.
- 4.3 Appoint the new permanent Head of Risk.
- 4.4 Strengthen the risk management framework.
  - Identify and assess risks using risk mapping.
  - Improve the Action planning with clear dates and ownership..
  - Improve the monitoring and reporting of progress of actions using the ERM Stratex tool.
  - Share results of Directorate Risk reviews at ExCo meetings.
- 4.5 The Executive Committee to establish its top level business wide view of risk.
  - Identify and assess the top 15-20 risks to achieving the strategic objectives.
  - Create first Executive "Board Level" Risk Map.
  - Create the initial action plan.
  - Assign ExCo members to each risk and action plan.
  - Assign an ExCo member to present first draft to the ARC (possibly April) or to the Board.
  - Agree to review and update the ExCo risk map and action plans each quarter.

**Stage 2 – Target to complete December 31<sup>st</sup> 2013**

- 4.6 Commence integration to next level.
  - Share the ExCo Risk map with the SLT and risk champions



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- Implement in Directorates using workshop and risk map approach
- 4.7 In each Directorate - Flow down the top risks from the Executive
- Identify which ones does the business unit under review link to.
  - Identify own top risks related to own top objectives.
  - Identify if there are risks at this level that should be promoted upwards.
- 4.8 Refine the library of risk maps, action plans and provide input to the Stratex tool.
- Quarterly each Directorate will review its risks and input to the ERM tool.
  - Improve the quality of Directorate review of business risks at the Risk and Compliance Committee and/or ARC where appropriate.
  - The Transformation Board will review and manage the risks and interdependences of the Transformation Programme
- 4.9 Alongside risk map roll out:
- Work with the Executive Committee to define the company's risk appetite and risk tolerance concepts to be ratified by the Board. (Head of Risk)
  - Review Stratex model and populate with output from risk workshops (ongoing – Head of Risk to lead).
  - Develop the Business Controls Framework which supports the management of risk.
  - Track risks arising from results of audits (internal, external) and input these into the risk management framework.
  - Develop Workshop material and training where needed
- 4.10 The Executive Committee will start its quarterly reviews and update the ARC or Board, explaining movements in the key risks and highlighting new ones.

**Stage 3 – January 2014 –onwards**

- Develop the next stage of strategy. (Head of Risk)
- Assess status, benchmark, consider longer term move towards recognised ISO risk Management standards. (Head of Risk)
- Identify if some Directorates require more sophisticated techniques (e.g Financial Services). – (Head of Risk)
- Establish ongoing auditing of risk management framework and provide advice/support where required. (Head of Internal Audit)

**5. Recommendations**

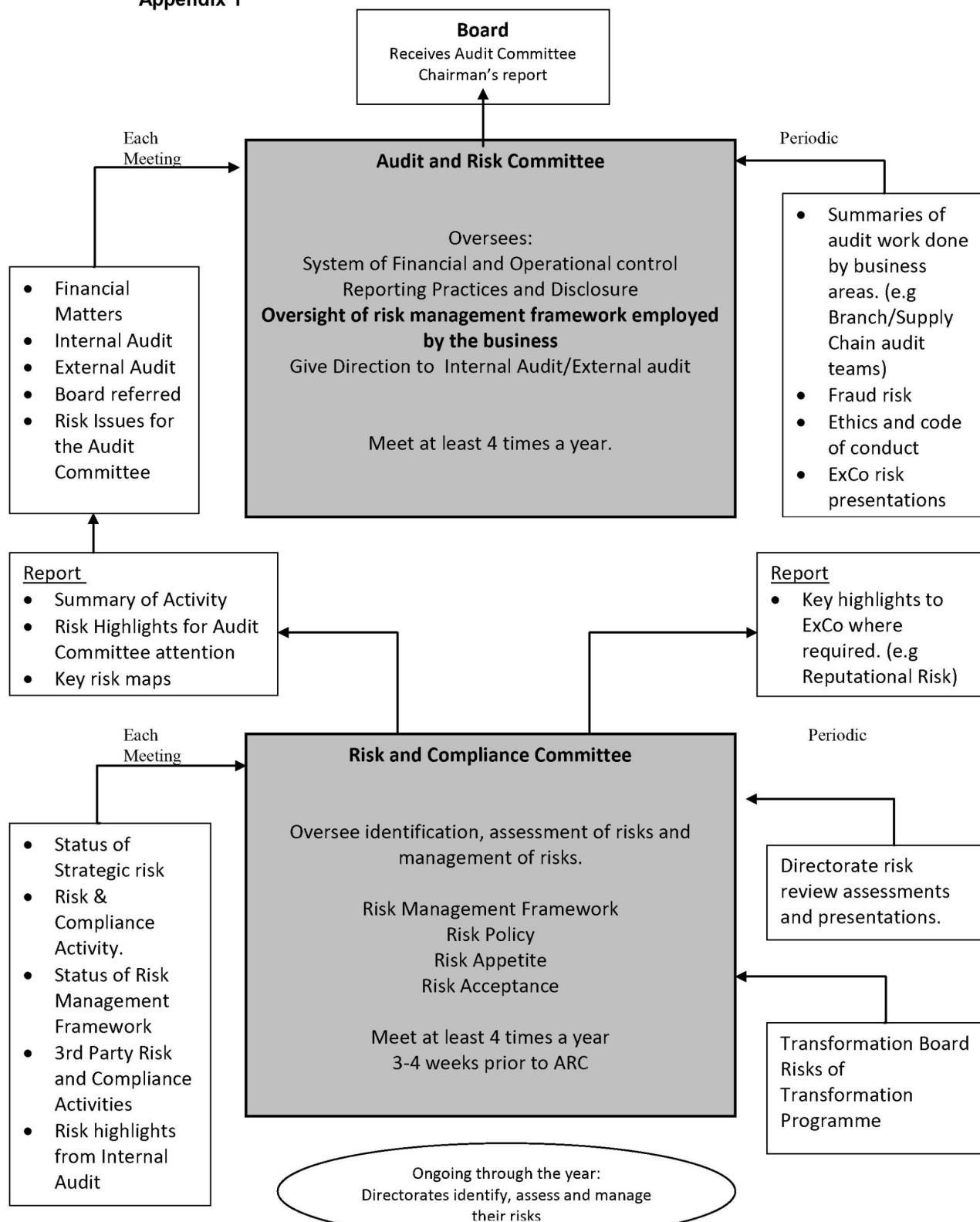
The Executive Committee is asked to:

- 5.1 Approve and visibly support the next stage of the ERM development.
- 5.2 Recommend approval to the Board

**Susan Crichton**  
**5<sup>th</sup> February 2013**

## Confidential - Draft for discussion Ver 2.0

## Appendix 1



**Confidential****POST OFFICE AUDIT, RISK AND COMPLIANCE COMMITTEE****Regulatory Risk Framework & Controls****1. Purpose**

The purpose of this paper is to:

- 1.1 provide the Committee with an oversight of the regulatory landscape in which Post Office operates;
- 1.2 describe the control framework that exists in Post Office to manage this;
- 1.3 provide the committee with a view of actions in place to address any identified gaps in the framework; and
- 1.4 gain the committee's approval to the proposal for review of the control framework.

**2. Background**

- 2.1 Prior to separation, Post Office largely relied on Royal Mail Group to set the framework for managing regulatory risk. As an independent company, it is necessary that Post Office has in place its own arrangements.

**3. Activity to date**

- 3.1 A refresh of the regulatory landscape (originally documented in 2004) has been carried out to reflect current legislation, regulation and applicable codes of practice. This has been validated and augmented by Bond Pearce LLP.
- 3.2 A desktop exercise has been carried out to identify:
  - The impact of the regulation on each directorate;
  - The primary owner of policy for this regulation;
  - The accountable ExCo member;
  - Monitoring and assurance controls in place to assure compliance with the regulation.
- 3.3 The impact, likelihood and aggregate risk for each regulation has been assessed and the risks have been prioritised on this basis.
- 3.4 The complete landscape can be seen in the associated spreadsheet 'filename?'
- 3.5 The individual ExCo members have endorsed the outputs from this exercise.

**Confidential****4. Outputs**

- 4.1 As a result of the above activity, the following list of high regulatory risks has been established for Post Office:

Regulatory risk	Policy Owner	Directorate	Policy	Assurance
Significant loss of customer data by Post Office	Martin Moran	Commercial	Data Protection Policy	Annual training
Significant loss of customer data by 3 <sup>rd</sup> party supplier	Lesley Sewell	Strategy (inc IT & Change)	Data Protection Policy	Supplier contracts Audit & inspection programme

- 4.2 There are no policy or assurance gaps associated with the identified significant risks.
- 4.3 The full framework of regulatory risks can be found in the associated spreadsheet: 'Reg framework – list of applicable regulations'
- 4.4 Where a gap exists in the control framework for other risks, the accountable ExCo member has commissioned an action plan to address this within the next 6 months

**5. Proposals**

- 5.1 It is proposed that the Risk & Compliance Team will maintain the regulatory landscape document in its new format.
- 5.2 It is proposed that the current status of controls will be maintained through the Internal Control Framework, with a report produced which will form the basis of regular monitoring by control owners with oversight provided by the Risk & Compliance Team.
- 5.3 It is proposed that a summary scorecard will be developed by the Risk & Compliance Team with a quarterly summary provided to the Risk & Compliance Committee.

**6. Recommendations**

The Committee is asked to:

- 6.1 Confirm that the regulatory framework identified is comprehensive;
- 6.2 Agree that the controls in place are adequate to manage the significant risks identified;
- 6.3 Endorse the approach to monitoring; and
- 6.4 Agree that the ARC should review the scorecard and landscape annually.

**Susan Crichton**  
**6<sup>th</sup> February 2013**



	Impact	Likelihood	Risk	Policy owner	Policy	Procedure	Assurance
	Defined by the maximum level of penalty that can be imposed by the regulator in the event of a breach.	Probability estimate of a breach within the current financial year	Aggregate risk calculated as the product of impact and likelihood				
Data Protection Act 1998	£500,000 monetary penalty, criminal offences (in certain limited circumstances), unlimited civil liabilities (for example claims from individuals who have suffered damage and distress)	High	High	HR & Corporate Services	Data protection policy Information security policy Information classification policy Mobile security policy Logical access control policy Penetration testing policy Clear desk policy 3rd party access policy Security architecture policy Security design & testing policy	SAR processes	POL Network Audit
Communications Act	Up to 10% of turnover	Low	Med	Commercial	Regulated for monitoring & billing	Contract with 3rd party supplier	Twice yearly test by external party
Enterprise Act 2002	Unlimited personal fines 5 year imprisonment Disqualification of directors	Low	Med	Commercial	Conflict of interest policy	Robust procurement process	
Mail Integrity Code of Practice (via MDA) Postal Services Act 2011	Breach of contract	High	Med	Commercial	Mails Distribution Agreement Mails integrity training policy Mails integrity learning policy	POL Operations manual Security operations manual Horizon On Line	POL Network Audit
Public Procurement Regulations	Ineffectiveness (contract void, unlimited financial penalty which is effective, proportionate and dissuasive, damages, restitution); other damages claims	Low	Med	Finance		Procurement teams trained in PCR Sourcing approval process in place and consistent with delegated authority levels Sourcing council in place to approve sourcing plans and allocation eSourcing RM system in use with in-built controls Standard contract terms in place for sourcing	
Consumer Credit Act	Unenforceable contracts; OFT powers including civil penalties	Med	Med	Financial Services	Consumer credit licence held		
FSMA (via BOI)	Unlimited fine and/or 2 years imprisonment, suspension or limitations of the approval, publication of statements regarding the misconduct. Unenforceable agreements and possible claim for loss. There is also the power to apply for injunctions and restitution orders.	Low	Med	Financial Services	BOI contract	Finprom approval procedure Regulatory Guidance Manual PSS T&D scheme	BOI audit & monitoring Reg Risk Committee POL mystery shopping
Corporate Manslaughter and Corporate Homicide Act 2007	Unlimited fines, remedial orders and publicity orders	Low	Med	HR & Corporate Services	H&S policies & Fleet/Buildings Management policies		
Money Laundering Regulations	-	Med	Med	HR & Corporate Services	AML policy	Suspicious activity reporting process	POL Network Audit
Proceeds of Crime Act 2002	Criminal offence - 14 yrs and/or unlimited fine	Med	Med	HR & Corporate Services	AML policy	Suspicious activity reporting process	POL Network Audit
Terrorism Acts 2000 - 2006	Criminal offence - life	Med	Med	HR & Corporate Services	AML policy	Suspicious activity reporting process	POL Network Audit
Electronic Communications Act	N/a	Med	Med	Strategy	Acceptable use policy Information security policy Information classification policy Mobile security policy Logical access control policy Penetration testing policy Clear desk policy 3rd party access policy Security architecture policy Security design & testing policy		

PCI Data Security Standard	Fines levied by the PCI Council and/or removal from involvement with card payment schemes	Med	Med	Strategy	PCI-DSS policy Information security policy Information classification policy Mobile security policy Logical access control policy Penetration testing policy Clear desk policy 3rd party access policy Security architecture policy Security design & testing policy		
Consumer Protection from Unfair Trading Regulations 2008	Court action including injunctions, undertakings and orders and publication of details thereof	Low	Low	Commercial		Manage Improvement & Change Processes Bond Pearce sign off process for promotional materials	
Distance Selling Regulations	Court action	Med	Low	Commercial			
UK Advertising Codes/Advertising Standards Authority	Fines Reputational damage	Low	Low	Commercial		Bond Pearce sign off process for promotional material	
Press complaints commission Competition Act 1998	Reputational damage Up to 10% of worldwide turnover, unenforceable/void contracts	Low	Low	Communications Finance		Procurement teams trained in PCR Sourcing approval process in place and consistent with delegated authority levels Sourcing council in place to approve sourcing plans and allocation eSourcing RM system in use with in-built controls Standard contract terms in place for sourcing	
Corporation Tax Acts 2009 and 2010	penalties and interest; secondary liabilities for associated companies and in limited circumstances officers of relevant companies	Low	Low	Finance	Policy is not explicitly recorded but is reflected in Senior Accounting Officer Tax certification. For 2012/13, POL will rely on RMG tax policies but will have to certify itself for SAO. Under transition arrangements, RMG will prepare returns for POL and will be asked to sign off on policies.	Procedures are recorded for Tax Senior Accounting Officer requirements. For 2012/13, POL will rely on RMG tax procedures but will have to certify for SAO. Under transition arrangements, RMG will prepare returns for POL so RMG will be asked to sign off on procedures.	SAO requirements are annual requirements, so policies and procedures will be reviewed on an annual/rolling basis. POL will need to ensure that it documents its own policies and procedures with separation and the introduction of a new accounting system.
Finance Act 2003	penalties and interest; secondary liabilities for associated companies and in limited circumstances officers of relevant companies	Low	Low	Finance	Policy is not explicitly recorded but is reflected in Senior Accounting Officer Tax certification. For 2012/13, POL will rely on RMG tax policies but will have to certify itself for SAO. Under transition arrangements, RMG will prepare returns for POL and will be asked to sign off on policies.	Procedures are recorded for Tax Senior Accounting Officer requirements. For 2012/13, POL will rely on RMG tax procedures but will have to certify for SAO. Under transition arrangements, RMG will prepare returns for POL so RMG will be asked to sign off on procedures.	SAO requirements are annual requirements, so policies and procedures will be reviewed on an annual/rolling basis. POL will need to ensure that it documents its own policies and procedures with separation and the introduction of a new accounting system.
HMRC Codes of Practice 8 and 9	Criminal investigation for tax evasion (corporate and personal penalties)	Low	Low	Finance	POL aims to be categorised as "low risk" for tax accounting purposes.	Reflected in SAO certification.	POL aims to create a close working relationship with HMRC in order to be able
Sale & Supply of Goods Act		Low	Low	Finance		Procurement teams trained in PCR Sourcing approval process in place and consistent with delegated authority levels Sourcing council in place to approve sourcing plans and allocation eSourcing RM system in use with in-built controls Standard contract terms in place for sourcing	

Taxes Management Act	penalties and interest; secondary liabilities for associated companies and in limited circumstances officers of relevant companies	Low	Low	Finance	Policy is not explicitly recorded but is reflected in Senior Accounting Officer Tax certification. For 2012/13, POL will rely on RMG tax policies but will have to certify itself for SAO. Under transition arrangements, RMG will prepare returns for POL and will be asked to sign off on policies.	Procedures are recorded for Tax Senior Accounting Officer requirements. For 2012/13, POL will rely on RMG tax procedures but will have to certify for SAO. Under transition arrangements, RMG will prepare returns for POL so RMG will be asked to sign off on procedures.	SAO requirements are annual requirements, so policies and procedures will be reviewed on an annual/rolling basis. POL will need to ensure that it documents its own policies and procedures with separation and the introduction of a new accounting system.
Unfair Contract Terms (Procurement)	Unenforceable or cancelled contracts	Low	Low	Finance		Procurement teams trained in JCR Sourcing approval process in place and consistent with delegated authority levels Sourcing council in place to approve sourcing plans and allocation eSourcing RM system in use with in-built controls Standard contract terms in place for sourcing	
VAT Act and SI1995/2513	Penalties and fines for misdeclarations of VAT and in particular circumstances financial penalties for non-compliance for Senior Accounting Officer	Low	Low	Finance	Policy is not explicitly recorded but is reflected in Senior Accounting Officer Tax certification. For 2012/13, as part of RMG VAT group POL will rely on RMG tax policies and RMG will be required to certify for SAO. Upon independence, POL will be required to certify itself.	VAT Procedures are recorded for Tax Senior Accounting Officer requirements. For 2012/13, as part of RMG VAT group POL will rely on RMG tax policies and RMG will be required to certify for SAO.	SAO requirements are annual requirements, so policies and procedures will be reviewed on a rolling basis. POL will need to ensure that it documents its own policies and procedures with separation and the introduction of a new accounting system.
Bribery Act 2010	Criminal Offence - Unlimited fine, Confiscation Order, Senior Officers of Company - 10 yrs and/or fine to statutory maximum.	Low	Low	HR & Corporate Services	Anti-bribery Policy		
Companies Act	Fines for company officers	Low	Low	HR & Corporate Services	Company secretary in place	Delegated authority procedure	
Computer Misuse Act	Criminal Offence - 2yrs and/or fine to statutory maximum	Low	Low	HR & Corporate Services	Information security policy Information classification policy Mobile security policy Logical access control policy Penetration testing policy Clear desk policy 3rd party access policy Security architecture policy Security design & testing policy		
Copyrights Designs & Patents Act	Injunctions, damages, undertakings and criminal penalties of up to 10 years imprisonment and unlimited fine	Low	Low	HR & Corporate Services			
Employee Relations regulations		Low	Low	HR & Corporate Services			
Employer's Liability (Compulsory Insurance) Act 1969	Reputational damage	Low	Low	HR & Corporate Services	Insurance cover	Annual renewal	
Employer's Liability (Defective Equipment) Act 1969	Civil liability	Low	Low	HR & Corporate Services	Insurance cover	Annual renewal	
Fraud Act 2006	Criminal Offence - 10 yrs and/or fine, Civil Liability under tort of deceit - all losses flowing from the tort	Low	Low	HR & Corporate Services			
Freedom of Information Act 2000 (FOIA)	Reputational damage; contempt of court; criminal offence - level 5 fine	Low	Low	HR & Corporate Services	Privacy Policy		
Health & Safety at Work etc Act 1974	Unlimited fine and/or 2 years imprisonment	Low	Low	HR & Corporate Services	Health and Safety Policy	Safety Management System - safety performance monitored by ExCo Sub-Comm and monthly PO Board reports	PO H&S Insp. and Audit
Health and Safety (Display Screen Equipment) Regulations 1992	£20,000 fine and/or 2 years imprisonment	Low	Low	HR & Corporate Services	Health and Safety Policy	First Aid at work process and risk assessment	PO H&S Insp. and Audit
Health and Safety (First Aid) Regulations 1981	£20,000 fine and/or 2 years imprisonment	Low	Low	HR & Corporate Services	Health and Safety Policy	Risk assessment process	PO H&S Insp. and Audit
Health and Safety Information for Employees Regulations 1989	£20,000 fine and/or 2 years imprisonment	Low	Low	HR & Corporate Services	Health and Safety Policy	Internal comms process	PO H&S Insp. and Audit

Limitation Act		Med	Low	HR & Corporate Services			
Management of Health and Safety at Work Regulations 1999	£20,000 fine and/or 2 years imprisonment	Low	Low	HR & Corporate Services	Health and Safety Policy	Safety Management System	PO H&S Insp. and Audit
Manual Handling Operations Regulations 1992	£20,000 fine and/or 2 years imprisonment	Low	Low	HR & Corporate Services	Health and Safety Policy	Risk assessment process	PO H&S Insp and Audit
Occupiers' Liability Act 1984	Civil liability	Low	Low	HR & Corporate Services	Insurance cover	Annual renewal	
Official Secrets Act 1911 and 1989	Criminal Offence - 2 yrs and/or fine	Low	Low	HR & Corporate Services			
Pensions Act	Various criminal and civil penalties for employers and individuals	Low	Low	HR & Corporate Services			
Personal Protective Equipment at Work Regulations 1992	£20,000 fine and/or 2 years imprisonment	Low	Low	HR & Corporate Services	Health and Safety Policy	Risk assessment process	PO H&S Insp and Audit
Police & Justice Act 2006	Criminal Offence - 2 yrs and/or fine	Low	Low	HR & Corporate Services			
Private Security Industry Act 2001	Criminal Offence - 5 yrs and/or fine	Low	Low	HR & Corporate Services			
Provision and Use of Work Equipment Regulations 1998	£20,000 fine and/or 2 years imprisonment	Low	Low	HR & Corporate Services	Health and Safety Policy	Risk assessment process	PO H&S Insp and Audit
Public Interest Disclosure Act 1988		Low	Low	HR & Corporate Services	Speak up (Whistleblowing policy (not approved))		
Public Records Act		Low	Low	HR & Corporate Services			
Regulation of Investigatory Powers Act 2000	Criminal Offence - 5 yrs and/or fine	Low	Low	HR & Corporate Services			
Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995 (RIDDOR)	£20,000 fine and/or 2 years imprisonment	Low	Low	HR & Corporate Services	Health and Safety Policy	Accident reporting process	PO H&S Insp and Audit
Serious Crime Act 2007	Criminal Offence - 5 yrs and/or fine (and potential winding up petition)	Low	Low	HR & Corporate Services			
Terms & Conditions regulations		Low	Low	HR & Corporate Services			
Trademarks Act		Low	Low	HR & Corporate Services			
Transfer of undertakings (protection of employment) regulations 2006	Unfair dismissal, detriment and information and consultation awards	Low	Low	HR & Corporate Services			
Welsh Language Act		Low	Low	HR & Corporate Services	Welsh Language Scheme		Customer complaints monitoring
Working Time Regulations 1998	Reputational (publication of false improvement/prohibition notices	Low	Low	HR & Corporate Services			
Workplace (Health, Safety and Welfare) Regulations 1992	£20,000 fine and/or 2 years imprisonment	Low	Low	HR & Corporate Services	Health and Safety Policy	Risk assessment process	PO H&S Insp and Audit
Construction (Design and Management) Regulations 2007	£20,000 fine and/or 2 years imprisonment	Low	Low	Network & Sales	Risk transfer through 3rd party contracts		
Control of Asbestos Regulations 2002	£20,000 fine and/or 2 years imprisonment	Low	Low	Network & Sales	Risk transfer through RMFM contracts		
Control of Substances Hazardous to Health Regulations 2002	£20,000 fine and/or 2 years imprisonment	Low	Low	Network & Sales	Risk transfer through 3rd party contracts		
Electricity at Work Regulations 1989	£20,000 fine and/or 2 years imprisonment	Low	Low	Network & Sales	Risk transfer through RMFM contracts		
Environmental Protection Act 1990 s79 causing or knowingly permitting contamination of land or water	Red diesel contamination at Chesterfield could lead to civil liability and, if enforcement notice not complied with, criminal liability	Low	Low	Network & Sales	Environmental policy		
<b>Health Act</b>		Low	Low	Network & Sales			
Highways Act 1980	Criminal Offence - Level 5 fine	Low	Low	Network & Sales		Fleet online Operating manuals	Monitored by Operations Compliance Team
Regulatory Reform (Fire Safety) Order 2005	£20,000 fine and/or 2 years imprisonment	Low	Low	Network & Sales	Risk transfer through 3rd party contracts		
The Road Vehicles (Construction and Use) Regulations 1996 UK domestic drivers' hours rules The road transport (working time) regulations 2005 Road traffic acts		Low	Low	Network & Sales		Fleet online Operating manuals	Monitored by Operations Compliance Team
Carbon Reduction Commitment Energy Efficiency Scheme	Unquantified tax based on metered electricity and gas usage; payable after restructuring	Medium (depends on energy supply arrangements)	Medium	Network & Sales	Risk transfer through 3rd party contracts		
Environmental Permitting Regulations 2010 - causing or knowingly permitting water pollution under s2(1)(b)	Red diesel contamination at Chesterfield could lead to criminal offence	Medium ongoing risk (being assessed at present)	Medium	Network & Sales	Risk transfer through 3rd party contracts		
Equality Act 2010	Goods and services: In a successful civil court discrimination claim a Court could award an injury to feelings award (of up to £33,000) and POL may need to make alterations to premises or its practices and procedures. Employee issues:	Low	Medium	Network & Sales	Valuing diversity policy		



**Confidential****POST OFFICE LIMITED AUDIT, RISK AND COMPLIANCE COMMITTEE****Treasury Risk Management: Framework, Policies and Authorities****1 Purpose**

The purpose of this paper is to:

- 1.1 Provide the Committee with an overview of the treasury risks to which the Post Office is exposed;
- 1.2 Describe the actions that are taken to mitigate these risks;
- 1.3 Propose a framework of treasury policies and procedures to identify, manage and control treasury risks, including:
  - The associated authorities and limits.
  - The governance and reporting mechanisms.
- 1.4 Gain approval for the framework, policies and authorities such that the Committee recommends to the Post Office board the adoption of this framework, policies and authorities.

**2 Background**

- 2.1 On the 26<sup>th</sup> March 2012, Post Office Limited took control of its own treasury activities from Royal Mail, but to maintain continuity and to de-risk the transfer, retained the same approach and investment limits that had been applied within Royal Mail treasury. There have been no breaches to these policies.
- 2.2 A review of treasury risks of Post Office Limited has now been carried out and Post Office has developed its own treasury policies. This paper:
  - Recommends an overall approach to treasury risk management;
  - Describes the principal risks the Post Office is exposed to;
  - Based on the above two points proposes a treasury management framework, which sets out the procedures to identify, manage and control treasury risks.
- 2.3 The new framework, policies and authorities will be in place by 31<sup>st</sup> March 2013.

**Confidential****3 Treasury Risk Management Approach**

**3.1** The key principle of Post Office's treasury risk management is to minimise risk by taking a cautious approach. As appropriate, and without compromising this key principle, the most cost-effective solutions are sought.

**3.2** The treasury management framework has therefore been designed to:

- protect financial asset values.
- minimise income statement volatility.
- ensure the Post Office can meet its financial obligations as they fall due via appropriate short term liquidity management.
- set out an appropriate capital structure and secure long term funding to meet overall business objectives and shareholder return requirements.

**3.3** The key areas of risk that treasury manages to protect asset values and minimise income statement volatility are:

- **Foreign exchange risk** - arises from the holding of currency balances in the network and cash centres to meet "on demand" requirements from customers.
- **Commodity risk** – arises from the movements in the price of diesel, gas and electricity used throughout the business.
- **Interest rate risk** – adverse movements in interest rates will negatively impact the cost of funding.
- **Insurance risk** - Post Office has appropriate and adequate insurance programmes in place to cover material loss categories at optimal cost.
- Adverse movements in asset values and income statement volatility are also created via counterparty exposures as a result of treasury and commercial activity.

**3.4** Short term liquidity management objectives are met as follows:

The Post Office has access to a £1.15 bn working capital facility provided by the Department of Business, Innovation and Skills (BIS). Funding requirements must be notified to BIS 2 days in advance. Forecasting variances may lead to a shortfall between the amount drawn down and the actual amount required. The strategy to mitigate the risk of a shortfall between notified and actual funding requirements is to hold a liquid investment reserve of £50m and to have uncommitted facilities of £50m available for drawdown<sup>1</sup>

In addition, Post Office is a member of the Bank of England (B of E) Notes Circulation Scheme. The scheme allows the Post Office to declare and

<sup>1</sup> Note – As facilities are uncommitted, they may not always be available for drawdown. Actual facilities in place are £80m but drawdown is limited to £50m per working capital agreement with Department of Business, Innovation and Skills.

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notionally “deposit” cash with B of E reducing the Post Offices funding requirement on a daily / overnight basis. The operation of the scheme requires the provision of collateral facilities to B of E. These are currently provided by RBS and total £550m split £350m intraday facility and £200m overnight facility.

- 3.5** Long term funding is managed through on-going dialogue with Government, to ensure an appropriate capital structure and / or long term funding is in place over 3 -5 year time horizon. Currently, Post Office is in year one of a three year funding plan which has been agreed with Government. This provides the following:

- Funding of £410m in FY 2012/13.
- Funding of £415m in FY 2013/14.
- Funding of £330m in FY 2014/15.
- Working capital facility of £1.15bn expiring on 31<sup>st</sup> March 2016.

#### **4 Recommendation**

The Committee is asked to:

- Acknowledge the treasury risks to which the Post Office is exposed
- Recommend the proposed framework of treasury policies and procedures to the Post Office Limited Board, including:
  - The governance and reporting mechanisms.
  - The associated approvals and limits

#### **5 Treasury Risks**

- 5.1** The principal treasury risks to which the Post Office is exposed are described in this section with recommendations as to how each risk should be managed.

##### **5.2 Foreign Exchange Risk**

###### **Nature of Risk**

Post Office foreign exchange risk principally arises from the holding of currency balances in the network and cash centres to meet “on demand” requirements from customers.<sup>2</sup> All currencies are purchased from FRES. The risk arises from time of purchase from FRES to sale of currency to the customer. The size of balances on hand is determined by historic demand.

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<sup>2</sup> Pre order and online sale of currency is transacted via the Post Office JV with FRES

**Confidential****Size of Risk**

Post Office holds balances in 72 currencies. On average, currency holdings are approximately £58m but can peak at over £100m during holiday periods. EUR and USD comprise over 80% of the total balance as illustrated in the table below.

Range	Average No of Balance CCY's £'m %			Maximum No of Balance CCY's £'m %			Estimated Income statement impact post hedging +/- £'m
> £10m	EUR	35	60	EUR	63	62	0.31
	USD	12	21	USD	23	22	0.09
£1m - £10m	3	5	8	3	8	8	0.03
£0.5m - £1m	3	2	3	8	5	5	0.02
£0.1m - £0.5m	15	4	7	12	3	3	0.37
< £0.1m	49	0	1	47	0	0	0.04
	72	58	100	72	103	100	0.86

A more detailed analysis by currency is shown in appendix 1.

Applying a policy of hedging 90% of each currency balance over £0.5m (as described in 7.2), leaving 10% of the balance unhedged and not hedging balances below £0.5m, the "expected" gain / loss in the income statement would be on the approx. + / - £0.86m based on actual currency volatility over the last 12 months.

**Foreign Exchange Risk Management Recommendation**

- Up to 90% of the average forecast holding 1 month forward for all balances over £1m will be hedged where an active FX market exists.
- Hedging of forecast average holdings 1 month forward between £0.5m - £1m is at the discretion of the Head of Corporate Finance. Hedges will be up to 90% of the forecast holding 1 month forward where an active FX market exists.
- Forecast average holdings 1 month forward below £0.5m will not be hedged.

**5.3 Commodity Risk****Nature of Risk**

Post Office is exposed to movements in the price of diesel, gas and electricity used throughout the business.



**Confidential****Size of Risk**

The annual expenditure on commodities is approximately £8m split as follows: diesel, £3m, gas, £3m and electricity £2m. Historically, Post Office commodity volumes have been included within the Royal Mail hedging program and it is intended to continue with this arrangement.

The size of annual expenditure is relatively small for Post Office Limited and hedging of commodity exposures at these volumes would not be economic on a standalone basis. Royal Mail has much larger exposures to these commodity types and operates a comprehensive 3 year rolling commodity hedging program to provide financial planning certainty for future financial years. Post Office volumes comprise the following approximate percentages of the total hedged by Royal Mail: diesel 2%, gas 9%, electricity 9%.

As Post Office is a small participant in the overall commodity hedging program and the values are relatively immaterial for the Post Office, Royal Mail policies and targets have been reviewed and are considered appropriate for adoption by Post Office.

**Current hedge position for future years**

The table below summarises the current hedge position across all commodities. For FY2013/14 forecast requirements are fully hedged, FY2014/15 is 80% hedged and FY2015/16 is 25% hedged.

Completed Start Date: By:		FY 13/14 % Quarter to be Hedged					FY13/14 minimum average hedge %	FY 14/15 % Quarter to be Hedged					FY14/15 minimum average hedge %	FY 15/16 % Quarter to be Hedged					FY15/16 minimum average hedge %
		Q1	Q2	Q3	Q4	Q1		Q2	Q3	Q4	Q1	Q2		Q3	Q4				
		April-Jun	July-Sept	Oct-Dec	Jan-Mar	April-Jun		July-Sept	Oct-Dec	Jan-Mar	April-Jun	July-Sept		Oct-Dec	Jan-Mar				
Jul-10	Sep-10																		
Oct-10	Dec-10																		
Jan-11	Mar-11																		
Apr-11	Jun-11																		
Jul-11	Sep-11	20	20	20	20	20	10				3								
Oct-11	Dec-11	40	40	40	40	40	20	20			10								
Jan-12	Mar-12	60	60	60	60	60	40	40	20		25								
Apr-12	Jun-12	80	80	80	80	80	50	50	40	20	40								
Jul-12	Sep-12	100	100	100	100	100	60	60	60	40	55	10							3
Oct-12	Dec-12						70	70	70	60	66	20	20						10
Jan-13	Mar-13						80	80	80	80	80	40	40	20					25
Apr-13	Jun-13						90	90	90	90	90	50	50	40	20				40
Jul-13	Sep-13						100	100	100	100	100	60	60	60	40				55

\* discretionary trades to advance the next quarters volumes will be allowed

**Commodity Risk Management Recommendation**

- Continue to participate in the current commodity hedging programmes with Royal Mail.

**5.4 Interest Rate Risk****Nature of Risk**

Adverse movements in interest rates will negatively impact the Post Offices cost of funding.

Post Office funding is via a £1.15bn floating rate working capital facility from BIS maturing in 2016. Interest is calculated at LIBOR + 0.5%. Post Office earns commission (credited to revenue) at a rate of LIBOR – 0.125% on the balances of benefit payments held by JP Morgan. This arrangement expires in 2015 with an option to extend for a further 2 years. In general, the refund of benefit payments is at least equal to the Post Office borrowing requirement as the balances are considerably larger than the facility. The commission (interest)

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receivable on benefit refunds creates a natural hedge against the interest payable on the working capital facility.

**Size of Exposure**

The net interest expense is shown below. Note, this is net interest payable and excludes the commission discussed above.

£'m	FY 2011/12 Actual	FY 2012/13 Budget	FY YTD 2012/13 Actual
Net Interest	6	8	3

**Interest Rate Risk Management Recommendation**

- Continue to utilise the “natural hedge” offset opportunity provided through LIBOR based floating rate interest payable on the working capital facility and LIBOR based interest receivable on the refund of benefits paid on behalf of government.

**5.5 Insurance Risk****Nature of Risk**

Post Office faces the following insurable risks; crime, property / business interruption, employers and public liability, motor directors and officers and personal accident. Post Office has appropriate and adequate insurance programmes in place to cover these material loss categories at optimal cost.

**Programme summary**

Post Office Ltd						
	GBP400m	Full Value	£50m	£50m	Unlimited	
	CRIME	Property/ Business Interruption/ Terrorism/ Contractors All Risks	Employers Liability	Public Liability	Motor TP	
DEDUCTIBLE	£1m E and E loss on the primary layer	£1m E and E loss	£250k E and E loss for EL & PL, aggregated at £1.5m.	£5m Special Contingency	Nil excess	
INSURER	Liberty and Lloyds	Zurich	QBE	Liberty	Chubb	TOTAL PREMIUM
PREMIUM (net of IPT)	£721,307	£215,109	£682,147	£11,200	£4,700	£1,634,463

Directors and officers liability remains a shared policy with Royal Mail Group

**Insurance Risk Management Recommendation**

- Current programme executed in October 12. No changes required.

Treasury Risk Management: Chris Day  
Framework, Policies and Authorities January 2013

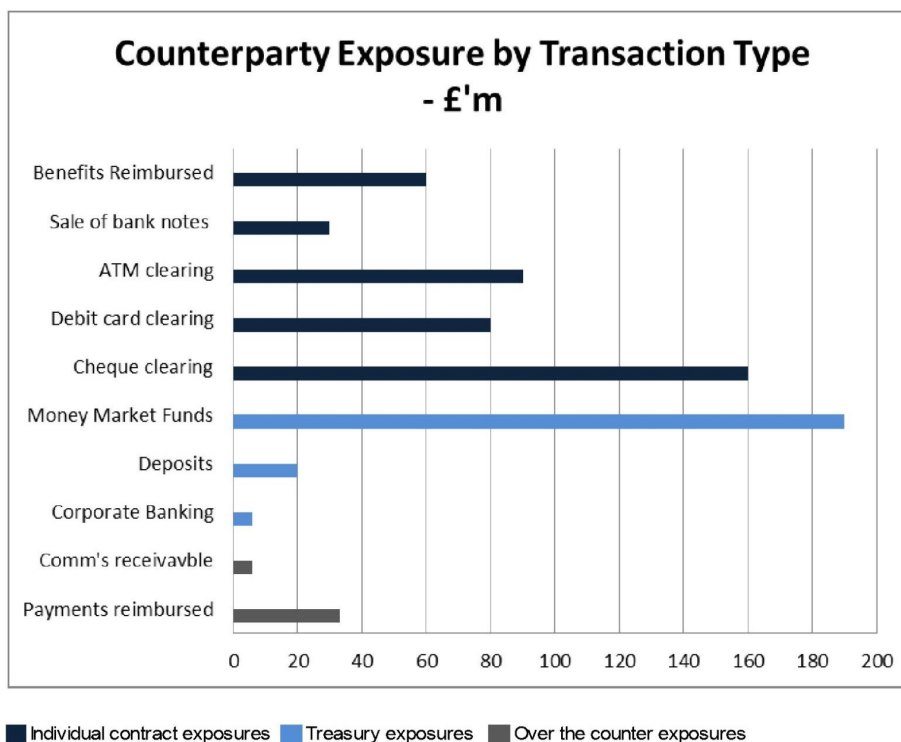
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**Confidential****5.6 Counterparty Risk****Summary**

Post Office Limited exposure to financial counterparties<sup>3</sup> primarily results from the following transaction types:

- **Individual contracts to support Post Office financial services activity.** Exposure is primarily generated through the clearing of debit card and cheque receipts, processing of benefit payments and collections associated with ATM withdrawals. **Total exposure approx. £420m.**
- **Corporate banking and Treasury activity.** Principally investment of surplus funds (covered in the Short term Liquidity Management section 5.7 below) and settlement processing. **Total exposure approx. £220m**
- **Over the counter cash transaction services.** Withdrawals via the Post Office branch network for retail banking customers. This creates exposures equal to the amount paid out by the Post Office on behalf of the bank and the commission due for providing this service to each bank. **Total exposure approx. £40m**

Exposures by transaction type are summarised below:

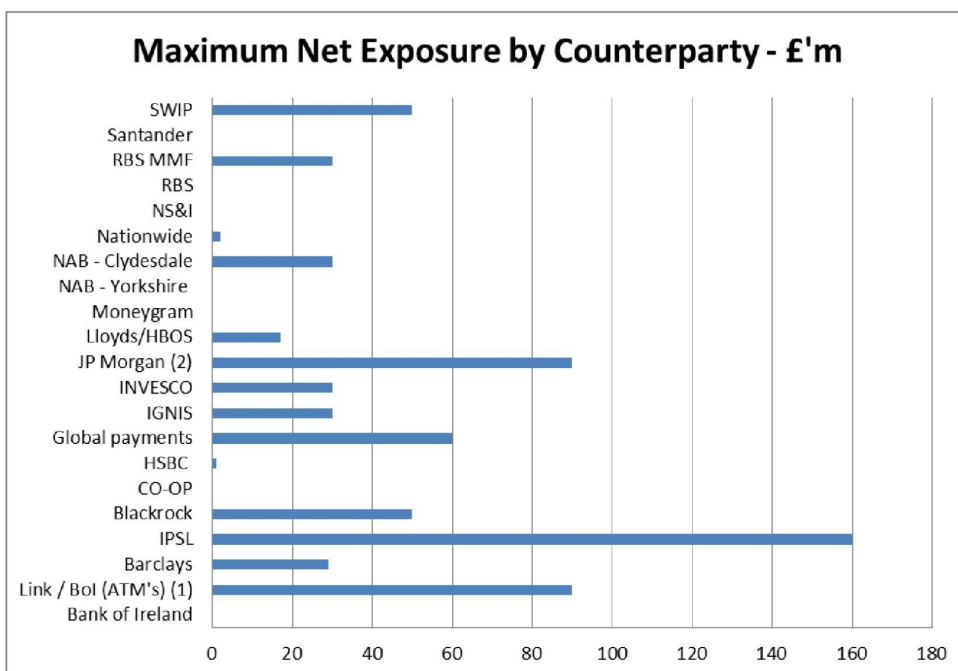


Exposures by transaction type and counterparty are detailed in appendix 2.

<sup>3</sup> POL also has v short term corporate c/party exposures resulting from cash distribution activity. This exposure is o/s scope of this paper

**Confidential****Post Office Counterparties**

The counterparty population supporting Post Office financial activity is shown in the graph below. Where a counterparty is shown with a £nil exposure this is because the Post Office always has a net payable position to that counterparty.



The largest exposures are generated by clearing activity (cheques, debit cards, ATM's), reimbursement for the settlement of benefits and investment of surplus funds via money market deposits.

A full list of financial counterparties and net exposures is shown in appendix 3 with activity by counterparty shown in appendix 4.

**Counterparty strategy and principles**

- Over the counter. Continue to grow counterparties for this commercial offering subject to appropriate counterparty credit checks.
- Consolidate corporate banking services into a smaller number of service providers.
- Maintain banking relationships required for geographic purposes (i.e. Bank of Ireland and Clydesdale).
- Ensure sufficient investment funds are available to diversify risk.
- Head of Corporate Finance to approve counterparty selection for all contracts involving financial institutions (except the appointment of new over the counter customers).



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- Counterparty selection will consider the risk arising from existing exposures to a particular counterparty when contracts are renewed / awarded, including the appointment of new over the counter customers.

**5.7 Short term Liquidity Management****Nature of Risk**

Funds in excess of daily /short term liquidity requirements are deposited with financial institutions. A combination of money market funds and bank deposit accounts are used to manage this together with DMO. Investment of funds creates an exposure to financial counterparties.

**Size of Exposure**

The Post Office will receive a second tranche of funding of £415m in April 2013 from the government. This together with daily and seasonal cash flow variation is likely to lead to a significant cash surplus, potentially above £500m during H1 FY 2013/14. This situation is likely to be repeated in H1 F2014/F15. The current number of counterparties and limits will not be sufficient to allow all surplus cash to be deposited. Credit limits by investment type / category will be increased to accommodate the additional inflow of funds. These proposed new limits are detailed below. The Treasury and Financial Services Committee (see section 6.1) will be updated on a regular basis and will recommend changes as appropriate.

Counterparty	Investment Type	Current limits £'m	New limits £'m
IGNIS	MMF - Institutional Investments	30	30
INVESCO		30	30
RBS		50	30
SWIP		100	50
Blackrock		50	50
Unallocated		0	60
<b>Total</b>			<b>250</b>
Unallocated	MMF Govt stk / gilts	0	150
<b>Total</b>			<b>150</b>
Barclays - FIBCA		30	30
<b>DMO</b>	<b>Govt Deposit</b>	<b>Unlimited</b>	<b>Unlimited</b>

**Short Term liquidity Management strategy and principles**

- Deposits with money market funds which invest in corporate / institutional funds limited to £250m in total. Exposure to new counterparties will be capped at £30m per counterparty.
- Deposits with money market funds investing in Government stock limited to £150m in total. Investments in individual funds to be capped at £50m.



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- Where a single counterparty has segregated institutional funds and government stock funds, investments can be made in both funds subject to the limits above.
- Deposits with banks limited to £30m per banking group. The number of bank counterparties will remain flexible to provide additional investment capacity.
- Where possible align investment activity with other financial activity with the same counterparty but without creating additional risk. i.e. use of money market fund from corporate banking counterparty. RBS corporate bank account and RBS money market fund (ensuring risks are independent).
- Maintain sufficient funds to ensure diversification of risk.

**Confidential****6 Treasury Risk Management Framework: Governance and Reporting**

The following structures are recommended to govern and report on treasury risks

**6.1 Treasury Risk Governance**

Treasury risks are governed through the following structures:

**Post Office Board:** Authority to approve policies and approval limits relating to treasury risk management resides with the Board. Treasury risk management includes but is not limited to the following: foreign exchange, commodity, insurance, interest rate, short term liquidity management, long term funding / borrowing and counterparty. The board will delegate authorities to facilitate the operation of treasury risk management and the daily operation of the treasury function as detailed in section 6 and 7 of this document.

**Audit, Risk and Compliance Committee:** Financial risk management policies and approval limits are recommended to the Board for approval by the Audit Committee.

**Treasury and financial services committee:** The treasury and financial services committee meets on a quarterly basis to review financial risks, report on and recommend changes to policy to the audit committee as required. The treasury and financial services committee composition includes; CFO, Head of Corporate Finance, Treasurer.

The Board has delegated the following specified authorities to the CFO and Head of Corporate Finance (HofCF). Treasury reports to the HofCF.

<b>CFO</b>	<b>Authorities:</b> <b>Approval of Investment instrument limits</b> <b>Approval of counterparty selection criteria</b> <b>Approval of counterparty limits</b>
<b>Head of Corporate Finance</b>	<b>Authorities:</b> <b>Approval of counterparties</b> <b>Approval of counterparty limits within the approved investment instrument limits</b>

Daily operation of treasury activity is delegated to the following panels:

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<b>Treasury Authorisation Panel</b>	<b>Members appointed by:</b> Head of Corporate Finance	<b>Authorities:</b> Investment and borrowing approval	<b>Current composition:</b> Charles Colquhoun, Louise Fairhurst, Ruth Pearson, Carl Nielsen, Lorraine Finnie, Andrew Smith.
<b>Dealing Panel</b>	<b>Members appointed by:</b> Head of Corporate Finance	<b>Activities:</b> Execution of approved daily investment / borrowing transactions	<b>Current Composition:</b> Andrew Ashsall, Martin Knights, Ryan Skidmore, Louise Fairhurst, Ruth Pearson
<b>Banking Control Panel (BCP)</b>	<b>Members appointed by:</b> CFO together with any one BCP member	<b>Authorities:</b> Opening & closing bank accounts, Maintenance of bank mandates. Exclusions: Authorisation of payment instructions	<b>Current Composition:</b> Mark Wood, Sue Oxley, Dawn Brooks, Alison Bolsover
	<b>Opening and closing of bank accounts</b>	<b>Any two signatures from BCP, or a POL director or company secretary, following prior approval from POL Treasurer</b>	
	<b>Other banking instructions (other than payment instructions)</b>	<b>Any one member of BCP, or a POL director or the company secretary</b>	
<b>Banking Authorisation Panel</b>	<b>Members appointed by:</b> Any one member of BCP	<b>Activities: Authorisation of payment instructions</b>	
<b>Payment panel</b>	<b>Members appointed by:</b> Any one member of BCP	<b>Activities: Release of payments to bank</b>	
		<b>Limits: &lt;£ 50 k - Any one payment panel member. &gt;£ 50K - Any two payment panel members</b>	

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**6.2 Treasury Risk Management Reporting**

Policy breaches will be immediately reported to the CFO

The Treasury and Financial Services report will be produced on a quarterly basis. The contents of the report will include: foreign exchange risk management, interest rate risk management, commodity risk management, counterparty exposures, long term funding update and short term liquidity management. Together with any policy changes required and review of any policy breaches.

The Treasury and Financial Services Committee will meet on a quarterly basis. It will review the Treasury and Financial Services report and consider any other treasury risk management issues as required. The committee will be scheduled such that at half year and full year the Treasury and Financial Services report will be forwarded to the audit committee. The audit committee will receive a bi-annual update on treasury risk and activity as a result of this.

**Confidential****7 Financial Risk Management Framework: Policies & Authorities**

The following treasury policies and authorities are recommended to manage the treasury risks that have been identified:

**7.1 Short term Liquidity Management / Investment Risk****Risk Management Objective**

Ensure the security of funds invested. Minimise investment exposure to individual financial counterparties via use of appropriate instruments. i.e. Money Market Funds (MMF). Diversify MMF risk over a number of counterparties. Corporate deposits used for investment of late advised funds and un-forecasted outflows.

**Investment Risk Management Policies**

Investment is only allowed in sterling denominated funds / accounts.

**a) Money Market Funds:**

- The fund must be AAA rated.
- The Post Office proportion of the total fund managed must not be greater than 10% of the total fund.
- Funds must have a stable or accumulating net assets value with daily liquidity.

**b) Bank deposits:**

- Bank must have a long term credit rating of at least single A.
- Bank must be a member of CHAPS (A list of CHAPS banks is attached in appendix 5).

**Authorities**

- Only treasury is authorised to invest surplus funds.
- CFO is authorised to approve counterparty limits.
- CFO is authorised to approve investment instruments.
- Head of Corporate Finance is authorised to approve counterparties.



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Maturity and investment limits are as shown in the table below

<b>Investments</b>	<b>Amount:</b>	< £ 300 m	< £ 100 m	< £50 m	< £300 m	< £ 50 m	> £ 50 m
	<b>Maturity:</b>	up to 1 month	up to 3 months	up to 6 months	up to 1 year	Over 1 year	Over 1 year
	<b>Authority:</b>	One of Treasury Authorisation panel	One of Treasury Authorisation panel	One of Treasury Authorisation panel	Head of Corporate Finance (*)	CFO & one other board member	POL board
	(*) - Head of Corporate Finance is also authorised to invest with a maturity of up to 5 years for the purpose of providing collateral for the notes circulation scheme						

## 7.2 Foreign Exchange Risk

### Risk Management Objective

Minimise the impact on the income statement of movements in foreign exchange rates on currency balances held to satisfy “on demand” transactions by customers.

### FX Risk Management Policies

- Up to 90% of the average forecast holding 1 month forward for all balances over £1m will be hedged where an active FX market exists.
- Hedging of forecast average holdings 1 month forward between £0.5m - £1m is at the discretion of the Head of Corporate Finance. Hedges will be up to 90% of the forecast holding 1 month forward where an active FX market exists.
- Forecast average holdings 1 month forward below £0.5m will not be hedged.
- The maximum maturity of financial instruments used to hedge foreign exchange exposures will be 6 weeks.
- Foreign currency balances can only be hedged using foreign currency forwards and swaps.
- FX hedging instruments can only be used to hedge exposures generated by holding currencies to meet “on demand” transactions by customers.

### Authorities

- Only Treasury is permitted to transact hedges to protect against foreign currency movements.
- The Chief Financial Officer is authorised to amend the list of approved FX hedging instruments.
- The Head of Corporate Finance is authorised to approve financial counterparties for hedging.

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- The Head of Corporate Finance is authorised to determine the currencies to be hedged.
- Transactions to hedge exposures not created by currency holdings to meet on demand requirements must be approved by the CFO, up to £50m and the Post Office board above £50m.

**Accounting for Foreign Exchange instruments used to hedge On demand Exposures**

Exchange gains and losses on currency balances together with gains and losses resulting from revaluing associated hedges will be recognised in the income statement as and when they occur. Hedge accounting and the designation of hedging instruments to underlying exposures will not be undertaken due to the short duration of the hedges.

**7.3 Commodities Risk****Risk Management Objective**

Minimise the impact on the income statement of movements in commodity prices.

**Policies**

- If economic to do so treasury will hedge commodity exposures forward to a maximum of 3 years based on forecast future usage.
- The hedging time horizon for all commodity programmes and the associated foreign exchange will be no more than 36 months.
- Major recurring fuel oil, power and gas exposures are reviewed by the Commodity Price Risk Management Board (CPRMB). A Royal Mail committee which meets quarterly and at which Post Office is represented.
- Permitted hedging instruments are spot purchases, currency deposits, forward contracts, call options, matched options (e.g. cylinders) and swaps. Futures will not be used without specific authority of the Chief Financial Officer.

**Accounting for commodity hedges**

The Post Office will designate commodity cash flow hedges against forecast underlying exposures. Unrealised gains and losses on hedges will be deferred in reserves. This will be recycled to the income statement when the hedge matures to match forecast expenditure.

**Approvals**

- Only treasury is permitted to transact hedges to protect against commodity price movements.
- Commodity hedging counterparties are approved by the CFO.
- Commodity hedge transactions are approved by the Head of Corporate Finance.

**Confidential****7.4 Interest Rate Risk**

As noted in section above the risk of adverse movements in interest rates on the floating rate LIBOR working capital facility is offset by LIBOR based commission receivable on the refund of benefits payments from the government. This forms an effective natural hedge.

Any changes to this strategy will be approved by the Audit, Risk and Compliance Committee and board.

No hedging instruments for interest rate risk management are currently authorised.

**7.5 Funding / Borrowing****Policy**

Borrowing is only permitted in sterling.

Borrowing is only permitted as per the funding agreement with Department of Business, Innovation and Skills as follows:

- Working capital facility of £1.15bn expiring on 31<sup>st</sup> March 2016.
- Maximum £50m external facilities.
- Maximum £50m leasing.

Together with facilities to support Post Offices participation in the notes circulation scheme. Maximum £550m.

**Confidential****Authorities**

Authorities to drawdown under the facilities are as follows:

External Borrowings	Amount:	< £ 50 m	< £ 50 m	< £ 50 m
	Maturity:	Overnight	up to 6 months	Over 6 months
	Authority:	One of Treasury Authorisation panel	Head of Corporate Finance	CFO
	Note: Total maximum external borrowing (exc BIS & leasing) is limited to £ 50 m			
Leasing & Contract Hire	Amount:	< £ 50 m	< £ 50 m	< £ 50 m
	Maturity:	< 8 years	< 8 years	< 8 years
	Authority:	Head of Corporate Finance (with prior approval from CFO)	CFO	CFO
	Note: Total maximum leasing is limited to £50m			
Working Capital Loan Facility with BIS	Amount:	up £ 500m	up £ 1.15 bn	up £ 1.15 bn
	Maturity:	up to 12 months	up to 12 months	> 12months
	Authority:	One of Treasury Authorisation panel	Head of Corporate Finance	CFO

**7.6 Guarantees****Nature of Risk**

Guarantees that are provided by Post Office Limited create a financial exposure if they are called.

**Policy**

In general, Post Office will not enter into financial / bank guarantees.

**Approvals**

Only CFO is authorised to issue bank guarantees / performance bonds.

**Chris Day**  
**January 2013**

**Confidential****Appendix 1 – Foreign Exchange by currency**

Range	No of CCY's	Average Balance £'m	%	No of CCY's	Maximum Balance £'m	%	52 week FX rate High /Low	Estimated income statement impact +/- £'m
< £0.1m	49	0	1	47	0	0	Est.volatility 10%	0.04
£0.1m - £0.5m	15	4	7	12	3	3	Est.volatility 10%	0.37
£0.5m - £1m	EGP	1	1		1	1	9.2 10.4 12%	0.01
	NZD	1	1		1	1	1.9 2.1 11%	0.01
	CHF	1	1		1	1	1.4 1.5 8%	0.01
				HRK	1	1	8.7 9.7 10%	0.00
				PLN	1	1	4.9 5.6 13%	0.00
				BGN	1	1	2.3 2.5 9%	0.00
				THB	1	1	47.5 50.6 6%	0.00
				AED	1	0	5.6 6.0 7%	0.00
£1m - £10m	CAD	1	2		1	1	1.5 1.6 5%	0.01
	AUD	2	3		2	2	1.5 1.6 10%	0.02
	TRY	2	3		4	4	2.7 2.9 6%	0.01
> £10m	USD	12	21		23	22	1.5 1.6 7%	0.09
	EUR	35	60		63	62	1.2 1.3 9%	0.31
<b>Total</b>	<b>72</b>	<b>58</b>	<b>100</b>	<b>72</b>	<b>103</b>	<b>100</b>	<b>"Expected" gain /loss</b>	<b>0.85</b>



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## Appendix 2: Gross Counterparty Exposures by Transaction Type

£'m	Product / Service													
Financial Institution	Over the Counter			Treasury				Individual contracts						
	Payments	Comm's	Total	Corporate	Money	Total	Debit	Sale of	Benefits	Total	Total Gross Exposure			
	reimbursed	receivablr		Banking	Market		Cheque	card				ATM	bank	Reimbursed
				Deposits	Funds		clearing	clearing	clearing	notes				
Bank of Ireland	3		3										3	
Link / Bol (ATM's)									90			90	90	
Barclays	7	1	8	1	20	21							29	
IPSL							160					160	160	
Blackrock						50	50						50	
CO-OP				1		1							1	
HSBC				1		1							1	
Global payments								80				80	80	
IGNIS						30	30						30	
INVESCO						30	30						30	
JP Morgan											60	60	60	
Lloyds / HBOS	15	2	17										17	
NAB										30		30	30	
Nationwide	2		2										2	
NS&I		2	2										2	
RBS	6	1	7	3		3							10	
RBS MMF						30	30						30	
SWIP						50	50						50	
Total	33	6	39	6	20	190	216	160	80	90	30	60	645	

**Confidential****Appendix 3: Net Counterparty Exposures**

£m	Product / Service						
Financial Institution	Over the Counter settlements	Commissions receivable	Other	Corporate Banking	Deposits	MMF	Total Gross Exposure
Bank of Ireland	3		(25)				3
Link / BoI (ATM's) (1)			90				90
Barclays	7	1		1	20		29
IPSL (3)			160				160
Blackrock						50	50
CO-OP			(10)	1			1
HSBC				1			1
Global payments (4)			60				60
IGNIS						30	30
INVESCO						30	30
JP Morgan (2)			90				90
Lloyds/HBOS	15	2					17
Moneygram			(5)				0
NAB - Yorkshire					0		0
NAB - Clydesdale			30				30
Nationwide	2						2
NS&I		2	(40)				2
RBS (6)	6	1	(550)	3			10
RBS MMF						30	30
Santander (5)			(150)				0
SWIP						50	50
<b>Total</b>	<b>33</b>	<b>6</b>	<b>(350)</b>	<b>6</b>	<b>20</b>	<b>190</b>	<b>685</b>
(1) Growth bond payables to BoI				(4) Clearing of debit card receivables from multiple c/parties			
(2) Processing of benefit payments				(5) Small business banking			
(3) Clearing of cheques from multiple counterparties				(6) Note circulation scheme & uncommitted facilities			

**Confidential****Appendix 4: Summary of services by counterparty**

<b>Counterparty</b>	<b>Owner</b>	<b>Service</b>	<b>Maximum Exposure &amp; Duration</b>	<b>Comment</b>
Barclays	Treasury	Corporate deposit	£30m (o/night)	Manage fluctuations in daily forecast cash flow
IPSL (via contract with Barclays)	FSC	Clearing of cheques received through network. Cheque clearing contract signed with Barclays but managed by IPSL	£160m (2 day clearing)	As this is a clearing process, risk lies with banks on which cheques are drawn i.e. this is disaggregated over a number of counter parties
CO-OP	FSC	Postal order clearing	£nil	Post Office is a net payer as CO-OP is paying bank for PO's cashed Post Office is net payer due to purchases of lottery tickets
	FSC	Camelot lottery payments / collection	£nil	
Lloyds	Treasury	Scottish widows (SWIP) Money market fund	£50m	Investment of short term surplus cash
Citi	Treasury	Uncommitted loan facility £30m	£nil	
National Australia Bank Group – Clydesdale	Supply	Sale of GBP notes to Clydesdale to support their note issuance. Sale of £50 notes	£30m	Exposure attached to settlement by Clydesdale for notes purchased
Ignis	Treasury	Money market Fund	£30m	Investment of short term surplus cash
Invesco	Treasury	Money market Fund	£30m	Investment of short term surplus cash
HSBC	Treasury	Bank accounts to support debit card clearing	£1m	Overnight exposure relating to clearing of debit / credit card transactions
Global Payments – (via contract with HSBC)	FSC	Clearing of card payments received through network	£60m	As this is a clearing process, risk lies with banks on which debit cards are issued i.e. this is disaggregated over a number of counter parties
Link / Bank of Ireland	FSC	ATM cash servicing	£90m	Average overnight exposure £90m. Can peak at £130m after bank holidays
JP Morgan	FSC	Processing of benefits settlements	£90m	Overnight exposure £90m. Intraday exposure can be as high as £150m

## 2. Risk Management within Post Office Limited

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RBS	Treasury	Intra-day and overnight facilities and provision of RTGS account to support Post Office membership of note circulation scheme	£nil	
	Treasury	Primary corporate banking partner for Post Office settlements etc.	£nil	
	Treasury	Uncommitted loan facility £50m	£nil - £5m	
	Treasury		£nil	
Santander	FSC	Small business banking	£nil	
Yorkshire bank (owned by National Australia Bank Group)	Treasury	Corporate deposit	£1m	To be closed

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**Appendix 5 – Chaps Banks**

Bank of America (N.A)

Bank of England

Bank of Scotland (HBOS)

Barclays Bank PLC

Citibank N.A

CLS Bank International

Clydesdale Bank PLC

The Co-operative Bank PLC

Danske Bank

Deutsche Bank A.G

HSBC Limited

J.P. Morgan Chase Bank

Lloyds TSB Bank PLC

National Westminster Bank PLC

The Royal Bank of Scotland PLC

Santander UK PLC

Standard Chartered

State Street Bank

UBS A.G.



Annual Report and AccountsChairman's Foreword

It is with great pleasure and pride that I write the Foreword to the first Annual Report and Accounts which the Post Office has ever published as an independent company.

As this Report explains in more detail, the Post Office has embarked on a remarkable turnaround to reverse the trend of years of declining revenues, Post Office closures and a reputation for inconvenience and queues.

Thanks to our Shareholder, the Government, we are investing £1.34 billion into the Post Office network over 3 years up to April 2015. There is no longer a programme of Post Office closures. Instead, we are modernising the network, increasing our opening hours, offering new services, developing new methods of interacting with our customers, working with our key partners in new ways, cutting costs and increasing our revenues. All of this is intended to put the Post Office on to a secure financial footing for the long-term, reducing our dependence on the taxpayer to the minimum, and to change our culture so that we are always on the front foot, responding to changes in the world around us in partnership with the key people on whom we depend for the delivery of our services. [If we are successful in achieving these changes, the conditions for the successful mutualisation of the Post Office should be in place - a very exciting prospect which could in itself help to secure the kind of self-sustaining Post Office which we all want to see in the future.]

A series of important changes has already happened and there are many more in the pipeline.

We ceased to be a Division of the Royal Mail Group and became an organisation in our own right on 1 April 2012. Since then, I have completed the formation of my Board and we are now operating Board governance in keeping with best practice in the corporate world. Full details of the Board members and our Board Committees are on page 11. I am delighted to have been able to appoint such a range of able people with varied backgrounds who are all committed to supporting and challenging the Post Office as it pursues the changes which must be made if we are to secure its future.

We have achieved a number of notable successes in this, our first independent, year. For the second year running, our revenues are up on the previous year despite the difficult economic environment. We have made great headway in our plan to modernise the network of branches run by our agents. 1200 of these branches have been converted to new operating models which give much better service to our customers, resulting in turn in higher

footfall and turnover. And we have made real inroads on the costs of running our Crown offices where the annual deficit has reduced to £40 million. We have also won a large number of new Government contracts under which we are providing some completely new services and enabling central and local government to realise significant administrative savings. We are also offering new financial services, maintaining our appeal to customers who come to us for the reliability and transparency of our financial offers. [Need to say something positive about changes in Mails]

But while we are clear about what we need to do to continue these developments and add to them, the going is not easy. This turnaround, like any other, requires people throughout the organisation and their partners to work in new ways. We need to win new business on proper commercial terms - something which is difficult in current economic circumstances. And we need to reduce our high fixed costs while at the same time finding the resources to operate on our own two feet and to modernise and innovate - catching up after years of under-investment.

Paula Vennells, the Post Office's Chief Executive Officer, will explain in more detail about what we have been doing and our plans for the future in the following pages.

I would like to thank her for her commitment and hard work as well as her top team and all the people who work to support the Post Office network for their efforts to bring about these remarkable changes and plan for what needs to follow in the coming months and years.

I am also very grateful to Donald Brydon, Chairman of the Royal Mail, for the help and support which he has given us as we have stepped out on our own, while at the same time maintaining a crucial commercial relationship between us.

We owe a great deal to our Shareholder whose belief in the importance of the Post Office to the core fabric of our country, and willingness to back that belief with real investment for the future, is central to our plans. I would particularly like to thank Edward Davey [when did he move???], Norman Lamb and now Jo Swinson - the three Ministers with whom we worked particularly closely in 2012/13 and their key officials in the Shareholder Executive for their guidance and support.

Finally, I would like to thank the people who represent many of the people through whom we deliver our services, Andy Furey, Brian Scott and George Thompson. These are testing times for our relationships and we all know we need to work together in new ways if we are to achieve our shared goal of a thriving, relevant Post Office secure in its future for generations to come. They are all important members of our Shareholder Forum where, with

colleagues from other organisations with a stake in the Post Office, they are working on a proposed definition of our public purpose.

The Post Office has a long and honourable 350 year old history. We need to hang on to the essence of what has made it great and made it loved, while at the same time making it fit for the future. It is in that context that this Reports and Accounts should be seen. They report on the first steps of progress into the future - a future which blends the trust, integrity and accessibility for which the Post Office is renowned with the contemporary relevance, innovation and professionalism of a financially sound 21st century company.

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POST OFFICE LTD

**Publication of our Report and Accounts – Key Messages****1. Background and Purpose**

- 1.1 The purpose of this paper is to set out plans for the publication of the Post Office's Report and Accounts for the financial year 2012/13. It deals with key messages and the overall suggested tone of the document. It also proposes a timeline for clearance of the report and sets out proposals for the style and promotion of the publication.
- 1.2 This will be our first such Report and Accounts as an independent company. We should therefore seek to surprise, to demonstrate an innovative approach and to find ways of standing out from other such reports. This paper sets out an initial direction of travel.

**2. Tone and key messages**

- 2.1 The report is planned for publication in June against the backdrop of tight budgetary control within the company, a difficult external economic environment which is putting pressure on margins and discussions with Government around future strategy and post-2015 funding positions.
- 2.2 We will work to align messages in the Report and Accounts with those currently being worked up for our future strategy (on which the Communications and Strategy teams are working together).
- 2.3 Subject to that process, we propose that the tone of the report should therefore be one of:
  - solid progress on fundamentals creating confidence for the journey ahead (with a sense that in key areas, such as Network and Crown Transformation, *the turnaround has started*, albeit in difficult circumstances)
  - excitement at the innovation and change capabilities of this newly independent company to deliver commercial and social value: *the spirit of a start-up*
  - realism as to the task ahead, and empathy with subpostmasters and colleagues as we *work together* in challenging circumstances

An outline report structure appears as Annex 1. An illustration of the proposed overall tone can be seen in the initial draft of the Chairman's Statement given at Annex 2. A draft Corporate Governance statement and statutory Directors' Report are provided at Annex 3. To provide context - at Annex 4 - we also produce a draft of what the Financial Review within the Accounts might look like based on Q3 forecasts. Ultimately the tone, messages and approach need to be driven by what the financial results reported will say.

**3. Key messages within the Report and Accounts Document**

- 3.1 We are a fully independent Company – a commercial business with a social purpose - which operates and reports to plc standards.
- 3.2 We have made solid progress over the past year and are on track towards financial sustainability. Significant steps have been taken as part of this: a new Board, progress on transforming the business, the creation of the Stakeholder Forum.



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- 3.3 We are also creating a new culture for this new independent company: more focused on the customer, more innovative and flexible in the face of change: a culture which recognises our unique place in society, and listens to all those with whom we engage.
- 3.4 We are developing a strategy which will position us as a multi-channel company which remains at the heart of communities – delivering key and essential services across financial services, mails, government services and beyond.
- 3.5 But we are also realistic about the challenges we face, such as the economic environment, the digital revolution and customer perceptions around relevance and effort. We have no illusions about the hard work ahead, but our determination to deliver the business transformation of the decade is undimmed.
- 3.6 We are proud to be part of the social and economic fabric of the UK. We will work with Government to realise the commercial and social potential of our network.

**4. Timeline**

- 4.1 An outline of the timetable is given at Annex 5. The structure and approach to the report will be cleared through corporate governance mechanisms in advance of year end with Board sign off in late May and publication from early June.

**5. Publication and promotion**

- 5.1 We plan to produce an annual report in such a way that it reinforces our core communications aim of both surprising and reassuring. We intend to surprise readers about the ways in which the Post Office is changing, but also reassure that the Post Office retains its traditional values around trust and social purpose. We intend to seek to reinforce these points through the style of the annual report. It will be authoritative and comprehensive, in the way one would expect from an organisation of our size and status, but also that it surprises: that we do things slightly differently.
- 5.2 We propose that traditional paper copies of the report are produced alongside an interactive digital version. We will also produce a video version, with interviews from the chairman, chief executive, members of staff, customers and subpostmasters.
- 5.3 To this end we are seeking specialist agency advice and are assessing the way in which other businesses approach their Report and Accounts (by examining examples of last year's publications from a range of other companies)
- 5.4 In the spirit of seeking to develop an innovative approach, the content of our report will include an introduction from the Chairman and an executive summary from the Chief Executive but could also provide space for comments and reflections from members of staff, customers and subpostmasters. Involving a broad range of Post Office people emphasises the 'surprise' element – few companies would take this approach – and showcases our ways of working: engaging, listening and learning.
- 5.5 We also plan to commission new photography for the report and engage an agency to support this project. Work on identifying an appropriate agency is ongoing. The project will be funded from the communications budget.
- 5.6 A full PR and stakeholder plan will be developed around the report, including a launch event which we suggest takes place outside London and with regional elements (with Board members and ExCo involvement). The PR plan will build on the success of the media work around our half-year results.



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**6. Key Risks**

- 6.1 Key stakeholders may choose not to engage in the process, and the media plan may lead to criticism (depending on the status of wider business issues such as network transformation). Given the 'routine' nature of companies producing annual report we will have to fight all the harder to gain media interest.
- 6.2 We also need to ensure we engage all relevant stakeholders in the development of the report, at appropriate levels and with clarity around their expectations.
- 6.3 We will mitigate these risks through effective project planning and a flexible response to the changing external environment. We will have a clear defined early view of what the core Report and Accounts looks like but have scope for adjustment and flexibility in the way we implement the media / stakeholder engagement around its launch.

Chris Day and Mark Davies

February 2013

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Annex 1

High Level Outline of Report and Accounts structure**Chairman's Statement****Performance Highlights****Chief Executive's Review**

- *Personal Comments*
- *Progress as an independent company on plan to 2015*
- *Network Modernisation – Agents and Crowns plus direct / digital channels.*
- *Front Office developments*
- *Financial Services Developments*
- *Telephony and Travel developments*
- *Mails developments*
- *Developments in support infrastructure developments – Cash carrying, IT and administration*
- *Mutualisation / Ways of Working*
- *Looking forward*

**A view from a Subpostmaster****A view from a Crown Counter Colleague****A view from a customer****A view from a small business customer****Financial Review** - Financial numbers with general explanation of movements**Business Review** - covering

- *Strategy* - Government policy / funding position. Progress in this area. Developments / challenges ahead
- *People* - Numbers, diversity, involvement, engagement
- *Community* - Network – CSR – Involvement – Social Value – Engagement with Stakeholders
- *Business Risks*

**Directors and advisers – biographies/pictures****Corporate governance** – covering

- Compliance Statement, making reference to the UK Corporate Governance Code
- Development of Processes
- Roles of Chairman, Chief Executive and Non-Executives and attendance at meetings
- Governance and Committee Structures
- Mutualisation developments
- Risk management /internal control overview

**Directors' Remuneration Report - tbc****Directors' report** - covering

- Principal activity, business review and employee engagement/CSR (cross ref to review section above) and standard Directors' report content (dividend, donations etc)

**Post Office Group consolidated Financial Statements and notes****Post Office company Financial Statements and notes**

Report and Accounts

Mark Davies and Chris Day  
ExCo 12 February 2013

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Annex 2

Draft – Chairman's statement – Post Office Ltd Report and Accounts 2012/13

The Post Office is an integral part of the social and culture fabric of the United Kingdom.

I am delighted therefore to be playing a part in another important chapter in its 350 year history by presenting its first Report and Accounts as an independent company.

This independence is important. Setting out on our own as a commercial business with a social purpose was a landmark step in a journey which we intend will place the Post Office on a sustainable footing. We will be less reliant on the taxpayer, and more focused on customers and their needs in a fast-changing world.

Our vision is of a multi-channel Post Office – embracing the innovation and agility demanded in a digital world while also retaining our place at the heart of communities. The Post Office is changing, and will change more, but our commitment to supporting High Streets across the UK is unwavering.

Over the next few pages, chief executive Paula Vennells will set out the steps we have taken during 2012/13 to set us on this path towards a sustainable future.

The thoughts of subpostmasters and staff from across the business are also included. I thank them for their work to establish the business as an independent company.

It is they who collectively hold the stewardship of this company and it is they who have delivered the significant progress covered in this report.

I would also like to thank our partners, particularly Royal Mail Group and the Bank of Ireland, and also the Department for Business, Innovation and Skills for its support over this period. I would particularly like to thank the three ministers with whom we worked in 2012/13– Edward Davey, Norman Lamb and Jo Swinson – for their guidance and support.

The year saw a number of significant developments, from the further strengthening of the Post Office board to solid progress towards the transformation of hundreds of Post Offices of all shapes and sizes.

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Independence has also led to innovative thinking about our future. This will be reflected in a new strategy which will articulate a vision of the Post Office in 2020. In the creation of a Stakeholder Forum, which has brought together a wide range of organisations to define the public purpose of the Post Office, we have started to consider how our future as a sustainable business might be enhanced by mutualisation.

Meanwhile we are continually challenging ourselves to ensure that as we change we engage our people - customers, staff, subpostmasters - in a way which meets these mutual aspirations: open to challenge, prepared to change, listening and learning.

The financial picture we face as we start our journey is encouraging, albeit against the backdrop of a difficult economic climate and ever more competitive markets. You can read more about this in Chris Day's Financial Review on page xx.

The challenges we face mean that the Post Office must be as ready as at any time in its history to take new approaches. We must be more adaptable and, crucially, ever more focused on the people who matter most to our business: our customers.

The Post Office needs to become the oldest company in the UK with the mentality of a start-up business.

It is in that context that this Report and Accounts should be seen. They report on the first steps of progress into a new future for a new Post Office: a future which blends the trust, integrity and accessibility for which the Post Office is renowned with the contemporary relevance, innovation and professionalism of a financially sound 21<sup>st</sup> century company.

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Annex 3 – Corporate Governance Statement and Directors' Report**Statement on Corporate Governance**

Post Office Limited (the "Post Office") became an independent company on 1 April 2012.

**Corporate Governance Principles**

As the Post Office is not a company whose shares are listed and traded on a public exchange, it is not formally required to report on its compliance with the UK Corporate Governance Code (the "Code"). Nonetheless, the Board of the Post Office believes this is an appropriate benchmark for reporting on corporate governance and the following report therefore follows the model expected of large listed companies.

In its first year of independence, Post Office has established a full Board and Committee structure and has set principles for good governance which follow the provisions of the Code, so far as they can apply to a Government-owned entity which has no private or institutional external shareholders.

**Legal Ownership Structure**

Post Office considers its principal shareholder to be the Shareholder Executive of the Department of Business, Innovation and Skills ("ShEx"). ShEx manages the Government's interest through a legal shareholding in the Company, in the form of one Special Redeemable Preference Share in Post Office Limited, issued on 1 April 2012.

A strong link remains between Royal Mail and Post Office – Post Office has a long term agreement in place to continue to supply Royal Mail products and services through its network. That link is currently reinforced in the corporate structure by a common Group holding company which holds shares in both the Post Office and Royal Mail main operating companies. This will remain in place until there is a change in ownership of Royal Mail.



The Articles of Association of Post Office set out the circumstances in which the Board of the Post Office must seek the Shareholder's consent or notify the Shareholder in advance of proposed changes in the business. Such matters include significant expenditure (over £20 million), entry into borrowings or financial commitments over £50 million, new areas of proposed business and changes to Board membership.

Neither Royal Mail Holdings plc nor ShEx have any day to day involvement in the operations of the Post Office or the management of its branch network and staff.

**The Board**

Alice Perkins was appointed as Chairman of the Board in July 2011, marking the first step on the road to building an independent Board for the Post Office. Neil McCausland joined



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in September 2011 as the Senior Independent Director and, in the year under review, a further four non-executive directors have been appointed, each bringing particular skills and experience relevant to the business targets of growth, modernisation, customer focus and business efficiency.

The Board therefore now comprises two executive Directors and six independent Non-Executive Directors, including the Chairman. This provides a strong level of independent challenge to decision-making and enables the Post Office to call upon a wide range of experience and opinion. Short biographies of all members of the Board appear on page X of this Annual Report.

The roles and responsibilities of the Chairman, the Chief Executive Office ("CEO") and the Senior Independent Director have each been agreed by the Board and [can be found on the Post Office website].

All Directors' appointments and the terms under which they serve, including Non-Executive Directors' fees and any changes in the total remuneration for each Executive Director, require the consent of ShEx as the principal Shareholder.

Paula Vennells, CEO and Chris Day, Chief Financial Officer ("CFO"), have signed employment contracts with the Post Office dated 29 October 2010 and 3 May 2011 respectively.

The Executive Directors' contracts require them to devote their working time to the Post Office. Neither of the Executive Directors is a director of any public company. The contracts provide for 6 months' notice of termination to be given by the director and 12 months' notice to be given by the Company. [The standard form of contract is available for inspection on request from the Company Secretary]. [The Company maintains rights to claw back incentive amounts subsequently found to have been based on incorrect accounting information. Such provisions have never needed to be enforced.]

Non-Executive Directors are not employees of the Company but provide services under the terms of an individual Letter of Appointment, signed at the commencement of their directorship. [The standard form of letter of appointment is available for inspection on request from the Company Secretary.]

All the Non-Executive Directors are entirely independent of the Company, having no other connection or financial interest in the Post Office, other than as customers and taxpayers.

**Non-Executive Directors' Terms of Office**

Director	Date of appointment	Term of office	Unexpired term at 31 March 2013	Committee memberships
Alice Perkins	21 July 2011	Rolling 12 month contract	N/A	Nominations ( <i>Chair</i> ) Remuneration
Neil McAusland	22 September 2011	3 years	1 year 175 days	Remuneration ( <i>Chair</i> ) ARC Nominations
Tim Franklin	19 September 2012	4 years	3 years 172 days	ARC
Virginia Holmes	4 April 2012	3 years	2 years 4 days	Pensions ( <i>Chair</i> ) Nominations Remuneration
Alasdair Marnoch	18 May 2012	3 years	2 years 48 days	ARC ( <i>Chair</i> )
Susannah Storey	18 April 2012	3 years	2 years 18 days	ARC Pensions

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**Board Meetings**

Formal Board meetings were held X times during the year to 31 March 2013. As well as considering strategic plans and approving new project proposals and policies, the Board received a financial and performance update and a report from the CEO (including health and safety) at each meeting.

One additional conference call meeting was held during the year to finalise the extension of the agreement with the Bank of Ireland and the sale of Midasgrange Limited ("Project Eagle"). In addition, special workshops were held to allow greater time for debate and increase the Board's detailed understanding of single issues such as IT and the development of the annual operating budget.

There is a formal Schedule of Matters Reserved for the Board which includes major capital expenditure, entry into significant borrowings, acquisitions or disposals of any material part of business and entry into different geographic areas or business activities. These are the types of matter which could involve significant expenditure or would require Shareholder approval from ShEx. The Board's Terms of Reference, including the Schedule of Matters Reserved for the Board, can be found on the Post Office website.

The Board's primary focus in the year to 31 March 2013 was on setting the strategic direction for the business, in preparation for completion during 2013/4 of the Strategic Plan and Funding Agreement with Government for the period 2015-2020. Three specific strategy sessions were held in June and November 2012 and in January 2013.

The first draft of the Strategic Plan and Funding Agreement was submitted to ShEx for discussion on [31 March 2013]. Approval of a final plan and agreement for future funding for the period 2015-2020, to include business targets such as objectives for the size and shape of the Post Office network and customer satisfaction measures, is expected by [31 October 2013].

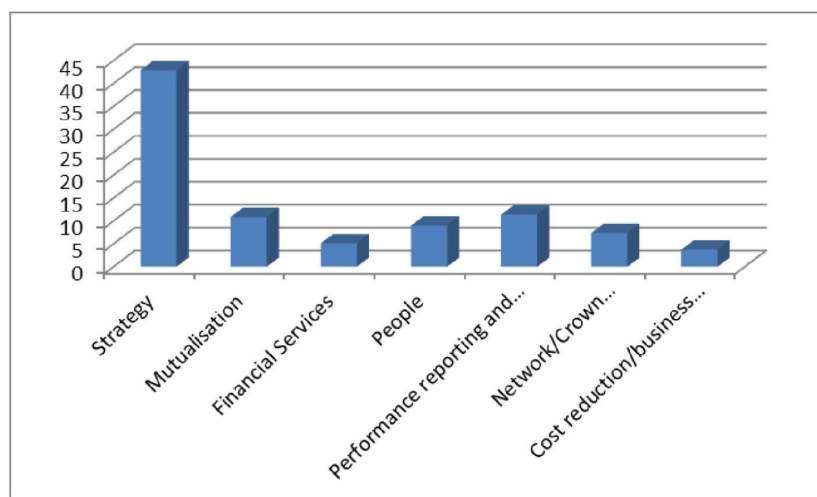


Figure 1: Proportion of Board time spent in 2012-2013

**Attendance at Board and Committee meetings**

Directors are expected to attend all Board meetings, unless prevented from doing so by illness or unavoidable personal circumstances. Apologies for absence are formally recorded in the minutes of the meeting.

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In the year under review, the Board established sub-committees which met regularly during the year to undertake more detailed reviews in specialist areas, as recommended by the Code. Such focus areas included accounting policy and practices, risk and controls, executive remuneration, the processes for evaluation of performance, and the nomination and appointment of new directors or the removal of directors from the Board; and Pensions.

	Board	ARC	Mutualisation Committee	Nominations Committee	Pension Committee	Remuneration Committee
Alice Perkins	12/12	/3 <sup>†</sup>	/4	2/2	-	3/3
Paula Vennells	12/12	-	/4	-	-	2/2 <sup>†</sup>
Chris Day	12/12	/3 <sup>†</sup>	/4	-	7/7	-
Neil McCausland	12/12	/3	/4	2/2	-	3/3
Tim Franklin*	5/5	/2	/3	-	-	-
Virginia Holmes	12/12	-	/4	2/2	7/7	3/3
Alasdair Marnoch*	10/11	3/3	/4	-	-	-
Susannah Storey	12/12	3/3	/4	-	6/6*	-

\*from date of appointment

<sup>†</sup> in attendance, by invitation

### Board Sub-Committees

#### Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee ("ARC") looks, not only at financial performance and policies, including any changes to accounting policies and controls within the business to ensure that the directors can fulfil their statutory responsibilities to produce proper financial accounts each year, but also at the levels of risk which exist within the Post Office and the steps taken to mitigate against risks.

Following its separation from the Royal Mail Group in April 2012, the Post Office has been building its own risk management, internal control and internal audit procedures and this will be an area for further development during the 2013/14 financial year.

In the year under review, the ARC met [3] times, under the leadership of Alasdair Marnoch. Alasdair is a Chartered Accountant and has recent and relevant experience as a Finance Director of customer-facing and service businesses, including recent involvement with MyCSP, the first pensions mutual organisation developed by the Government with and for members of Civil Service Pension schemes.

One of the ARC's primary responsibilities during the period was to review both the half year trading statement and the full year accounts, to assess the validity of assumptions made and the accounting policies used and to consider the ways in which Post Office should present its financial performance as a newly independent entity.

A second major responsibility has been to promote the development of a risk management framework suited to the complex nature of Post Office business. This will take some time and is a key focus area for the coming year. The development of more sophisticated risk management and control procedures and the establishment of a full internal audit programme are areas of high priority now that the Post Office is an independent entity.

Post Office intends to implement a full Enterprise Risk Management system to help in assessing, measuring and mitigating against risk, where this is possible, in each of the main business areas – the Post Office Network, Mails Services, Front Office of Government activities, Telephony and Broadband Delivery and, perhaps most importantly, in the developing area of Financial Services. Post Office has a target to grow its public perception as a reputable and reliable financial services organisation.



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The Board recognises that it is not possible to eliminate risk entirely. A chart showing the principal risks and uncertainties facing the business and the steps taken to mitigate against key risks is included in the Financial Review on page X.

In this period, a new Head of Internal Audit was appointed and the transition from using the Royal Mail internal audit function to building a new internal team has begun. This is one element in the re-examination of internal controls within the business.

The ARC works with both the internal audit team and Ernst & Young, the external auditor. There is no current intention to change the existing audit relationship but the ARC will continue to monitor the independence of the auditor and will, in future years, consider whether the audit should be put out to competitive tender, in line with best practice applying to listed companies.

**Remuneration Committee**

The Remuneration Committee is made up of three Non-Executive Directors and is chaired by Neil McCausland, the Senior Independent Director. The Committee met for the first time in October 2012, remuneration for senior executives having previously been under the control of the Royal Mail Holdings plc Remuneration Committee.

The Committee is responsible for making recommendations to the ShEx on the remuneration of the Executive Directors. In doing so, it also reviews the remuneration policy and packages of the most senior leadership team, being the roles which report directly to the Chief Executive. It also obtains information on salary levels across the business and within external organisations of comparable size in order to set remuneration levels within an appropriate context.

The Chief Executive may attend meetings, at the invitation of the Chairman, to discuss matters relating to the remuneration of the CFO and members of the Executive Committee but the Committee upholds the principle that no individual may be involved in discussions concerning their own remuneration.

The full Terms of Reference of the Remuneration Committee can be found on the Post Office website.

The Committee is able to consult on remuneration matters with the HR & Corporate Services Director, other members of the HR team and with external consultants. In the year under review, advice was primarily obtained from New Bridge Street Consultants on market practice and benchmark development. New Bridge Street Consultants have no other links with the Company which could compromise their independence.

No material changes can be made to Directors' base salaries, benefits or incentives without the consent of ShEx. A priority for the Remuneration Committee in this period was to agree with ShEx performance criteria for short and long term incentive schemes in which the Executive Directors were invited to participate.

Further details of the schemes now in place, and a table setting out the remuneration paid to all Directors in the year to 31 March 2013, are provided in the Directors' Remuneration Report on page X.

**Nominations Committee**

The Nominations Committee is chaired by Alice Perkins, the Chairman of the Company. It met for the first time in December 2012, with director appointments up to that time having been made according to specific criteria, following discussions with ShEx.

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The primary role of this Committee is to recommend to the Board any changes in Board membership and to manage the process for recruiting and replacing directors. The Board has only recently been completed and no immediate changes are expected. The Committee will keep under review the balance of skills, experience and diversity available within the Board and each of the Board Sub-Committees.

The Nominations Committee will also oversee the process for Board and Committee performance evaluation.

Diversity

The Board believes that, at this stage of the Company's development, building talent and diversity within the Post Office community merits special attention. The Board has therefore delegated authority to the Nomination Committee to monitor the development of a talent management programme and to receive regular reports on diversity at all levels of the organisation.

At 31 March 2013 Post Office Limited had 7, XXX employees. Whilst the Board is exactly matched in the numbers of male and female directors and the Executive Committee is similarly well balanced, the proportion of female to male employees at lower levels is uneven and the proportion of employees from different cultures and backgrounds reduces markedly from non-manager level upwards.

A diversity training programme for all layers of management is in place and recruitment efforts recently have focussed on attracting the widest possible range of candidates at all levels. The efforts being made to improve diversity are just one element within the overall aim of building a talented workforce which reflects more accurately the balance of the population in the local communities served by the Post Office network.

Post Office Pay Grade	Men	Women	BME representation
Main Board	50%	50%	0%
Executive Committee	45.5%	54.5%	0%
Senior Leadership Team	72.5%	27.5%	0%
Senior Manager	65.5%	34.5%	3.8%
Middle Manager	56%	44%	10%
Non-Manager	39%	61%	14%
Total Board and Employees	XX%	XX%	XX%

**FIGURES AND STATEMENTS TO BE CHECKED BY HR:**

Post Office does not intend to operate a quota system to ensure a fixed representation of any particular group but will seek balance in making appointments, particularly at senior levels.

Its general policy will be to recruit for talent, using a range of recruitment solutions, including encouraging open applications through its own website, engaging specialist independent recruitment consultants and operating school leaver, graduate and apprentice schemes.

Over Christmas 2012 the Post Office welcomed XXX previously unemployed individuals to work in branches over the busiest period of the year. XXX have since taken up permanent positions in the Company.



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**Pension Committee**

The Pensions Solution, adopted in April 2012, saw a substantial transfer of assets from the Royal Mail Pension Plan ("RMPP") to the Government, in return for the Government assuming the obligations for past service liabilities. The transfer was made possible by European Union State Aid funding.

As part of the solution, the pension fund was sectionalised, with Post Office assuming responsibility for setting the investment strategy for funds relating to Post Office employees and pensioners.

The Board has delegated authority to a specialist Pension Sub-Committee to appoint professional advisers, to enter into negotiations with the Trustees of the RMPP on the valuation of the funds, strategic asset allocation for the Post Office sections and to monitor investment performance. The Committee reports back to the full Board so that its work can dovetail with executive recommendations and union negotiations on pay and benefits.

In August 2012, the Committee recommended to the Board the appointment of AON Hewitt as investment advisers. Working with AON Hewitt and with Towers Watson, the appointed actuary for the RMPP, the Committee has satisfied itself as to the fair value of assets transferred into the Post Office section at 31 December 2012 and has revised the investment principles with the aim of maintaining the long term sustainability of the Scheme and protecting against an unmanageable increase in liabilities for the Post Office in the future.

[Further paragraphs about the implications of Project Robin, if agreed, and the valuation exercise].

**Mutualisation Sub-Committee**

An additional sub-committee, open to all Directors, was established to consider future ownership models for the Post Office, following the Government's publication in July 2012 of responses to the consultation on "Building a Mutual Post Office". The Mutualisation Committee met [4] times in the period.

A summary of the valuable work undertaken to date on perceptions of the Post Office and the steps which would need to be taken to secure a successful future, whether in an existing form of mutual structure or a different organisational model, appears on page X.

The establishment of the Stakeholder Forum to discuss the steps towards potential mutualisation has enabled the views of many different groups to be expressed and the Board is grateful to all those who have contributed ideas and enthusiasm to this important project.

**Independence of the Committees**

As membership of the Mutualisation Committee is open to the full Board, it follows that executive directors attend and participate fully in these meetings, though the Committee retains a majority of independent non-executive directors. The Pensions Sub-Committee is made up of two Non-Executive Directors and the current CFO. All of the other sub-committees are constituted solely of independent Non-Executive Directors.

**Performance Evaluation**

The Board intends to carry out an annual evaluation of the effectiveness of the Board and of the Board sub-committees. In recognition of the fact that appointments to the Board and sub-committees were finally completed only in September 2012, the initial performance

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evaluation will take the form of an informal assessment by the Chairman and Non-Executive Directors of overall effectiveness in the period. Separately, an appraisal of the personal effectiveness of the Chairman will be led by the Senior Independent Director.

The performance of the CEO is assessed half yearly by the Chairman as part of the Group's standard performance appraisal structure; the performance of the CFO is similarly assessed by the Chief Executive. The results of performance appraisals are reported to the Remuneration Committee. The Remuneration Committee is then responsible for assessing whether performance criteria for awards under the Company's variable incentive schemes have been met and for recommending payments to be made, with the approval of the Board and ShEx.

**The Executive Committee**

Below main Board level, the Executive Committee is the most senior management body and is made up of the CEO and each of her direct reports, supported by the business unit heads who report to members of the Executive Committee.

The Executive Committee ("ExCo") implements the strategy agreed by the Board and monitors business performance and development at a day-to-day level. It meets formally at least once a month to discuss proposals for new business development, receive financial and other performance reports, review the results of personal performance assessments undertaken throughout the organisation and address urgent issues which have arisen within the business requiring senior level resolution.

Under the delegated authorities established by the Board, individual ExCo members are responsible for the decisions taken in their own area up to a set limit [value of £Xm for budgeted expenditure and up to £Xm for unbudgeted expenditure]. Above this level there is a process for escalation of business proposals for approval, through ExCo as a body and the Post Office Board and, ultimately, to ShEx, if so required by the Company's Articles of Association.

The CEO, CFO and the Company Secretary attend both Board and ExCo meetings which facilitates and strengthens the communication channels between the senior leadership team and the Board and its Committees.

[The Terms of Reference of the Executive Committee have been set out in writing and are available to download from the Post Office website.]

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**Directors' Report**

The Directors present the financial statements for Post Office Limited (the Company). These financial statements relate to the 52 weeks ended 31 March 2013 (2011 25 March 2012).

**Principal activities**

The Company's principal activities are the provision of access to a wide range of Government, financial, travel and retail services through its network of Post Office branches and other channels across the United Kingdom (UK).

**Review of the business and expected future developments**

Information contained within the Chief Executive's Review and the Financial Review on pages X to X constitutes the business review required by the Companies Act 2006 and is incorporated into this directors' report by reference.

**Results and dividends**

The profit after taxation for the year was **XX million** (2012 £37 million). The Directors do not recommend the payment of a dividend (2012 £nil dividend).

**Pensions**

[Wording to be agreed.]

**Political and charitable contributions**

During the year, the Company made charitable contributions amounting to **£XXX,XXX** (2012 £320,108). No political contributions were made in the year (2012 £nil).

**Research and development**

Research and development expenditure during the year amounted to **£nil** (2011 £nil).

**Policy on the payment of suppliers**

The Company's policy is to use its purchasing power fairly. Payment terms are agreed in advance for all major contracts. For lower value transactions, the standard payment terms printed on the purchase order apply. It is Company policy to abide by the agreed terms. The Company has sought to comply with the Department for Business, Innovation and Skills (BIS) Better Practice Code. The number of days' purchases in creditors at the balance sheet date was **XX days** (2012 33 days).

**Land and buildings**

The net book value of the Company's land and buildings, based upon a historic cost accounting policy and excluding fit-out, is **£XX million** (2012 £11 million). In the opinion of the Directors, the aggregate market value of the Company's land and buildings at the year end exceeded their net book value by at least £XX million (2012 £45 million).

**Directors and their interests**

The following served as Directors of the Company during the year ended 31 March 2013 and remain in post as at the date of approval of these financial statements.

A Perkins CB

C M Day\*

T A Franklin (Appointed 19 September 2012)

V A Holmes (Appointed 4 April 2012)

A Marnoch (Appointed 23 May 2012)

N W McCausland

S J Storey (Appointed 18 April 2012)

P A Vennells\*

*\*executive directors*

No Director has a beneficial interest in the share capital of the Company. All the Non-Executive Directors are considered to be independent, having no financial connection with the Company other than by virtue of the fees paid for their services as a director. The emoluments of directors are set out in the Directors' Remuneration Report which appears on pages X to X.

Report and Accounts

Mark Davies and Chris Day  
ExCo 12 February 2013

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**Insurance and qualifying third party indemnity provisions for Directors**

Post Office Limited maintains directors' and officers' liability insurance for the benefit of all directors and officers of the Company.

A partial qualifying third party indemnity provision (as defined in section 234 of the Companies Act 2006) was and remains in force for the benefit of all the Directors of Post Office Limited and former Directors who held office during the year. The indemnity is granted under article 129 of Articles of Association of Royal Mail Holdings plc, the ultimate parent company. The indemnity is partial in that it does not allow the Company to cover the costs of an unsuccessful defence of a third party claim.

**The new regulations for listed companies from 2013 will require the strategic report to include consideration of human rights issues, as well as social and community issues. It will also require a gender split for directors, managers and employees (table to be considered for inclusion in this year's Corporate Governance Report under the heading of Diversity).**

**People**

Our goal is to ensure that all employees are engaged and involved in the business and are aligned and equipped to meet business objectives. As part of our commitment to drive better service for customers we continue to focus on improving the quality of our leadership, professionalising key roles and achieving greater employee involvement in decision making. Extensive training and development programmes have been put in place to support our ambition to create a high performance customer-oriented sales culture. This ambition is further supported by a range of bonus schemes which are based on the achievement of business targets.

Underpinning all of this is a need for dignity at work, where everybody feels valued, is treated fairly and equally with everyone playing a full part in helping the Company to achieve its goals.

Regular employee opinion surveys are conducted to allow employees an opportunity to express their views and opinions on important issues. This two-way communication encourages all employees to contribute towards making business improvements.

**Corporate Responsibility**

Post Office Limited is committed to carrying out its activities in a socially responsible manner in respect of the environment, employees, customers and local communities. [Further information will be provided in the Business Review].

**Disabled employees**

The Company's policy is to give full consideration to applications for employment from disabled persons. Employees who become disabled whilst employed receive full support through the provision of training and special equipment to facilitate continued employment where practicable. The Company provides training, career development and promotion to disabled employees wherever appropriate.

**Post balance sheet events**

**To be confirmed post year end.**

**Going Concern**

After analysis of the financial resources available and cash flow projections for the Company, the Directors have concluded that it is appropriate that the financial statements have been prepared on a going concern basis. Further details are provided in accordance with the fundamental accounting concept in note 1 to the financial statements.

**Audit information**

The Directors confirm that, so far as they are aware, there is no relevant audit information of which the auditor is unaware and that each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

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**Auditor**

The auditor, Ernst & Young LLP, is deemed to be reappointed under section 487(2) of the Companies Act 2006.

By Order of the Board

Alwen Lyons  
Secretary  
Post Office Limited (company number 2154540)  
148 Old Street, London EC1V 9HQ

XX June 2013



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Annex 4 – Draft outline of potential Finance Report content**Financial review**

**NOTE:** This statement includes indicative content although much is still to confirm as shown by 'xxx' and square bracketed comments. All 2012-13 outturn references are currently populated with Quarter 3 forecast data and all statements, roundings etc are to be checked and validated once year end outturns are known. We also need to consider referencing to 53 weeks in 2012-13.

**Chris Day**  
Chief Finance Officer

[Insert picture]

**Summary results**

The Post Office has delivered a sound performance in its first year as an independent company. Turnover has increased in three of the four core product pillars. This has enabled investment to build the brand and drive future growth and allowed improvements in the supporting infrastructure to the network, however, the scale of transformational change ahead remains significant and wider economic conditions continue to be challenging.

Operating profit before exceptional items was £95 million (2012 £61 million). Cashflow was xxxxxxxxxxxxxxxx (2012 £xm).

**Profit and Loss Summary**

	2012-13 £m	2011-12 £m	Variance
Turnover	1,020	980	40
Network Subsidy Payment	210	180	30
<b>Revenue</b>	<b>1,230</b>	<b>1,160</b>	<b>70</b>
People Costs	(261)	(251)	(9)
Agents' Costs	(481)	(483)	2
Other Operating Costs	(425)	(395)	(30)
Share of profit from joint ventures and associates	31	31	0
<b>Operating profit before exceptional items</b>	<b>95</b>	<b>61</b>	<b>33</b>

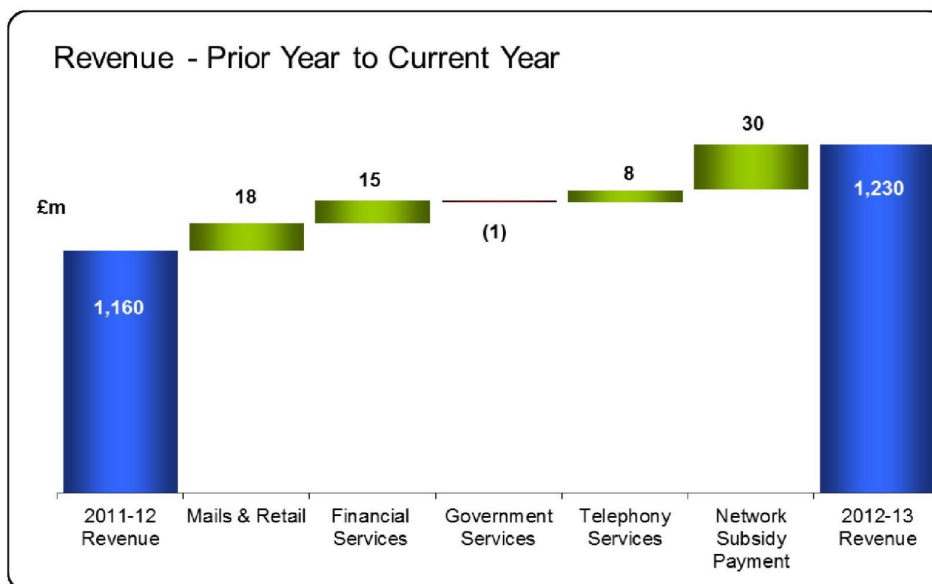
**Revenue**

Post Office Revenue has increased by £70 million to £1,230 million, including an increase in the Network Subsidy Payment from Government of £30 million. The Post Office segments income into four pillars; Mails & Retail, Financial Services, Government Services and Telephony Services.

	2012-13 £m	2011-12 £m	Variance
Mails & Retail	410	392	18
Financial Services	280	264	15
Government Services	162	164	(1)
Telephony Services	129	120	8
Other	40	39	0
<b>Turnover</b>	<b>1,020</b>	<b>980</b>	<b>40</b>
Network Subsidy Payment	210	180	30
<b>Revenue</b>	<b>1,230</b>	<b>1,160</b>	<b>70</b>

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The table below shows the year on year movements of the £70 million increase:



#### Mails & Retail

Mails and Retail revenue of £410 million (2012: £392 million) has increased by £18 million.

Royal Mail products' turnover has increased by £11 million driven primarily by the tariff rises introduced by Royal Mail in April 2012. [more to add at year end on the volumes growth areas.] Retail turnover has increased by £2 million due to the collectibles relating to the Jubilee and the Olympics memorabilia, as well as the introduction of new products [to confirm details for year end]. Income from sales of lottery tickets has risen by £3 million as the high number of rollover draws drove sales volumes up.

#### Financial Services

Financial Services revenue of £280 million (2012: £265 million) has increased by £15 million.

Personal Finance Services income rose by £22 million driven by the implementation of a new contract with the Bank of Ireland, which has increased commissions received. Savings products have performed well – particularly x, y and z – along with the introduction of a new mortgage product. The value of savings held in Post Office branded accounts has increased by £x million during the year to £y million. There has been decline in the traditional financial services products, most notably a £3.3 million decline in income from NS&I as NS&I has sought to encourage customers to use its online channel.

#### Government Services

Government Services revenue of £162 million (2012: £164 million) has decreased by £2 million. There has been [continued?] growth in income from the passport check and send service which is £2 million higher. [Rate vs volume impact to be confirmed at year end]. However, the anticipated growth in income from identity related services has been disappointing. Revenue from the Post Office Card Account is £5 million lower as customer numbers continue to reduce. [volume and LIBOR variances vs PY to be checked].

#### Telephony Services

Telephony Services revenue of £129 million (2012: £121 million) has increased by £8 million. Income from the Post Office Homephone and Broadband product rose by £10 million primarily due to higher customer numbers following xxxxxx [the introduction of more service packages offering options for

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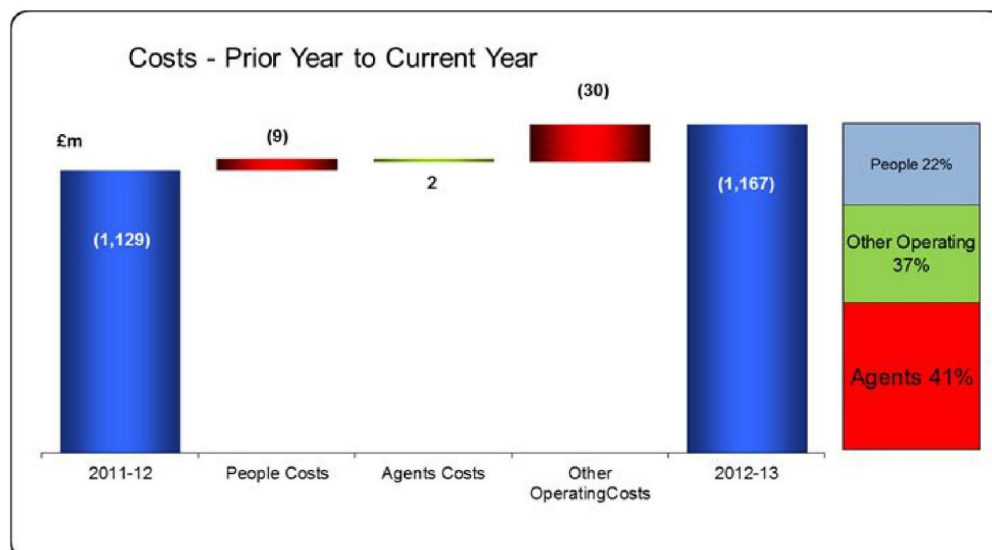
inclusive calls with effect from April 2012]. [Statement to be validated]. Income from e top ups was £2 million below prior year as more customers migrate away from pre-pay.

**Network Subsidy Payment**

The Network Subsidy Payment has increased by £30 million this year to its peak of £210 million before it begins to reduce with effect from 2013-14 reflecting reduced requirement following progress made with the Network Transformation programme. [to confirm wording]

**Costs**

Post Office costs have risen by £37 million to £1,167 million (2012: £1,129 million).

**Staff costs**

Staff costs of £261 million (2012: £251 million) have increased by £9 million primarily due to the impact of separation from Royal Mail Group, which is largely offset by savings in intercompany charges from Royal Mail Group Ltd, and some pay rises.

**Agents' costs**

Agents' costs represent almost half of the cost base and have reduced by £2 million to £481 million (2012: £483 million). Adjusting for a one-off payment made to Agents last year of [£4] million the underlying year on year movement would be £xxm. [Need to explain further depending on outcome.]

**Other Operating Costs**

Other operating costs have increased by £30 million to £425 million (2012: £395 million), driven by additional investment to drive future revenue growth and build the brand, as well as establishing the framework for longer term efficiencies and improving the supporting infrastructure across the Network.

**Share of Joint Venture and Associate profits**

Share of Operating Profit from the joint ventures (First Rate Exchange Services Limited) and associate (Midasgrange Ltd until its sale on [1] September 2012) was £31 million (2012: £31 million).

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## Exceptional Items

	2013	2012
Exceptional items	£m	£m
Operating exceptional items:		
Transformation costs	(80)	(2)
Impairment of property, plant and equipment	(79)	(36)
Utilisation of Government grant	118	
Non-operating exceptional items:		
Asset disposal	2	1
Business disposals	(30)	
<b>Net exceptional items</b>	<b>(69)</b>	<b>(37)</b>

Transformation costs include the costs of delivery of major change: Network Transformation introduces new style agency offices and seeks to improve fundamentally the profitability of the Crown network. IT Transformation creates the IT infrastructure appropriate for an independent business with ambitious growth plans.

Network Transformation resulted in costs of £33m for agents' compensation and £26m programme costs. £11 million of redundancy costs mainly related to the Crown network, costs of £10 million related to transforming our IT infrastructure and there was £1 million for other exceptional costs.

The non Network Subsidy [check if there is better terminology for this] Government grant funding is included within operating exceptional items to match the associated costs. Government grant funding received of £118 million has been utilised against £66 million capital expenditure, £33 million Network Transformation related agents' compensation and £20 million Network Transformation programme costs.

Property disposals during the year mainly comprise the sale of freehold of Woking Crown office. The loss on disposal of Post Office Limited's interest in our associate investment in Midasgrange Ltd was £30 million.

## Free cash flow

Operating profit of £95 million (2012 £61 million) is higher by £33 million.

Capital expenditure of £68 million (2012 £32 million) is higher on account of investment in Network Transformation, Supply Chain and IT infrastructure.

Redundancy and exceptional items comprise a cash inflow of £47 million (2012: outflow £17 million) mainly resulting from the receipt of Government grant funding of which £118 million (2012- £nil) has been spent in the year. The grant has been used towards capital expenditure above, Network Transformation costs £46 million (2012 £XX million), redundancy £11 million (2012 £12 million) and IT infrastructure £10 million (2012 £xx million). There were other exceptional items of £4 million (2012 £5 million).

Net debt has decreased by £xx million year on year as shown in the table below

	2013
	£m
Net debt brought forward 25th March 2012	
Free cash flow (see pageXX)	
Interest earned on pension escrow investments (included within the free cash flow above)	
Increase in loans and borrowings - accrued non cash interest on shareholder loan	
Foreign currency exchange impact on cash and cash equivalents	
<b>Total net debt</b>	



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**Pensions**

On 1 April 2012 – after the granting of State Aid by the European Commission on 21 March 2012 – almost all of the pension liabilities and pension assets of the Royal Mail Pension Plan (RMPP), built up until 31 March 2012, were transferred to HM Government. On this date, the RMPP was also sectionalised, with Royal Mail Group Ltd and Post Office Limited each responsible for their own sections in future. This arrangement left the RMPP fully funded on an actuarial basis in respect of historic liabilities at this date.

**Pension Plans**

Post Office Limited is a participating employer within the Post Office Section of the Royal Mail Pension Plan (RMPP) and is a participating employer within the Royal Mail Defined Contribution Plan (RMDCP). Royal Mail Group Ltd is the principal employer of the Royal Mail Senior Executives' Pension Plan (RMSEPP) and Post Office Limited is a participating employer within RMSEPP. RMPP and RMSEPP are both defined benefit plans on a career average basis.

The balance sheet pension position has changed from a deficit of £206 million at March 2012, to an asset of £xx million at March 2013. The improvement in position is primarily due to the transfer of almost all of the pension liabilities and pension assets of the Royal Mail Pension Plan (RMPP), built up until 31 March 2012, to HM Government on 1 April 2012. Since 1 April 2012 xxxxxxxxxxxxxx.

Both defined benefit plans are now closed to new members. RMSEPP closed on 31 December 2012 and has no active members. New employees are offered membership of the defined contribution plan, RMDCP.

	2013	2012
	£m	£m
Operating pension costs	(26)	(24)
Exceptional pension costs (relating to redundancy)	(XX)	(XX)
Net pension interest credit/(charge)	3	2
<b>Pension charges</b>	<b>(XX)</b>	<b>(XX)</b>

The £2 million increase in operating pension costs is caused principally by changes in market conditions, resulting in a pension charge for RMPP equating to 17.8 per cent of pensionable pay, compared to 17.1 per cent last year. The percentage applied to the pensionable payroll is determined at the beginning of the financial year and is intended to represent the amount by which liabilities will increase due to employing active members for one more year.

The net pension interest credit reflects the unwinding of the discount on the plans' liabilities, less the long-term expected rate of return on the plans' assets.

**Pension cash payments for all Plans**

Following the transfer of almost all of the pension liabilities and pension assets of the RMPP to HM Government explained above, the future funding of ongoing pension contributions into RMPP and deficit payments into RMSEPP is being discussed with the respective pension trustees. The payments for 2012-13 disclosed in the table below were based on the arrangements that were in place for the 2011-12 financial year.

	2013	2012
	£m	£m
Regular pension contributions	(XX)	(24)
Funding of the pension deficit - RMSEPP	(XX)	(1)
Payments relating to redundancy	(XX)	(XX)
<b>Net cash payments</b>	<b>(XX)</b>	<b>(XX)</b>

Regular pension contributions have increased/decreased due to xxxxxxxxxxxx. The regular future service contributions cash rate for RMPP expressed as a percentage of pensionable pay remained at 17.1 per cent (2012 17.1 per cent). The regular rate of employee contributions for the RMPP remains unchanged at six per cent.



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Pension deficit recovery payments by Post Office Limited have xxxxxxxxxx. The £1 million (2012 £1 million) deficit payment relates to RMSEPP. There was no RMPP deficit payment in either year as a result of State Aid clearance granted on 21 March 2012 and the subsequent transfer of almost all of the pension liabilities and pension assets of the RMPP to HM Government on 1 April 2012.

**Treasury management overview**

Following the transfer of Post Office Limited from the ownership of Royal Mail Group Ltd to Royal Mail Holdings plc on 1 April 2012, Post Office Limited has operated an independent Treasury function and manages its own financial assets (including network cash) and financial liabilities (mainly Government loans).

The treasury function derives its authority from the Board and provides regular reports for Board review. It has the authority to undertake financial transactions relating to the management of the underlying business risks however it does not engage in speculative transactions and does not operate as a profit centre. The principal financial instruments utilised are deposits and borrowings.

**Facilities**

The terms of the Government borrowing facilities and the associated Framework Agreement impose constraints on the purposes for which they can be used and the availability of external borrowing. Post Office Limited's treasury policy is to minimise the amount drawn down on the loan in order to reduce the interest charge. The facility is limited to a maximum of £1.15bn or the amount of security available (mainly network cash) whichever is the lower. The facility is available at 2 days' notice.

At 31 March 2013 the company was financed as follows:

<b>Borrower: Post Office Limited</b>					Average
<b>Purpose</b>	Interest rate*	Facility	Facility	Utilised	Loan
	%	end date	£m	£m	maturity
					date
Network Cash	[0.8]	2016	1,150	118	2013

\* Average interest rate of loan drawn down

**Financial risks and related hedging**

[The company is exposed to currency and commodity price risk. The company operates hedging policies via Royal Mail Group Ltd.tbc]

**Events after the reporting period**

xxxxxxxxxxxxxxxxxxxxxx

**Chris Day**

Chief Financial Officer  
Post Office Limited  
XX June 2013

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Annex 5 - Timetable showing key dates and meetings

Date	Activity
13 February	<b>ARC meeting</b> – review of Corporate Governance disclosures
Mid February	Provide template for year end financial statements to EY for technical review prior to issuing to the Audit Committee
27 February	<b>Post Office Board Meeting</b> – review of key messages for year end (November Board action point)
24 February	Period 11 month end hard close
4 March	<b>Pension Committee meeting</b> – initial review of potential year end accounting assumptions for pension
March	EY perform audit procedures on Period 11 results
13 March	<b>ARC meeting</b> – review of template for year end financial statements
Late March	EY period 11 closing meeting
31 March	<b>Year end</b>
4 April	<b>Pension Committee</b> – phone call or by correspondence to agree pension assumptions for recommendation to the Board
April	EY field work
Late April	EY year end closing meeting
20 May	<i>For information - RMG Board meeting to approve financial statements</i>
21 May	<b>Audit Committee, followed by Board Meeting (as last year, subject to confirmation with the Company Chairman and ARC Chairman)</b> – to approve the financial statements and delegate authority (i) to the Audit Committee to undertake any further detailed review, as needed; and (ii) to a sub-committee of the Board to give final approval for publication
5 June	<b>Audit Committee (subject to confirmation)</b> - to review the final form Report & Financial Statements and recommend final approval
Early June	<b>Board Sub-Committee (subject to confirmation but usually constituted of the Chief Executive and CFO)</b> – to give final approval for publication
From early June	Announce results (subject to alignment and discussion with Royal Mail)

**Strictly Confidential****POST OFFICE LTD****AUDIT, RISK AND COMPLIANCE COMMITTEE****Key management personnel accounting disclosure requirements under IFRS****1. Purpose and background**

- 1.1 The Post Office has decided to report under IFRS and include the accounting disclosures expected of a FTSE listed plc where applicable.
- 1.2 IAS 24 'Related Party Transactions' has the stated objective of ensuring that financial statements contain the disclosures necessary to draw attention to the possibility that the financial position of the entity may have been affected by the existence of related parties and transactions with them. These related party transactions are required to be disclosed in a note to the financial statements.
- 1.3 A person is a related party if:
- they have control or joint control of the entity
  - they have significant influence over the entity or
  - they are a member of the key management personnel (KMP) of the reporting entity or of a parent of the reporting entity.
- 1.4 The purpose of this paper is to define the KMP for the Post Office and to ask the Audit, Risk and Compliance Committee to note that this is the definition that will be applied for the 2012-13 financial statements.

**2. Interpretation of IAS 24**

- 2.1 IAS 24 defines KMP as *'those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.'*
- 2.2 Interpretation of the standard suggests that the definition is intended to include supervisory boards and anyone who has responsibility for management of a significant part of the business, although they may not hold the title of director. If these persons are carrying out duties normally carried out by directors they are likely to be considered to be KMP.
- 2.3 Membership of a 'management committee', which takes decisions which are delegated to it by the Board, is put forward as an example which falls within the definition of KMP. On this basis it is likely that the members of the Executive Committee (ExCo) will be considered to be KMP as ExCo has authority for planning, dictating and controlling the entity's activities under delegated authority from the Board.

**3. Disclosure requirements**

- 3.1 The accounting standard requires disclosure of KMP compensation in aggregate and for each of the five following categories:
- **Short term employee benefits:** Wages, salaries, social security contributions, holiday pay, profit share, bonuses payable within 12 months of the year end, medical

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care, car allowance. We expect that the 10/11 LTIP due to be paid in June 2013 would be disclosed here.

- **Post-employment benefits:** Pensions, life insurance, medical care. For defined contribution schemes the disclosure should be the aggregate contributions payable into the schemes for the KMP. Where defined benefit schemes are not operated solely for the benefit of the KMP it is difficult to calculate the total recognised cost in respect of the KMP. An acceptable alternative is to disclose the current service cost attributable to the KMP.
- **Other long-term benefits:** Long-service or sabbatical leave, any deferred compensation not payable within 12 months of the year end. We need to investigate if the 11/12 or 12/13 LTIP (if approved) is required to be disclosed here.
- **Termination benefits:** Compensation for loss of office, ex-gratia, redundancy.
- **Share-based payment:** Share options and other grants of shares.

3.2 In addition to the above the general disclosure requirements of IAS 24 which apply to the wider definition of a related party would apply to KMP. Therefore any transactions, or balances held with KMP would also need to be disclosed. This would include any of the following transactions if not captured by the specific disclosure requirements noted above:

- Purchases/sales of goods
- Rendering/receiving of services
- Leases
- Provisions of finance (loans)
- Guarantees

3.3 It is likely that the members of the Executive Committee (ExCo) will be considered to be KMP as ExCo has authority for planning, dictating and controlling the entity's activities under authority from the Board. Therefore there may be a requirement for the members of the ExCo, as well as the Board, to sign a certification to confirm the pay they have received during the year and that they have had no transactions of the above nature with Post Office Limited as a company.

#### **4. Conclusion**

4.1 It is our view that, in the case of POL, the KMP would constitute the Board of Directors and the members of ExCo and that the above disclosures would need to be made for the POL financial statements for the year ended 31 March 2013.

#### **5. Recommendation**

5.1 The Audit, Risk and Compliance Committee is asked to:

Note that the Post Office Key Management Personnel under IAS 24 is defined to include the members of the Post Office Board and the members of the Post Office Executive Committee.

**Chris Day**  
**February 2013**

Key management personnel  
disclosure requirements under IFRS

Chris Day  
February 2013

Page 2 of 2



**Confidential****POST OFFICE LTD AUDIT, RISK AND COMPLIANCE COMMITTEE****Internal Audit – Activity Report****1. Purpose**

The purpose of this paper is to:

- 1.1 Inform the committee of the recent activities of the two internal audit functions.
- 1.2 Summarise the results of the Royal Mail audits for 2012/13 to date as requested at the November 13<sup>th</sup> 2012 committee.
- 1.3 Summarise the status of recommendations.
- 1.4 Outline remaining audits for 2012/13.
- 1.5 The Committee is requested to note the activity and provide comment.

**2. POLIA activity November 2012 to February 2013**

- 2.1 Appendix 1 summarises the activity of POLIA including coordination with Royal Mail Internal audit team and status of their recommendations made during 2012 audits.
- 2.2 POLIA activity has been focused mainly on RMIA coordination, team set up and recruitment, advisory work on the Risk Management strategy including a full risk workshop with the Finance senior team, and support to the Information Security Finance Roadmap and Data Protection projects.
- 2.3 It is intended to highlight significant implementations by management in POLIA activity summaries where appropriate going forward.

**3. Royal Mail Internal Audit Activity in Post Office.**

- 3.1 Appendices 2, 3 and 4 are provided by RMIA and summarises the results of the Royal Mail Audits, recommendations status and audit plan for remainder of FY 2012/3
- 3.2 The completed and reported assignments are
  - Business Risk Assurance (Reported July)– This examined the overall assurance framework in place at Post Office shortly after its separation from Royal Mail.
  - Information Security Management (reported August)
  - Operation of the POLSAP environment (Used for Supply Chain and Finance) – reported November.
  - Supplier Contract Management (reported November)
  - Horizon system – examination of items arising from the external audit management letter. (reported January)
  - Network Transformation – Financial Controls (Reported January)
- 3.3 Appendix 2 details the top findings from each of these audits and the status reported by management to Royal Mail Internal Audit as at January 2013. The top issues and themes from each are summarised below. Full copies of the reports are available to the committee upon request.

**Confidential**Top priority issues and themes.

Whilst the audits cover different areas with differing issues, the recurring themes are governance, coordination and oversight.

- The business risk assurance environment will benefit by more centralised oversight and coordination. Improved visibility to the Risk and Compliance Committee and ultimately the Audit Committee is required. It was comparatively segmented at the time of the review but the Risk and Compliance team have since commenced work to update the business controls framework, and monitoring of processes. The terms of reference of the Risk and Compliance Committee and its linkage to the Audit and Risk Committee has been revised and strengthened.
  - NB. The establishment of the Internal Audit function in Post Office since the audit will assist in improved coordination and oversight.
- The Information Security Framework was found to be fragmented across POL and third parties, with insufficient POL resource which did not have enough oversight over the security activities of third parties. The audit did recognise some improvements since the previous review. Action is being taken to embed better information security needs in supplier contractual requirements, within new products and services and to develop security training and awareness.
  - NB this audit was conducted and reported prior to the recent information security review undertaken by IT.
- The Post Office Finance and Supply Chain systems are operated on POLSAP. This review assessed the general computing control environment and also followed up on progressed raised by the 2011/12 external audit on IT security related issues.
- The review noted improvements were needed in a number of areas but none of these individually of high risk. Progress is needed to resolve interface issues between the Post and Go system and POLSAP. Control over leavers whose IDs still had access to the system and clarity of ownership of the end to end change management process needed addressing. The review also noted that some progress had been made in resolving the SAP Security issues from the external audit. Management have undertaken further work since that review and a short follow up of POLSAP in February 2013 should reconfirm actions taken.
- Governance and formalisation was also a theme in Supplier Contract Management which was reported at the November 13<sup>th</sup> Audit Risk and Compliance Committee. The review noted that further work was needed in the overall application of standard policies and procedures and maintenance of documentation. There were differences in the way contracts were managed and more formalisation needed in areas such as documentation, legal review and recording of key decisions such as authorisations. Management had work underway at the time of the review.
- A review on specific IT areas of the Horizon system followed up on findings from the external audit Management Letter on security

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weaknesses noted in the 2011/12 external audit. These focused around the use of shared generic user accounts which had privileged access and security policies. Actions on these and those arising from the POLSAP have been addressed by IT and reported through to the Risk and Compliance Committee.

- Strengthening of the financial framework for the assessment and selection of branches for the Network Transformation conversion programme was needed and is being implemented. There were errors in the sample of spreadsheet tools used and the audit highlighted that the batching approach used was potentially allowing some branches to pass the tests when on an individual basis they would have been marginal or subject to further assessment. Review and approval mechanisms are in place and it is essential to maintain these and the improved assessment methods given the high pace of branch conversion required.

3.4 The remaining Royal Mail internal audit activity for 2012/3 includes:

- Assurance support for the E&Y payroll controls
- Master Data change process review (Request from IT)
- Support to the Bank of England Notes Circulation Scheme – process narrative. (This has been completed historically each year)
- Link Scheme – Annual attestation of compliance requirement. (May commence post March 2013)
- POLSAP security controls – final follow up and check.

Appendix 4 provides a summary

3.5 The recommendations status is summarised in appendix 3. Forty four actions have been raised by Royal Mail Internal Audit for 2012 of which as at January 2013, 18 (41%), have been reported as completed. A significant tranche are due for completion by management through February and March. Details on the status of each action point are available but have not been included in the papers due to size.

**4. Requested Action**

4.1 The Audit, Risk and Compliance Committee is asked to

- Note the activities and status and provide comment or direction to the Internal audit teams.

**Malcolm Zack**  
**13<sup>th</sup> February 2013**



## Appendix 1 - POLIA Internal Audit Activity Summary

### Summary

Royal Mail IA work on Financial Controls in Branch investments completed, LINK work delayed because a new standard issued and Fujitsu need to implement this first.. Business Controls framework audit planned for February start. POL SAP follow up underway.

POLIA recruitment underway. One individual appointed to start March 4<sup>th</sup> Standard documentation designed, audit plan drafted, advisory work underway in several business areas. POLIA team expected to be in situ through May 2013. POLIA supporting Information Security Programme through Working and Steering Committee and Data Protection Programme. Risk Strategy for 2013/14 proposed for Executive Committee

### Highlighted Implementations – last 3 months

Key security and operational controls in the POLSAP computer environment

Ownership for end to end POLSAP change management process assigned

Key IT supplier contracts reviewed by procurement with legal support

Contractual information security requirements embedded into Transformation programme

Activity	Resp	Type	Status
Financial Controls in NT Programme	Royal M	Audit	Completed
Horizon - IT controls	Royal M	Audit	Completed
LINK - attestation	Royal M	Audit	Planning
POL SAP Follow up	Royal M	Audit	Clearance
Change controls over master data	Royal M	Audit	Planning
Information Security Project - Buffalo	MZ	Advisory	Fieldwork
Data Protection Project - review of methods/output	MZ	Advisory	WIP
E&Y liasion and status	MZ	External Audit	WIP
Assurance Mapping/3 lines of defence	MZ	Advisory	WIP
Team set up and recruitment	MZ	Set up	Planning
2013:4 Objectives and plans	MZ	Set up	Planning
Risk Management Framework/Strategy	MZ	Risk Mgt	WIP
Finance Risk Assessment and Mapping	MZ	Risk Mgt	Completed
Treasury Risk Framework	MZ	Advisory	Completed
Induction, branch and cash centre visits	MZ	Set up	Ongoing
Bank of Ireland Liaison	MZ	Set up	WIP
Finance Systems - Project	MZ	Advisory	WIP
IA benchmarking - other Post Office IA depts	MZ	Set up	WIP

### Recommendations status – Royal Mail – Jan 25 2013

Total raised in current year – 44

# reported as completed by management – 18

# reported as in progress/on track – 26

8 actions in progress due to be completed by end of January, 2 in February. The next major tranche of actions will be due by end of March.

None reported as significantly overdue. See appendix 3 from Royal Mail Internal Audit

### Recommendations Status – POLIA raised actions

Reporting will commence in FY 2013/14.



## APPENDIX 2 Royal Mail IA Assignments Findings Summary 2012/13

### COMPLETED ASSIGNMENTS

#### Commentary:

#### Key Business Risk Assurance

##### Findings –

**Developing an assurance framework:** POL need to do more work to identify the assurance required by the business against that which is currently undertaken. Analysis by POL in 2012 highlighted some key gaps, but further work is needed to ensure assurance requirements are identified and met.

**Implementing an integrated assurance model:** Central management of compliance and assurance across the business has become outdated and requires more formalisation to ensure clear ownership and oversight. An updated integrated controls assurance framework is now under development.

**Monitoring of business critical processes:** The critical business process schedule has not been maintained nor have the processes been recently assessed. Compliance recognised this in April 2012 and have drafted a proposal to establish a suitable internal controls framework.

**Reporting to the Risk and Compliance Committee (R&CC):** There was overly detailed reporting of the findings and results of assurance activity to the R&CC making it difficult to identify significant issues. This is being addressed by the re-focus of the R&CC on key risks and issues arising from assurance activity.

**Consistency of supplier compliance assurance:** Although a number of key contracts require suppliers to provide POL management with evidence that they are meeting their contractual obligations, and allow POL to audit this information, this is not standard across all suppliers.

##### What is being done –

**Developing an assurance framework:** The key assurance requirements are to be confirmed, and any gaps in the provision of compliance and assurance activity will be identified.

**Implementing an integrated assurance model:** An internal controls and assurance framework is to be developed and deployed, with executive level ownership, which covers entity level controls to ensure against key business risks and obligations.

**Monitoring of business critical processes:** Critical business processes will be identified and the executive level ownership of these processes will be confirmed and agreed. Self assessment and independent validation of these processes and the associated key controls will be defined and implemented.

**Reporting to the Risk and Compliance Committee (R&CC):** The revised R&CC terms of reference has been agreed. There is now monitoring of management reporting to ensure there is sufficient focus on key risk and compliance issues for management review and direction of mitigating actions.

**Consistency of supplier compliance assurance:** Standard contract terms and conditions are being developed to allow POL to maintain appropriately transparent arrangements and monitoring of performance with all key suppliers.

## APPENDIX 2 Royal Mail IA Assignments Findings Summary 2012/13

### Information Security

#### **Findings –**

The control environment is somewhat fragmented with control over Information Security activities spread across third party providers and within teams in both RMG and POL. The POL Information Security team have made a number of improvements to the control environment over the past two years, including to Payment Card Industry (PCI) requirements and risk management, and POL has a direct relationship with Fujitsu which, from an Information Security perspective, is now well managed.

The Information Security team is not provided with sufficient information to have adequate oversight of the frequency and effectiveness of a number of activities provided by RMG, CSC, and other third parties. These activities include user access, IT asset management, and threat and vulnerability management. Some other activities do not have well documented audit trails and are not always undertaken in a structured manner, including compliance management and training.

The POL Information Security function appears somewhat under-resourced. The Information Security team has recognised that investment in resources and technology is required to alleviate weaknesses in the current control environment.

#### **What is being done –**

- Contractual requirements for Information Security (including risk, access, asset, threat and vulnerability management) are to be embedded in the new supplier requirements as part of the IT & Change Transformation Programme.
- A process is to be developed to enhance and monitor the engagement between the Information Security function and new product and service projects to ensure that Information Security requirements are embedded before the services are made available to customers.
- Compliance with ISO27001 certification is to be reviewed and a process to monitor and performance manage compliance will be developed and deployed.
- Information Security policies are to be communicated that i) require new starters to sign-off acceptance to the user policy before being granted access and ii) make business process owners responsible for the regular performance of user access and system role reviews. A new process will monitor compliance with these controls.
- The accuracy of the IT hardware and software asset register is to be confirmed, and a process established to manage information assets in future.
- A process for identifying and reacting to Information Security threats is to be developed, and appropriate specialist resource will be made available to deliver this process. Regular internal vulnerability scanning for high risk Information Security services will be implemented, including those currently managed by RMG.
- A training and testing strategy and plan will be implemented that incorporates annual testing, and the results will be reported to senior management.

## APPENDIX 2 Royal Mail IA Assignments Findings Summary 2012/13

### POLSAP

#### Findings –

**Transaction data:** The responsibility for reviewing exceptions on the Paystation and Post&Go to POLSAP interfaces has not been defined. The review identified that there are approximately 800 issues which are being investigated in relation to the completeness of the Post&Go interface, some of which are several years old. There are no predefined service levels for the resolution of these issues specified in the contract with the third party, Wincor.

**Access to software:** One of the 25 new and modified user access requests sampled was not correctly documented as approved, and another request was processed as a temporary role change in error when it was a permanent change. Further testing identified six users within the P&BA team that had left the business but still had active accounts, and nine users where the user had a role that needed removing from their profile.

**Change management:** Whilst a formal change management process is in place, the responsibility for the end-to-end process has not been defined. Sample testing identified one change that had not been communicated to the POLSAP testing team.

**Supplier service provision:** The scope of the monthly reviews with third party suppliers has not been defined, and the results are not reported to the Information Security Management Forum.

**The 2011/12 E&Y Management Letter** identified a number of areas for improving POLSAP system controls. The IA&RM review identified that there are some areas where further work is required, where the completed action has yet to be evidenced in the operation of the control. It should be noted that there are some completed actions that have not been in place for the entire financial year.

#### What is being done –

**Transaction data:** Responsibility for monitoring the accuracy and completeness of the interfaces between Paystation, Post&Go and POLSAP has been assigned to appropriate members of staff. Service level agreements between POL and Wincor for the timely resolution of transaction data errors during the interfaces between Paystation, Post&Go and POLSAP are being drafted.

**Access to software:** A review of POLSAP user access in POL P&BA, Supply Chain, Steria and Fujitsu is scheduled for Q3 2012/13. The process for identifying and taking action on POLSAP user accounts where the user has left the business is to be reviewed

**Change management:** All POLSAP changes that require user acceptance testing will be routed to the POLSAP testing team prior to implementation.

**Supplier service provision:** Third party user access reviews are to be assessed to ensure that the scope includes all areas of the application that POL determines as priority for review. The results of the third party user access reviews will be documented within the minutes of the Information Security Management Forum.

**Outstanding E&Y recommendations:** All remaining actions are to be completed by the end of Q3 2012/13. IA&RM will review this progress.



## APPENDIX 2 Royal Mail IA Assignments Findings Summary 2012/13

### Supplier Contract Management

#### Findings –

**Governance Policies and Procedures:** Although individual working practices have been developed for each supplier contract, ranging from contract administration to commercial contract management, there are no formal standard policies and procedures that cover the whole Contract Management function, although these are under development. There are inconsistencies between contracts over activities including risk management, supplier engagement, relationship management, and review of service provision.

**Documentation of Changes:** There is a formal process in place to ensure that changes are agreed with the supplier and POL stakeholders and reviewed by contract management before implementation. However, contract documentation, authorisations and other key documents such as minutes of governance meetings were often stored on local hard drives rather than in a central repository. Some authorisations are informally recorded in email correspondence and in the sample reviewed were not always sufficiently clear to evidence whether approval had been provided.

**Legal Services Review:** Although Contract Managers consult Legal on contract changes, there is no agreed formal process for them to review or sign off on contract amendments, nor is there a process for Legal to review or audit contracts on a regular basis. A formal process is currently under development between Contract Management and Legal.

**Benchmarking:** The right to undertake benchmarking is not included in all key contracts.

**Exit Plans:** Sample testing identified that the exit clause in the Ingenico contract does not specify which party bears the exit costs, and the exit clause in the Fujitsu contract is unclear as to how Intellectual Property Rights (IPR) to the Horizon system would be transferred to POL. The Fujitsu IPR issue is currently being managed through the IT Transformation Programme.

#### What is being done –

**Governance Policies and Procedures:** Formal policies and procedures across the Contract Management function are under development, along with a formal process for the risk management of all supplier contracts.

**Documentation of Changes:** A single document repository for all authorised changes and a process to review compliance with documentation processes are to be implemented.

**Legal Services Review:** A formal process to obtain Legal concurrence for changes to contract terms and conditions is currently being developed.

**Benchmarking:** A process to identify and assess opportunities to benchmark key supplier performance is to be implemented.

**Exit Plans:** Key supplier contracts are to be reviewed to ensure that the contracts cover: responsibilities for exit costs in the event that a supplier gives notice; licences for supplier owned software; and, access to data post exit.



## APPENDIX 2 Royal Mail IA Assignments Findings Summary 2012/13

### Horizon E&Y Management Letter Actions

#### Findings –

**Generic privileged accounts:** Generic privileged accounts remain in use on Horizon by Fujitsu.

**Password parameters:** E&Y recommended that POL operate a single Information Security Policy, however POL management use two separate policies, one for Horizon and one for POLSAP respectively.

In addition, POL management have not completed the E&Y recommendation to review key password parameters, as these have not been defined. Testing also identified two password parameters configured in the Horizon application that did not comply with the Horizon Security Policy.

#### What is being done –

**Generic privileged accounts:** A paper was presented to the November POL Risk and Compliance Committee where any residual business risks associated with this control were accepted by IT and Change on behalf of the business.

**Password parameters:** Any residual business risks associated with POL having two separate security policies for Horizon and POLSAP were accepted by IT and Change on behalf of the business at the November POL Risk and Compliance Committee meeting.

Key password parameters are to be reviewed and defined, and the Horizon Security Policy is to be reviewed and changed to reflect the findings of this review. In addition the process for manually changing privileged account passwords on the Oracle databases and Linux operating systems is documented within the Horizon Security Policy.

Key password parameters will be reviewed on a periodic basis. Once defined, management will perform a review of key password parameters to ensure that the third party supplier is implementing the Horizon Security Policy.

## APPENDIX 2 Royal Mail IA Assignments Findings Summary 2012/13

### Network Transformation Financial Controls

#### Findings –

**Review and authorisation of investment costs pipeline:** The control that is designed to assess (pass / fail) batches and individual branches has not worked effectively, as evidenced by:

- Errors identified in the control spreadsheets used by Network Transformation (NT) and Finance teams (subsequently rectified);
- Design of the spreadsheet used by Finance is such that, on an individual basis, all branches will pass the initial review;
- A commercial decision was taken to pass two batches that were escalated on the basis of the initial review. The high costs associated with branches in these batches is distorting the cumulative figures that are designed to be used as part of the decision process; and,
- No reconciliation between the source data received from Network and that processed by Finance.

**Financial Assessment prior to the branch proceed decision:** Controls are in place to prevent investment in high risk branches. However, poor quality of documentation received from Agents, results in duplication of effort leading to delays in the process. Short term revisions to the test for risks have been introduced and accelerated the processing of branches for inclusion in the programme. This does not weaken the control as branches cannot proceed to contract stage without having passed the full risk assessment.

#### **No controls have been put in place in relation to the following:**

- Joint approval by Finance and Network to proceed to contract stage. However, if the actions identified by Finance to strengthen other controls are completed then POL should give consideration to the need for this control.
- Review, validation and approval by Finance of all contract data prior to release of contracts for agent signature, or prior to POL signature on return of signed contracts from the agent.

#### What is being done –

**Review and authorisation of investment costs pipeline:** The existing process have been reviewed to ensure that both elements of the control (i.e. branch and batch) are achieved. Sample checks of investment batches are to be performed to ensure they have been processed accurately within Finance. Investment batch data is to be reconciled to that provided by the Supply team.

**Financial Assessment prior to the branch proceed decision:** The process for escalation of branches with one / two issues from the financial assessment is to be documented as part of the control framework. In conjunction with the Network team a document is to be produced outlining the financial assessment process, detailing the specific requirements for use by Agents when completing their finance assessment pack.

**Other controls:** The need for a control requiring joint approval to proceed to contract stage is to re-considered in light of other improvement activity listed above. A mechanism is to be introduced to ensure that the finance information that is to be included in the agents contract is reviewed by Finance on a sample basis prior to the contract being sent out.

## Appendix

## Summary of IARM Actions

Key	
	Not yet due but ability to deliver is in doubt <b>OR</b> Overdue and ability to deliver is in doubt
	Not yet due, but significant slippage expected <b>OR</b> Currently overdue
	Not yet due, but some slippage expected
	Not yet due, but on target
	Action Completed

Review Title
Business Risk Assurance
Information Security
Supplier Contract Management
Key Controls in POLSAP
Key Controls in Horizon Follow Up
Network Transformation Financial Controls

Summary of actions by month due																
Overdue																
Due Jun 12																
Due Sep 12																
Due Oct 12																
Due Nov 12																
Due Dec 12																
Due Jan 13																
Due Feb 13																
Due Mar 13																
Due May 13																
Due Nov 13																
No.actions	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16

Summary of actions by review																
Due Dec 12																
Due Mar 13																
Due Oct 12																
Due Mar 13																
Due Jan 13																
Due May 13																
Due Nov 13																
Due Nov 12																
Due Dec 12																
Due Jan 13																
Due Mar 13																
Due Jan 13																
Due Jan 13																
Due Feb 13																
Due Mar 13																
No. actions	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16

Appendix 4

Copy of POL Plan January 2013.xls

**Post Office Limited (POL) - Internal Audit & Risk Management Plan (IA&RM) 12/13**

Proposed Business Area for Review in 2012/13	Proposed Scope	Status	Planned Issue	Days Allocated	Actual Days To Date	Projected Total Days to 31st March 2013	Comments
POL Transformation Programme	Network Transformation	Fieldwork	Ongoing 12/13	100	68	68	Independent assurance plan proposal issued to Programme Executive. Financial Controls assignment started. At least two more assignments to be executed in 12/13.
	Front Office of Government	In audit plan not yet started	Ongoing 12/13	30	-	TBC - See Comments	Assurance activity will be undertaken if the timing and scope will benefit the Programme, otherwise this resource will be used for the NT Programme.
	IT Transformation	In audit plan not yet started	Ongoing 12/13	40	-	TBC - See Comments	Assurance activity will be undertaken if the timing and scope will benefit the Programme, otherwise this resource will be used for the NT Programme.
Payroll Data Analytics	To provide substantive assurance on aspects of payroll processing using data analytics.	Cancelled	Cancelled	-	N/A	N/A	No longer required as per discussion with S Hall/ S Crichton.
Agents' Remuneration	Assurance of controls around non-volume related elements of remuneration to sub-postmasters including a high level review of core tier payments.	Cancelled	Cancelled	-	N/A	N/A	No longer required as per discussion with S Hall/ S Crichton. Superseded by NT Programme. Replace with Critical Controls and E&Y support.
Key Business Risk Assurance	An assessment of where and how POL is getting assurance on its key business risks and the adequacy and effectiveness of this activity.	Issued	July	40	39	39	Not Satisfactory - fragmented assurance approach.
Contract Management	A review of existing supplier contract management in POL.	Issued	November	50	52	52	Some improvement Required
POL SAP	A review of POL SAP with regards to the integrity of processing, security and systems continuity.	Issued	November	50	54	54	Some improvement Required
Information Security	Review of IS for: Identity and Access Management; Information Asset Management; Threat and Vulnerability Management; Information Security Risk Event Identification; and, Information Security Awareness Training.	Issued	August	40	45	45	Not Satisfactory - poor visibility of IS processes from 3rd party providers.
Business Risk Attestation	Ongoing assurance on the management and status of the Executive Team key risks.	Cancelled	Cancelled	-	2	N/A	No longer required as per discussion with Malcolm Zack.
Risk and Assurance Support	Transition of services and data to POL for March 2013 handover.	Ongoing	Ongoing 12/13	20	18	20	We are active in providing support to the new POL Risk and Audit teams - sharing processes, methods etc.
Speak Up	Provision and management of Speak Up arrangements for POL.	Ongoing	Ongoing 12/13	10	2	10	One POL related disclosures received to date. Case not upheld.

**Sub Total****380 days    280 days    288 days****500 days as agreed per RMG/ POL MSA. So far three assignments (Payroll Data Analytics, Agents Remuneration and Business Risk) cancelled totalling 120 days, replaced by additions below.**

LINK	Annual attestation of compliance requirement.	Scope agreed start date TBC	April/May 2013	20	3	3	Delayed due to requirement for Fujitsu to perform gap analysis of existing security measures in place against new requirements for the LINK network, and then to perform any necessary remediation work. Awaiting start date from POL IT Security.
Critical Business Controls	Assurance support for Critical Business Controls.	Scope agreed start date TBC	February	20	2	20	February start planned.
E&Y Support	Assurance support for the external auditors for POL Payroll controls.	In audit plan not yet started	February	15	-	15	February start planned.
E&Y Horizon Actions	Follow up of progress made by POL in addressing Horizon control points raised in the 11/12 Ernst & Young Management Letter.	Issued	December	25	23	23	Some improvement Required
POL SAP E&Y actions follow up	Follow up of progress made by POL in addressing POL SAP control points raised in the 11/12 Ernst & Young Management Letter.	Fieldwork	February	20	4	20	Fieldwork underway.
Reference Data Change Process	Review of controls over the Reference Data Change process.	Fieldwork	February	10	-	10	Fieldwork underway.
Notes Circulation Scheme	To provide a process narrative of how POL reports and validates declarations to the Bank of England.	Scoping	February	10	-	5	Scoping underway.

**Sub Total****120 Days    32 Days    96 Days****Grand Total****500 Days    312 Days    384 days**



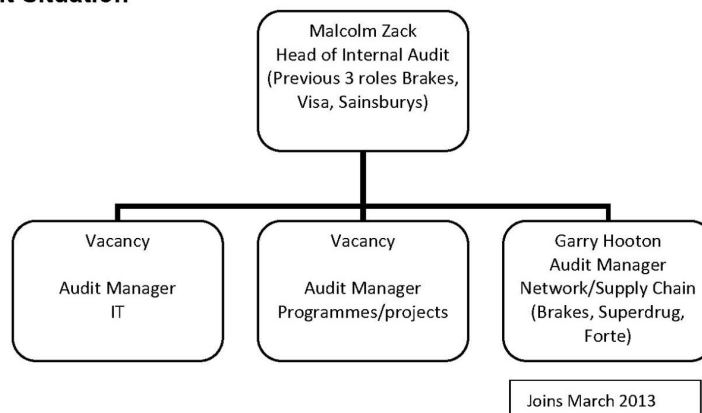
**Confidential****POST OFFICE LTD AUDIT, RISK AND COMPLIANCE COMMITTEE****Post Office Limited Internal Audit  
Status and proposed 2013/4 plan****1. Purpose**

The purpose of this paper is to:

- 1.1 Outline the status of the set up and recruitment of the Post Office Limited Internal Audit (POLIA) team.
- 1.2 Outline the proposed internal audit plan for Post Office for Financial year 2013/2014
- 1.3 Outline the resourcing approach for the above.
- 1.4 Request final direction and approval from the Audit and Risk Committee of the audit plan and resourcing.

**2. Background**

- 2.1 The Royal Mail Internal Audit function has been engaged to provide internal audit services while Post Office sets up its own function. The ARC on November 13 2012 supported the proposal by the POL Head of Internal Audit of three Internal Audit Managers supported by a co-source arrangement with an external provider. The three roles will work across the business but with some specialist focus and background.
  - Audit Manager – IT
  - Audit Manager – Programmes and Projects
  - Audit Manager – Network and Supply Chain
- 2.2 The latter two roles are more generalist and are expected to devote approximately 50% of their time in the specialist areas.
- 2.3 The co-source arrangement is currently budgeted for 100 man days (half a man year) and will support the team where specific expertise or additional temporary headcount is needed for certain audits or reviews. All co-source staff will be under the direct supervision of POLIA.
- 2.4 The Royal Mail Internal Audit team were originally contracted by management in 2012 to provide an agreed audit plan and support for 2012/13 totalling 500 man days up to 31<sup>st</sup> March 2013.
- 2.5 Internal Audit represents the 3<sup>rd</sup> line of defence in the model of risk management and control. Post Office also has several functions in the 2<sup>nd</sup> line of defence, including a Supply Chain Compliance Team who conduct compliance against a number of external standards across the cash centres and the Field Support Advisors who conduct audits of cash and valued stock at branches with some compliance work. These report through to management, not Internal Audit. This paper therefore focuses on the plans for Internal Audit.

**Confidential****3. Current Situation**

- 3.1 At the time of writing, the Audit Manager - Network and Supply Chain is due to start on March 4<sup>th</sup> 2013. Recruitment for the IT Audit manager is at interview stage and the search process for the third role is just completing.
- 3.2 Due to notice periods, it is unlikely that the team will reach full compliment before May 2013.
- 3.3 The business has used approximately 400 man days of the 500 originally agreed with Royal Mail. This is mainly due to delays and some cancellations of audits earlier in the year. Royal Mail have indicated that they would be prepared to run this over into Q1 if required.
- 3.4 The co-sourcing arrangement has recently commenced tendering through government procurement processes. This is likely to run through to May before finalised.

**3.5 Recommendation 1**

It is recommended that rather than a "hard break" with the Royal Mail on the 31<sup>st</sup> March 2013 as originally planned, that the remaining contracted 100 days be utilised to good effect in Q1 2013/4 while the POLIA team arrives and is inducted. The exit from Royal Mail support will be completed by 30<sup>th</sup> June at the latest. This provides the following benefits:

- Allows POLIA to complete recruitment, proper arrival and induction.
- Maintains internal audit activity.
- Allows POLIA audits to commence in the branch and cash areas.
- Smooths the transition.
- Utilises contracted days as far as possible.

The 2013/14 plan therefore provides for Royal Mail to conduct follow up work on its 2012 audits and complete remaining work.

The ARC is requested to approve the resourcing recommendation

**Confidential****4. Construction of the Internal Audit Plan 2013/2014**

- 4.1 The traditional approach for formulating an audit plan would take into account the organisation's information in its risk registers, the Board's top risks complimented by Internal Audit's own views based upon management input and previous experiences and audits.
- 4.2 However, The company risk management processes are still evolving with bottom up risks yet to be fully complimented by a top down review – the company view of risk is thus still in formation. Therefore the 2013/2014 internal audit plan has been built based on the following.
- Risks structured around risk types.
  - Risks identified during induction and visits to business sites and discussions with POL management.
  - Risks documented by the risk and compliance team and presented to the Risk and Compliance committee.
  - IA review of risk registers
  - Discussions with the Royal Mail Internal Audit team and Director.
- 4.3 The plan for 2013/14 recognises the following outlined in section 3.
- POL internal Audit team recruitment in progress, staff will be arriving during Q4 2013 and early Q1 2013/2014 and going through induction.
  - Some finalisation to 2012/2013 Royal Mail IA work needed.
  - Flexible approach required.
  - ARC to review at each quarter.
  - Co-sourcing going through tender for availability post April 2013.
  - The need for the POL IA team to gain knowledge of PO processes through the year.

**5. Summary of Plan and candidate list.**

- 5.1 The Committee is referred to the "Plan on a Page" in Appendix 1. This shows a "candidate list" with suggested priorities. The list is deliberately more than the team will be able to conduct in the year so that the audit committee can input on priorities and preferences. The committee is also referred to appendix 2 which explains the reviews in more detail.
- 5.2 The audit plan is currently weighted for quarters 2 and 3. This six month period will be when the POLIA audit team gains traction. Quarter 4 (Jan to Mar 14) is left as light to allow for changing business risks and priorities, requests from management or the ARC which will arise or to accommodate Q3 audits that require more time than anticipated. The plan assumes an annual man day availability of 200 man days per audit manager but plans for 80% (160 days).
- 5.3 The plan should allow for advisory work and ongoing support to business areas besides specific audits.
- 5.3.1 The Committee should note that the team will be involved in supporting key areas such as the development of the risk management framework.

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- 5.5 The plan will be reviewed quarterly with the ARC to allow for reprioritisation as necessary.
- 5.6 Any request received from management which upon review requires significant resource or reorganisation of the plan will be discussed with the Audit Committee Chairman. Small requests that can be easily accommodated and are of sufficient risk, will be managed by the team.
- 5.6 The main themes for the POLIA in its first full year are to:
- Providing on-going assurance over the change programmes including Finance SAP, Network Transformation, the IT Change programme and the overall management by the Strategic Programme Management Office.
  - Establishing stronger assurance over the management of cash in the supply chain, supply chain compliance teams and examination of the effectiveness of the branch auditing methods, scope and techniques.
  - Focus on key IT risks including security, protection of personal data and access and governance around the System Integration.
  - There is a mix of strategic areas complimented by assurance work over operational areas.

**6. Recommendations 2**

- 6.1 The Audit Committee members are requested to:
- Review the proposed plan.
  - Determine the relative priorities as suggested.
  - Provide any necessary direction or amendment.
  - Approve the plan and the flexible resourcing approach.
- 6.2 An approved copy will be circulated to the Risk and Compliance committee and Executive Committee members.

**Malcolm Zack**  
**13<sup>th</sup> February 2013**



## 4. Internal Audit

		A	B	C	Strategic Risk	Technology Risk	Financial Risk	People Risk	Customer Risk	Supplier Risk	Regulatory Risk	Operations Risk	Continuity Risk	Reputation	Approx days
Q1	Royal Mail IA - Follow ups of 2012 audits	●													n/a
	Royal Mail IA - Completion of LINK review	●													n/a
	Royal Mail IA - Completion of Critical Business Controls Framework	●													n/a
	Royal Mail IA - ISO 27001 review of AEI system (mgt request)		●												
	Network security configuration	●			✓										20
	Cash Centre Audits - Observation of approach - level of assurance gained from 2nd line defence team	●				✓				✓	✓	✓			25
	Swindon Stores - Operations Review	●									✓				20
Q2	Benefits Realisation - Management and Methods	●			✓		✓							✓	25
	Management of the SPMO	●			✓										15
	Data Security - controls around protection of personal data.	●			✓		✓							✓	30
	Treasury - Review of procedures and control framework	●													20
	Branch Audits - Assessment of approach used by the Network Audit teams and Assurance gained.	●						✓		✓	✓				30
	Software Licence review		●		✓										15
	SAP Security - POL SAP - short random reviews		●		✓										7
	SAP Security - HR SAP		●		✓	✓									15
	Eagle Contract - Application of controls and processes agreed.		●		✓	✓			✓	✓	✓		✓		20
Q3	Business Continuity - Readiness assessment	●			✓		✓	✓	✓	✓	✓	✓	✓		20
	Policy Compliance assessment - Anti - Bribery and AML	●								✓				✓	30
	Systems Integrator- Review of Governance model employed.	●			✓	✓	✓				✓	✓			15
	Branch Audits and Losses		●				✓					✓			20
	Transformed branches - review of value vs investment		●		✓		✓		✓					✓	20
	Branch Profile Model - review of use		●												10
	Foreign Exchange - management of end to end process		●				✓		✓			✓			25
	Manchester Cash centre - management of closure		●				✓					✓			15
	Information Security Governance - review of improvement plan and its application		●											✓	15
	IT change management		●			✓									15
	Board effectiveness review/Executive Committee Effectiveness		●		✓									✓	10
Q4	Social media - management of risk		●		✓				✓		✓			✓	15
	Complaints Management			●					✓					✓	0
	Expense Management			●		✓									0
	Penetration Testing			●	✓										0
	PCI - DSS			●	✓						✓				0
	<b>OR - ROLL OVER OF Q3 audits if more time needed</b>														
Q1-Q4	Project/Programme Audits														
	Finance Systems - SAP - Core Finance/MI	●			✓	✓	✓						✓		40
	Network Transformation Programme	●			✓	✓	✓		✓		✓	✓	✓	✓	40
	IT & Change programme	●			✓	✓			✓	✓	✓	✓	✓	✓	40
Q1-Q4	E&Y liaison														5
Q1-Q4	Risk Management support to business/liasion with Head of Risk														20
Q1-Q4	Objectives and personal development requirements														10
Q1	Royal Mail - IA - finalisation/administrative work														5
Q1-Q4	Committee support (ARC, R&CC etc)														5

Man Days assigned **617**Budget - 3 managers at 160 days (pre contingency) **480**Contingency **120**Total Days@ 200 man days per year **600**To allocate **-137**

## Appendix 2 Details of Proposed Reviews

Page 1

Type	Description	Outline of Review	Risk Sources
Strategic	<u>Benefits Realisation - Management and Methods</u>	A A review of the overall approach for transformation , and application of guidance issued to selected individual projects, and the measurement methods being used. The risk is that projects and programmes don't apply sufficient data/metrics before and during the programme to enable the project to be properly assessed during and post implementation	<b>Transformation Programme Risk Map</b> "Benefits of Crown transformation are not realised to support breakeven objective"  "Benefits planed as part of the agreed business cases are not robust and are not realised as planned" <b>BAU top 12 risks</b> "Risk that benefits from strategic programmes are not implemented or achieved"
Strategic	<u>Management of the Strategic Programme Management Office.</u>	A The SPMO provides the programme management for the Transformation Programme. Its information and guidance to the Transformation Board is critical for decision making. As part of the Internal Audit ongoing review of projects and progarmmes in Post Office, this function needs to be amongst the first reviews so that the overall state of management control can be confirmed.	<b>Internal Audit Assessment.</b> <i>The SPMO is a key coordinating body for the strategic programme</i>
Strategic	<u>Transformed Branches</u>	B Branches that have been converted. How has performance altered? Are benefits being measured and are the results as expected?	<b>Internal Audit Assessment.</b> <i>The Royal Mail internal audit focused on financial controls for selecting and evaluating branches for conversion and the investment to be made available. This review is effectively a post implementation assessment</i>
Strategic	<u>Systems Integrator - Governance</u>	B A key change in the management of the IT infrastructure is the establishment of a Systems Integrator to manage the key suppliers to Post Office IT. Governance of the relationship between the SI, Post Office and the 3rd parties will be an essential compoant of the future IT operations. Area of risk identified by CIO	<b>IT Team/CIO Risk Discussion with Internal Audit</b>

## Appendix 2 Details of Proposed Reviews

Page 2

Type	Description	Outline of Review	Risk Sources
Strategic	<u>Finance Systems - Finance Road Map/SAP</u>	A Ongoing programme/project assurance role focusing through the programme on governance, risk management, issue management, control design, IST, UAT, Go/No go criteria, PIT	<b>Transformation Programme Risk Map.</b> "Finance Transformation - "Emerging IT separation/support services approaches impact current FTP business case and plan"  Finance Risk Map (Dec 12) -
Strategic	<u>Network Transformation Programme</u>	A Ongoing Programme/project assurance role focusing on governance, risk management, issue management, branch conversion role out, changes in process and link to the network audit team work	<b>Internal Audit Assessment</b>
Strategic	<u>IT and Change Programme</u>	A Ongoing Programme/project assurance role focusing on governance, risk management, issue management, changes in systems which will feed into future IT audit work.	<b>Internal Audit Assessment</b>
IT	<u>Network security configuration</u>	A A review of the security of the local area network and how IT prevent unauthorised access to sensitive data. Compliment to security reviews conducted in 2012 on SAP and Horizon	<b>Internal Audit Assessment and Top 12 BAU risk Map " IT&amp;C Information security governance, processes and resourcing is not adequate to effectively protect the Post Office from accidental damage, theft or misuse of its data"</b>
IT	<u>SAP Security - POL SAP random audits</u>	B Randomised short reviews to ensure actions taken following the external audit review in 2011 y/e remain effective. SAP Security and User Administration – random checks of key parameters – ongoing assurance/identification of changes.	<b>Internal Audit Assessment and Top 12 BAU risk Map " IT&amp;C Information security governance, processes and resourcing is not adequate to effectively protect the Post Office from accidental damage, theft or misuse of its data"</b>

## Appendix 2 Details of Proposed Reviews

Type	Description	Outline of Review	Risk Sources
IT	<u>SAP Security - HR SAP</u>	B SAP security in past years was not reviewed within the HR system - only POL SAP (Finance and Supply Chain). Basic configuration review plus review to ensure appropriate segregation of duties and control of access to personal data	<b>Internal Audit Assessment and Top 12 BAU risk Map</b> " IT&C Information security governance, processes and resourcing is not adequate to effectively protect the Post Office from accidental damage, theft or misuse of its data"
IT	<u>Data Security - controls around protection of data.</u>	A Derived from the IS Information Security review underway as at Q3 2012/3. The top 12 information assets have been defined by IT. This review will test the logical and physical controls being placed around the personal data at risk.	<b>Internal Audit Assessment and Top 12 BAU risk Map</b> " IT&C Information security governance, processes and resourcing is not adequate to effectively protect the Post Office from accidental damage, theft or misuse of its data" " POL fails to comply with Data Protection Legislation
IT	<u>Software Licence review</u>	B Due to the separation of Royal Mail and Post Office, there remains some risk that software licences may have not been properly assigned or applied. Software Licencing review. Unlicensed risks, duplication and cost risks, process for obtaining, granting, managing and removal of licences, legal. Guidance of users Tools for detecting. Breach of licencing can result in fines and penalties but most significantly in damage to reputation.	<b>Internal Audit assessment</b>
IT	<u>Information Security Governance</u>	B Review of the application of recommendations anticipated from the 2012/3 Deloittes review following Project Buffalo	<b>Internal Audit Assessment and Top 12 BAU risk Map</b> " IT&C Information security governance, processes and resourcing is not adequate to effectively protect the Post Office from accidental damage, theft or misuse of its data"



## Appendix 2 Details of Proposed Reviews

Page 4

Type	Description	Outline of Review	Risk Sources
Core Operations	<u>Branch Audits - Assessment of Assurance</u>	A Detailed examination of the branch auditing processes. Assessment of scope, branch coverage and auditing techniques. Assessment of the degree of assurance that the board can obtain from current approaches.	<b>Internal Audit Assessment</b>
Core Operations	<u>Swindon Stores - Operations Review</u>	A Swindon is a core operational site supporting the valued and non valued stock distribution across Post Office. It was last reviewed in 2010. Some parts significantly automated, others manual. Key risks include security, financial loss, continuity to branches and general operations.	<b>Internal Audit Assessment</b>
Core Operations	<u>Supply Chain Compliance - Cash Centres Assessment of Assurance.</u>	A Detailed examination of the cash centre auditing processes. Assessment of scope, branch coverage and auditing techniques. Assessment of the degree of assurance that the board can obtain from current approaches.	<b>Internal Audit Assessment</b>
Core Operations	<u>Business Continuity - Readiness assessment</u>	A Assessment of the actual plans in place across key operational and business sites in POL. Whilst a project is underway to establish a full Business Continuity Management, process and policy, documents and plan exist in various locations. The audit will determine the company's readiness and ability to react quickly after notification of a major incident. Review of current in progress BCM policy and procedures and future plans. Link to management of company reputation. Includes IT Disaster Recovery/Incident management	<b>Internal Audit Assessment and top 12 BAU risk Map - "Loss or unavailability of IT Infrastructure"</b>
Core Operations	<u>Management of Branch Losses</u>	B Linked to the network audit assessment. Review of how the company captures, assesses, prevents and recovers cash losses identified in the branch network. May be extended to the cash centres.	<b>Management suggestion and IA assessment</b>
Core Operations	<u>Branch Profile Model</u>	B Linked to Branch Auditing, fraud management, losses and physical security. The model helps the Security team and Finance operations identify branches that may need specific audit attention or investigation. The model has been recently revamped and improved. Review to determine its effectiveness in driving branch selection and identifying anomalies.	<b>IA Assessment</b>

## Appendix 2 Details of Proposed Reviews

Page 5

Type	Description	Outline of Review	Risk Sources
Finance	<u>Treasury - Assessment of management processes</u>	A Review of the governance, risk management, processes and controls employed by the newly established POL treasury function following the separation from Royal Mail.	<b>IA assessment</b> - complexity of risk and discussion with Treasury Management
Finance	<u>Treasury - Cash Management process and controls</u>	A Review of the process, controls, decision making and authorisation for managing the amount of cash to be held in the branch network vs balances in cash centres or with the Bank of England. Optimisation of interest earnings vs sufficient stock in the network	<b>IA assessment</b> - complexity of risk and discussion with Treasury Management
Finance/ Core Operations	<u>Management of Foreign Exchange</u>	B End to End review of the management of foreign exchange in branches, to cash centres including Hemel Hempstead and compliance to Treasury decisions and policy.	<b>IA Assessment</b>
Governance	<u>Policy Compliance assessment</u>	B ARC request to test compliance to policies. As there are over 100 business policies, this review cannot test compliance to all of them in one review. Some of these will form part of other reviews. It is proposed to select 3-4 key policies for testing in 2013. Suggested areas include AML, AntiBribery and Data Protection compliance	<b>ARC request. - Nov 13 2012 meeting</b>
Governance	<u>Board/Executive Committee effectiveness review</u>	B The POL Board and Executive Committee, will be in their second year of operation since separation. The board and its committees are an essential part of corporate Governance. This review has been suggested by the head of HR and Corporate Services. It may benefit by being a joint review with the Head of Internal Audit and an specialist 3rd party evaluator. Areas include; role of the Board and Directors, Board support and role of company secretary, Decision making, composition and succession planning, performance evaluation, Audit, Risk and Remuneration, Relations with Shareholders,	<b>Management suggestion and IA assessment</b>
Financial Services	<u>Eagle Contract</u>	B Review of application of controls agreed in contract, payments and operation of governance.	<b>Management suggestion. - subject to further discussion</b>

## Appendix 2 Details of Proposed Reviews

Page 6

Type	Description	Outline of Review	Risk Sources
Other Operational	<u>Complaints Management</u>	C Complaints are aggregated by Service Management and reported upwards. Due to the customer service and reputation risks involved, effective complaints management can build opportunity from customer feedback, encourage company learning and correct process and policy. The review will focus on the completeness of the information gathering, the analysis and reporting and the action taken by affected business areas.	<b>Management suggestion and IA assessment</b>
Other Operational	<u>Expense Management</u>	C Expense Management. Approx £5-£6m processed annually through the SAP HR system ( excludes direct booked with Capita). Whilst not a large business risk, expense fraud and irregularities is common among organisations. Much is may be of low materiality but for public organisations abuse/misuse of expenses by management especially senior management has reputational impact. (MPs, local authority leaders for example). This can be as damaging on the organisation as it is on the individual regardless of the levels involved	<b>IA assessment</b> Can be considered low risk/impact by management but a common problem with reputational risk
Other Operational	<u>Social media - management of risk</u>	B Social media presents opportunity for Post Office. The immediacy of social networks and tools and instant communication increases the risk of reputational damage either maliciously or unintentionally. Review of company policy over usage by communications staff and general staff and its application. - Assessment of the residual risk facing the organisation	<b>IA Assessment - emerging trend</b>
Other Operational	<u>Review of Penetration Testing</u>	C Penetration testing is usually exercised by third parties who attempt to break through an organisation's firewalls and logical defences. Weaknesses identified should be followed up by management. This review would focus on the scope of penetration testing employed, the results and action taken by management. Links to general information security and data security/governance activity underway in the business.	<b>IA - Assessment</b> - link to general information security risks

Appendix 2 Details of Proposed Reviews

Page 7

Type	Description	Outline of Review	Risk Sources
Other Operational	<u>Management of Manchester closure</u>	B The Cash centre may be closed during 2013. As this will hold significant assets, there is some risk of loss. A short review of the approach and methods of business transfer to other sites could be considered, including verification of physical assets and equipment for transfer, sale or disposal.	<b>IA Suggestion</b>
Other Operational	<u>Review of PCI DSS compliance audits</u>	B Overview of the PCI compliance programme managed by Information Security.	<b>IA - Assessment</b> - link to general information security risks



**Strictly Confidential****POST OFFICE AUDIT, RISK AND COMPLIANCE COMMITTEE****Information Security and Data Asset Review****1. Purpose**

The purpose of this paper is to:

- 1.1 Provide the Committee with an update on developments, progress and actions with the Information Security agenda for Post Office. It is for noting purposes only.

**2. Background**

- 2.1 Since our update to the Committee in November, we have been progressing three strands of Information Security activity, with the majority of actions completed and a new plan generated:

- Priority action plan: this covers a range of priority activities that are focused on improving our current Information Security controls and management;
- Data asset review: this is focused on producing an initial assessment of Post Office's top 13 supplier/partner contracts. These were categorised by potential for significant reputational risk should we encounter a loss of our business information;
- Independent review of Post Office's Information Security: this was to provide an independent view of Post Office's information security approach and a road map of improvement activity.

- 2.2 This paper provides an update and actions on each of the above areas.

**3. Priority action plan**

- 3.1 The following priority actions have been completed since November:

- Post Office staffs have been reminded about the importance of protecting information by Data Protection awareness communication.
- The Privacy / Data Protection Governance structure has been presented and approved by the Risk & Compliance Committee.
- The Major Incident Management process has been reviewed, and improvements have been implemented, to ensure an early alert mechanism for escalating potential security breaches to the attention of senior managers.
- The Clear Desk and Screen Policy has been reviewed and communicated via the senior leadership team; assurance activity is in place to ensure compliance.
- Information Security training for new staff and annual refresher training for all staff has been finalised and will be rolled out in March.

**Strictly Confidential**

- The Post Office Information Security Policy has been reviewed and will be published through the Risk & Compliance Committee.
- A Data Protection Handbook providing guidance and process has been drafted and will be rolled out to branches via Horizon and Branch Focus in Q1.

**4. Data Asset Review**

- 4.1 We have continued the review of our top ranked data assets held by third parties on behalf of Post Office. A model has been developed to enable a quantitative assessment to be carried out and this work has identified the top-13 risk areas which are viewed as having the highest risk of brand damage and customer privacy protection. The core contracts have been reviewed by our external law firm, and the Information Security risk has been assessed internally; other supplementary contracts in the chain are in the process of being reviewed. From the review the following points are noteworthy:
- 4.2 Bank of Ireland whilst not currently ISO 27001 compliant are working towards this standard and they are two thirds of the way through the process. At this stage in the review we have not identified any significant areas for concern, but we are continuing our work with Bank of Ireland to understand more detail of their supply chain.
- 4.3 RAPP who manage and host the Marketing database for Post Office hold a significant amount of personal and account data. We understand their security architecture which is ISO 27001 certified and the measures they take to protect Post Office data. We are currently reviewing the amount of customer and account data being maintained, to ensure it is appropriate and further review of the contract is underway.
- 4.4 Our top 13 contracts have been reviewed with regard to Data Protection and understanding our position from an ICO (Information Commissioners Office) perspective, whether we are likely to be considered as controllers of the data or a processor. In the majority of cases the contracts are clear, however there are some exceptions which do require further investigation. Further work is required to clarify whether operational practices accurately reflect the contractual clauses (as the ICO takes both into consideration), and an action plan to address any gaps will be prepared.
- 4.5 Most third parties have capped their liability in relation to data issues and in some instances there are specific exclusions or limitations in addition to a cap. Where the core contract forms part of a larger chain (e.g. POCA) there are two instances where Bond Pearce have identified that our entitlement to recover from the third party is capped at a sum lower than our potential liability to the end customer (POCA / HP and DVLA / Cogent). In terms of indemnification for data issues, we benefit from indemnities in some but not all of the contracts reviewed; some of these indemnities are uncapped (e.g. Cogent) - which is in our favour.
- 4.6 The first stage of the review is scheduled to complete at the end of February, and the minimum Information Security standards will be implemented for all top 13 contracts and an action plan for our suppliers will be agreed during March.

**5. Information Security – Independent Review Findings**

- 5.1 Deloitte have been engaged to complete a review of Information Security within Post Office, covering a maturity and gap analysis against information security standards

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(ISO27001/2)<sup>1</sup>. The high level findings have been agreed. The details are currently being reviewed by all key stakeholders within Post Office and a detailed plan encompassing the activities currently underway and future road map has been prepared.

5.2 The key findings from the review are as follows:

- The Information Security team is significantly under resourced and there is insufficient internal resource to provide appropriate security input into new and on-going projects; or assurance activities with our key suppliers/partners. The recruitment of a Head of Information Security is underway, and to support our recent separation from RMG additional security specialists are being recruited.
- We do not have a comprehensive view of the Information Security risk environment and the existing Information Security policy set is incomplete. There is a mixture of legacy RMG policies and gaps in the policy set.
- On-going training and awareness across Post Office is not currently proactively managed and there is no rolling security awareness campaign of Information Security policies.
- There is a need for greater oversight and a formal assurance programme of our third parties Information Security controls. Whilst there are some assurance activities such as PCI (Payments Card Industry) compliance testing and governance structures for our suppliers/partners, it is not consistent. A standard framework is required for the management of Information Security controls operated by third parties.
- There were gaps identified in the existing Information Security governance forums, it is recommended that an Executive level forum will be created which will report through to the Risk & Compliance Committee quarterly.

5.3 Deloitte have recommended an action plan, outlined in Appendix A. This has been reviewed by the project team to assess the level of resources and support required. In addition, we have aligned the plan with the activities currently underway. The plan includes:

- Mobilising the Information Security team to ensure that the POL Information Security objectives are met, with clear accountabilities and structure.
- Improve the Information Security risk control and review framework, which will be aligned to the wider risk activities across Post Office.
- Implement a high level Information Assurance Strategy and supporting policies, and wider monitoring and compliance to the Data Protection Act.
- Develop a framework of security management (including audit rights and clarity of contracts) for our suppliers, and implement controls to address the risks inherent in legacy contracts.

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<sup>1</sup> **ISO27001/2:** An International Standards covering the specification of and management of an organisation's Information Security Management System. The guidelines and general principles for initiating, implementing, maintaining, and improving information security management within an organisation.

5. Specific matters referred by the Board to ARC

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- Conduct a training and awareness programme, including the development of campaigns to address identified risks.
- Aligned to our Separation activities review the current security infrastructure protecting the key components such as our network and asset management.

**6. Summary**

The Committee is asked to note the positive progress which has been made and it is proposed that quarterly updates are provided to ARC and the Risk and Compliance Committee on progress.

**Lesley Sewell**  
**February 2013**

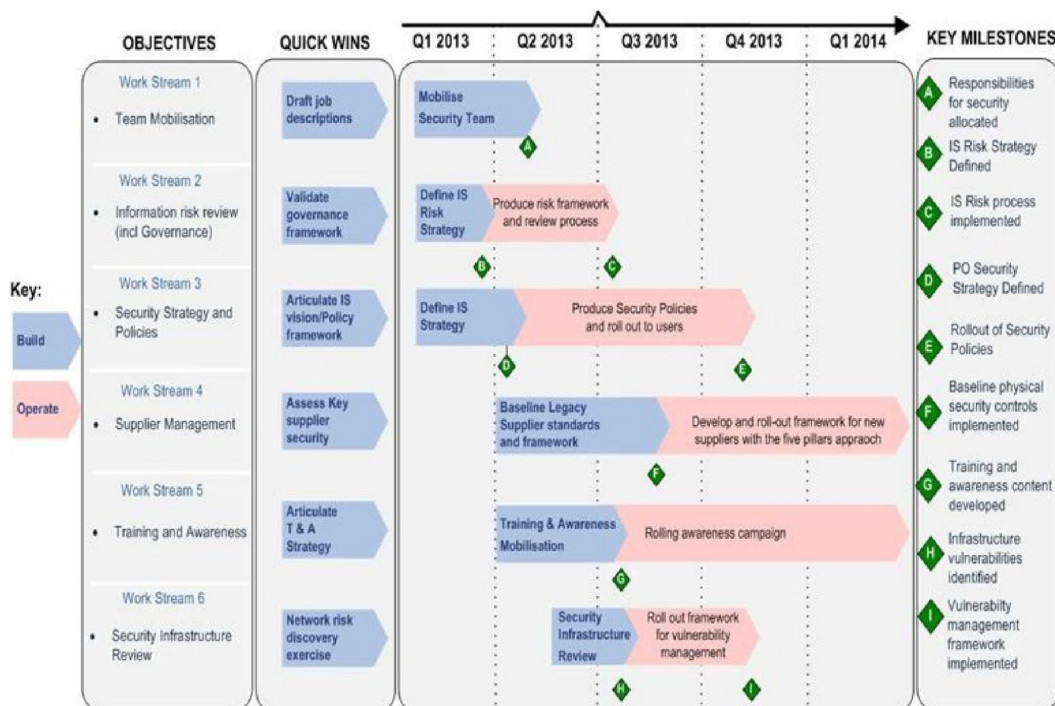


5. Specific matters referred by the Board to ARC

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#### Appendix A – Deloitte proposed Information Security transformation roadmap

The Deloitte POL Information Security Review proposes the following Information Security roadmap:



1. Team Mobilisation is development of job descriptions and recruitment of the required Information Security staff.
2. Information Risk review includes definition of the underlying data relationship and baselined security controls.
3. Information Security Strategy and Policies includes a refreshed policy set, and Information Security minimum standards.
4. Information Security Supplier Management implements the minimum standards with the top 13 suppliers and ensures a consistent governance structure.
5. Training and Awareness is for both Head Office staff and the staff in the branches.
6. Security Infrastructure Review - to review the current security infrastructure for our network and implement where appropriate regular vulnerability assessment process. This will be aligned with our separation from RMG.

**SECRET**

**POST OFFICE AUDIT, RISK AND COMPLIANCE COMMITTEE**

**Bank of Ireland (UK) plc Capital & Liquidity**

**1. Purpose**

The purpose of this paper is to:

- 1.1 update the Committee on the Bank of Ireland (UK) plc's capital and liquidity position against its regulatory and Eagle contract (FSJVA) requirements, following the request at the Committee meeting in November 2012. The update is set out in the presentation attached.

**2. Background**

- 2.1 As part of the requirements of the FSJVA the Bank of Ireland (UK) plc (the Bank) is required to meet capital and liquidity standards, providing Post Office Ltd with comfort that our customers' deposits are secure.
- 2.2 The Bank's capital and liquidity reports are part of the early warning system that would enable Post Office Ltd to take action in accordance with the termination provisions of the agreement, should this become necessary.
- 2.3 Certain information in the presentation has been provided with specific permission of the Bank and is commercially sensitive. The Committee is asked to treat the information as secret.
- 2.4 As requested at the previous Committee, Nicholas Kennett presented the attached paper to Alasdair Marnoch, Tim Franklin and Chris Day in January 2013.

**3. Conclusion**

- 3.1 As advised at the November Committee, the Bank's capital and liquidity attestation has met the terms of the FSJVA and no further action is required. We will continue to monitor the position.

**4. Recommendations**

The Committee is asked to:

- 4.1 note the update as set out in the attached presentation.

**Nicholas Kennett**  
**Director, Financial Services**  
**6<sup>th</sup> February 2013**



## PROJECT EAGLE

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**SECRET**

### Eagle Bank of Ireland (UK) plc Capital & Liquidity

23<sup>rd</sup> January 2013

Eagle\_BOI capital & liquidity POL ARC Feb 2013 v0.1

Post Office®

IN THE STRICTEST COMMERCIAL CONFIDENCE





## Agenda

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1. Bank Capital Requirements
2. Bank of Ireland (UK) plc capital status
3. Bank Liquidity Requirements
4. Bank of Ireland (UK) plc liquidity status
5. Post Office termination rights in the FSJVA





## 1. Bank Capital Requirements

### Bank Capital

The difference between the value of a bank's assets and its liabilities. The bank capital represents the net worth of the bank to investors. The asset portion of a bank's capital includes cash, government securities and interest-earning loans like mortgages, letters of credit and inter-bank loans. The liabilities section of a bank's capital includes loan-loss reserves and any debt it owes.

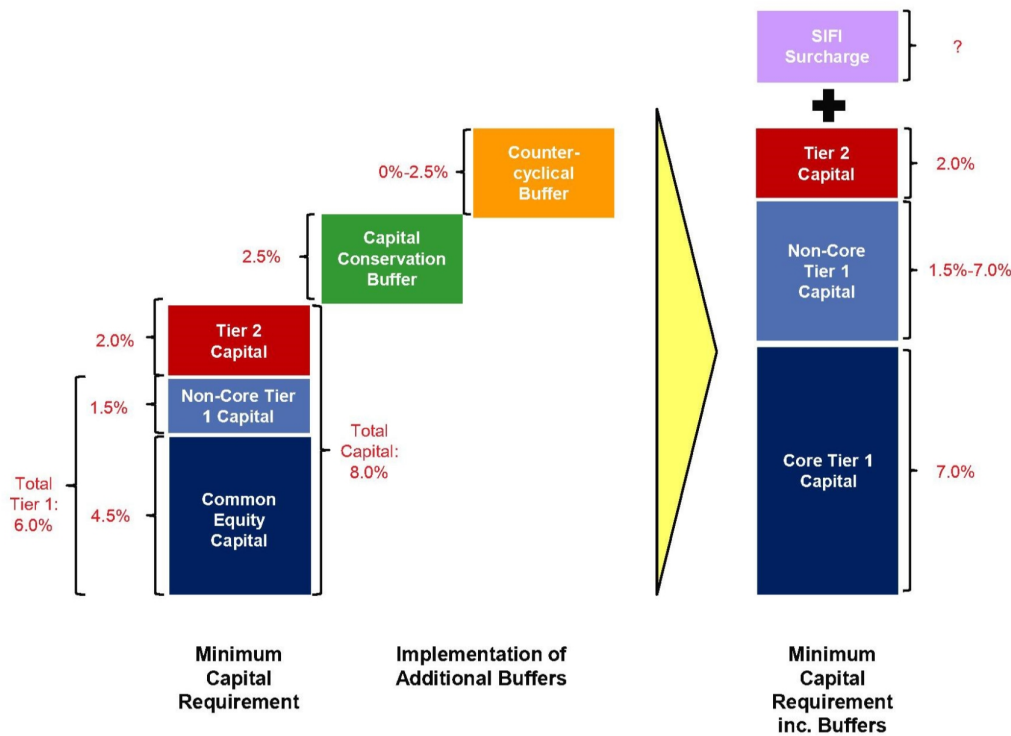
Bank Capital is made up of Tier 1 capital (Core Tier 1 (now Common Equity Tier 1) capital and non-Core Tier 1 capital) and Tier 2 capital. The most critical of these is Tier 1 capital.

### Tier 1 Capital

- The predominant form of Tier 1 capital must be common shares and retained earnings. The remainder of the Tier 1 capital base must be comprised of instruments that are subordinated, have fully discretionary non-cumulative dividends or coupons and have neither a maturity date nor an incentive to redeem.
- Common Equity Tier 1 must be at least 4.5% of risk-weighted assets at all times.
- Tier 1 Capital must be at least 6.0% of risk-weighted assets at all times.
- Total Capital (Tier 1 Capital plus Tier 2 Capital) must be at least 8.0% of risk weighted assets at all times.



## 1. Bank Capital Requirements – Basel III (from January 2015)



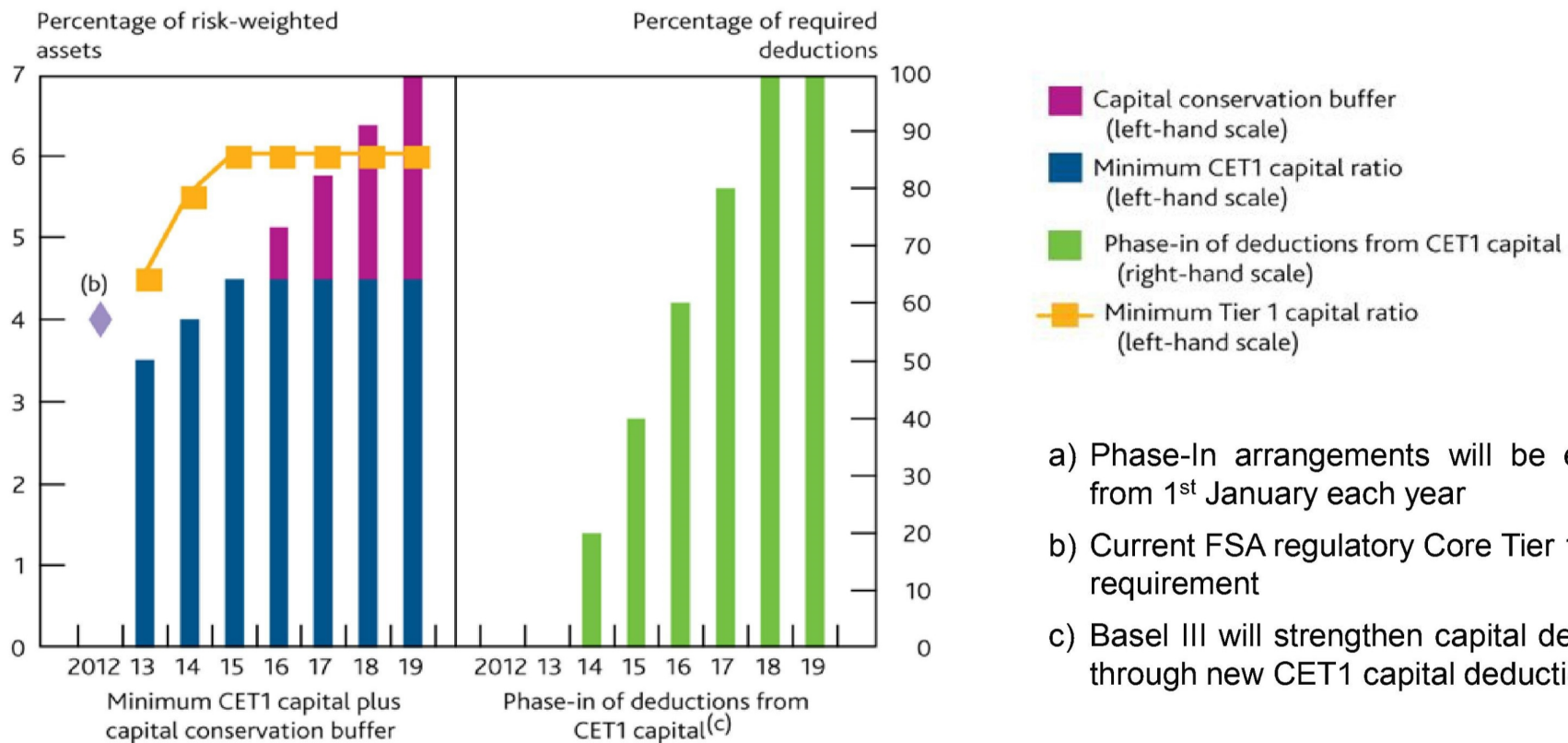
- The minimum **common equity capital** requirement will rise from 2% to 4.5%
- **Tier 1 capital**, which includes CET1 capital, will increase from 4% to 6%
- The “**capital conservation buffer**”, which sits above the regulatory minimum, will be 2.5% and will consist of common equity
- The “**counter-cyclical buffer**” ranges between 0% and 2.5% of common equity capital (or other fully loss-absorbing capital)
  - This only comes into effect when there is excess credit growth
  - It will be implemented on a national basis
- **Systemically Important Financial Institutions** (SIFIs) may be required to hold additional capital on the basis that they are “too big to fail”

Source: Association for Financial Markets in Europe



## 1. Bank Capital Requirements – Phasing the move to Basel III

### Phase-In arrangements for Basel III changes to regulatory capital requirements (a)

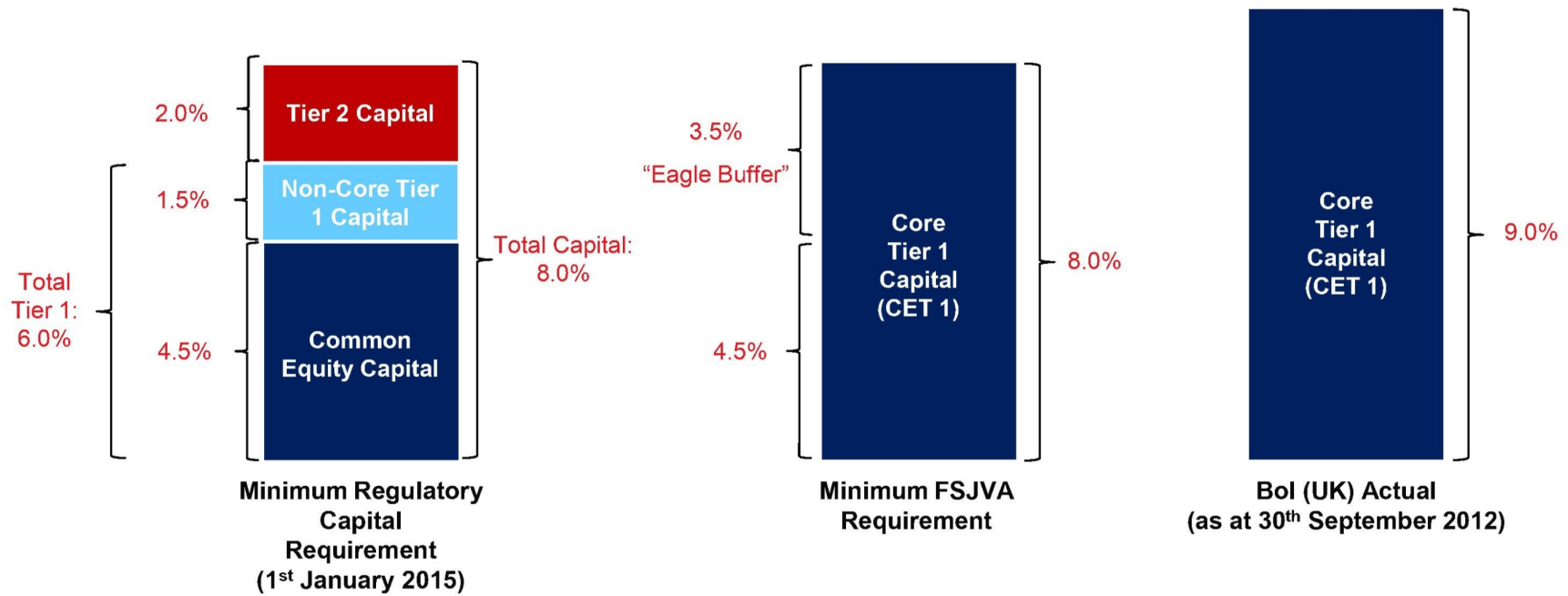


Source: BIS and BoE (2012)

- a) Phase-In arrangements will be effective from 1<sup>st</sup> January each year
- b) Current FSA regulatory Core Tier 1 capital requirement
- c) Basel III will strengthen capital definitions through new CET1 capital deductions



## 2. Bank of Ireland (UK) Capital Status (as at 30<sup>th</sup> September 2012)







### 3. Bank Liquidity Requirements

#### Bank Liquidity

Cash and other financial assets that banks possess that can easily be liquidated and paid out as part of operational cash flows. Examples of core liquidity assets would be cash, government bonds and money market funds. Banks typically use forecasts to anticipate the amount of cash that account holders will need to withdraw, but it is important that banks do not over-estimate the amount of cash and cash equivalents required for core liquidity because unused cash left in core liquidity cannot be used by the bank to earn increased returns.

#### The Liquidity Adequacy Rule, the Individual Liquidity Guidance, the Liquidity Coverage Ratio and the Net Stable Funding Ratio

##### Liquidity Adequacy Rule

- *“A firm must at all times maintain liquidity resources which are adequate, both as to amount and quality to ensure that there is no significant risk that its liabilities cannot be met as they fall due”* – FSA BIPRU 12.2.1 R
- *“A firm must ensure that it maintains at all times liquidity resources sufficient to withstand a range of severe stress events which could impair its ability to meet its liabilities...”* – FSA BIPRU 12.2.3 R

##### Individual Liquidity Guidance

- At least annually a Bank must carry out an Individual Liquidity Adequacy Assessment, which is then reviewed by the FSA (the Supervisory Liquidity Review Process or SLRP). The outcome of this process is the FSA's Individual Liquidity Guidance (ILG), which sets out the FSA's guidance as to the amount and composition of the liquid assets buffer a bank should hold.
  - If this is breached and a remediation plan not agreed then the Guidance can turn into a Requirement



### 3. Bank Liquidity Requirements

#### **The Liquidity Adequacy Rule, the Individual Liquidity Guidance, the Liquidity Coverage Ratio and the Net Stable Funding Ratio (continued)**

##### Liquidity Coverage Ratio (LCR)

- From 1<sup>st</sup> January 2015 the LCR will come into effect, replacing the measures employed by the FSA but still managed by them or by then the FCA & PRA. Revisions to the minimum standards have been agreed on 6<sup>th</sup> January 2013. The LCR is part of the Basel III framework.
- The LCR aims to ensure that a bank has an adequate stock of unencumbered high quality liquid assets (HQLA) which consists of cash or assets that can be converted into cash at little or no loss of value in private markets to meet its liquidity needs for a 30 calendar day liquidity stress scenario.
  - The range of assets that can be included in the HQLAs has been widened as part of the new changes, ostensibly to try and free up bank lending and prevent a return to global economic recession.

##### Net Stable Funding Requirement (NSFR)

- The NSFR requires that available stable funding (equity and liability financing expected to remain stable over a one-year time horizon) at least equals the matching assets, i.e. Illiquid assets which cannot be easily turned into cash over the following 12 months. As a result of the agreement on the LCR the “Group of Governors and Heads of Supervision” (GHOS) will now focus on developing the NSFR framework. The aim is to introduce the NSFR in 2018.



## 4. Bank of Ireland (UK) Liquidity Status (as at 30<sup>th</sup> September 2012)

Bank of Ireland (UK) is substantially exceeding its regulatory minimum liquidity requirement and currently holds a surplus of:



**Surplus over the regulatory  
liquidity requirement  
(as at 30<sup>th</sup> September 2012)**



## 5. Post Office termination rights in the FSJVA

As previously presented to the Board, Post Office has a termination right if:

- Bol's minimum core tier one capital ratio falls below the threshold;
- Bol fails to maintain liquid assets required by the regulator;
- Bol breaches the Net Stable Funding Ratio (NSFR) (to the extent that these rules apply to Bol when they become operational from 2018); or
- Bol, or its parent, becomes insolvent.

To support these rights, Bol must inform Post Office immediately of any threshold breach; failure to do so is in itself a breach of the contract.

To provide the Post Office with some notice of the potential that Bol may breach a termination benchmark, Bol must provide Post Office with regular updates of its financial position, including:

- Formal update on its capital and liquidity status and immediate notice if it becomes aware of any capital or liquidity issues that might give rise to a termination event.
- 15 days after each public announcement of annual and half yearly results and any interim management statement Bol must provide a certificate stating:
- Its Minimum Core Tier One Ratio, the actual Core Tier One Ratio and any Common Equity Tier 1 (CET1) Capital buffers or other requirements applicable to Bol;
- Bol's regulatory liquidity requirement and its position against the benchmark;
- Any NSFR requirement and Bol's position;
- That Bol is not in breach of the termination obligations, or of any remediation plan agreed with the regulator.
- After each half year financial announcement a senior Bol executives must provide a trading performance update.
- Bol must provide a presentation of its annual results, including a summary of any Recovery and Resolution Plan (RRP) submitted to the regulator and summaries of any ARROW Letters received from the FSA as far as they relate to the Post Office or Bol's obligations to the Post Office.



**Post Office Ltd**  
**Audit Risk and Compliance Committee meeting**  
**13 February 2013**

**Location:**

The Board Room, 148 Old Street, London, England, EC1V 9HQ, United Kingdom

**ATTENDANCE LIST**

ATTENDEES	SIGNATURE
Alasdair, Marnoch	
Neil, McCausland	
Susannah, Storey	

**Also in attendance**

Alwen, Lyons	
Alice, Perkins	
Chris, Day	
Lesley, Sewell	
Malcolm, Zack,	
Paula, Vennells	
Sarah, Hall	
Susan, Crichton	

**Apologies for absence**

Tim, Franklin

**Additional access**

Martin, Edwards	
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