



Post Office Audit, Risk and Compliance Committee Agenda

| Date | |
|---------------------------------|-------------|
| 25 th September 2017 | |
| Start Time | Finish Time |
| 14.00hrs | 17.00hrs |
| Location | |
| Room 1.19 Wakefield | |

| Present | In Attendance | Apologies |
|--|---|--|
| <ul style="list-style-type: none"> Carla Stent (Chair) Richard Callard Tim Franklin Ken McCall | <ul style="list-style-type: none"> Paula Vennells Al Cameron Jane MacLeod Nick Kennett Johann Appel Richard Williams Amanda Radford Peter Mclver EY | <ul style="list-style-type: none"> Deana Herley (item 4.3 & 6.1) Sharon Gilkes (item 7.1) Mick Mitchell (item 7.1) Sally Smith (item 7.3) Jonathan Hill (item 7.4 & 9.6) Angela Van Den Bogerd (item 7.5) Tim Armit (item 7.6) Mark Dixon (item 8.1 & 8.2) |

| Agenda Item | Action Needed | Purpose | Lead | Time |
|---|---|---|----------------|---------|
| 1. Welcome and Conflicts of Interest | | | Chairman | |
| 2.1 Minutes of the meeting held on 18th May | For approval | To approve the minutes of the meeting held on 18 th May, note the Matters Arising and receive an update on the Actions. | Chairman | |
| 2.2 Matters Arising and Actions List | | | | |
| 3. POMS ARC Report (verbal update) | For noting | To update the ARC on the POMS ARC. | Nick Kennett | 10 mins |
| 4. Accounts | | | | 75 mins |
| 4.1 Approve ARA & Financial Statements and recommend to the Board. | For approval and onward submission to the Board | To present the Annual Report and Accounts together with the Financial Statements to ARC for approval of onward submission to the Board. | Amanda Radford | |
| 4.2 EY Audit Report, including Draft Management Representation Letter and Unadjusted Audit Differences. | | | Peter Mclver | |
| 4.3 Executive Declaration, Top Risks and Risk Section for ARA. | | | Deana Herley | |
| 5. Internal Audit Report and Update | For noting | ARC to note the Internal Audit Report. | Johann Appel | 15 mins |



Post Office Audit, Risk and Compliance Committee Agenda (cont.)

| Agenda Item | Action Needed | Purpose | Lead | Time |
|--|------------------------|--|--|------------------------------|
| 6. Risk Update 6.1 Risk & Controls Effectiveness (Placemat) | Questions and noting | ARC to be updated on any urgent risk areas. | Richard Williams / Deana Herley | 20 mins |
| 7. Key Operational Risks 7.1 IT Controls Framework and Disaster Recovery Framework 7.2 Financial Reporting Controls 7.3 Financial Crime Risk Update 7.4 Financial Services Conduct Report 7.5 Change Risk Update 7.6 Business Continuity and Crisis Management Update | Questions and noting | ARC to be updated on any areas of concern. • For noting • For noting • For discussion • For noting • For discussion • For noting | Sharon Gilkes / Mick Mitchell Amanda Radford Sally Smith Jonathan Hill Angela Van Den Bogerd Tim Armit / Jane MacLeod | 15 mins |
| 8. Decision / Discussion Papers 8.1 Insurance Policy Renewal 8.2 Approval of Interest Rate swaps to hedge risk under new POca contract 8.3 Deep Dive on Losses Management (requested at July Board) | Questions and decision | For approval For approval For noting | Mark Dixon Mark Dixon Al Cameron | 5 mins 20 mins 15 mins |
| 9. Policies 9.1 Financial Crime 9.2 Anti-Bribery & Corruption 9.3 Anti-Money Laundering & Counter Terrorist Financing 9.4 Protecting Personal Data 9.5 Whistleblowing 9.6 Vulnerable Customer | Questions and approval | Annual Review of policies following review and approval at RCC. Format updated and content reviewed. | Jane MacLeod Jonathan Hill | 5 mins |



Post Office Audit, Risk and Compliance Committee Agenda (cont.)

| Agenda Item | Action Needed | Purpose | Lead | | Time |
|-------------|---|------------|------|----------|--------|
| 10. | Noting papers 10.1 Horizon Scanning: Corporate Government Reforms | For noting | | | 5 mins |
| 11. | Any Other Business | | | Chairman | |

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POLARC 17(4th)
POL ARC 17/43 – 17/62

POST OFFICE LIMITED
(Company no. 2154540)
(the 'Company')

Minutes of a meeting of the AUDIT, RISK AND COMPLIANCE COMMITTEE
held at 10.00 am on 18th May 2017 at 20 Finsbury Street, London EC2Y 9AQ

Present:

| | |
|-----------------|------------------------------|
| Carla Stent | Chair |
| Richard Callard | Non-Executive Director (RC) |
| Tim Franklin | Non-Executive Director (TF) |
| Ken McCall | Non-Executive Director (KMC) |

In attendance:

| | |
|------------------|---|
| Alisdair Cameron | Chief Finance and Operating Officer (CFOO) |
| Jane MacLeod | General Counsel (GC) |
| Nick Kennett | Chief Executive Financial Services and Telecommunications and CEO of POMS (NK) |
| Alwen Lyons | Company Secretary (CoSec) |
| Amanda Radford | Group Financial Controller (AR) |
| Johann Appel | Senior Manager Internal Audit (JA) |
| Richard Williams | Senior Manager Risk (RW) |
| Peter Mclver | Audit Partner, Ernst & Young (PMI) |
| Claire Johnson | Senior Quality Leader, Ernst & Young (CJ) |
| Amanda Bowe | POMS ARC Chairman (AB) (Minute POLARC 17/45) |
| Deana Herley | Senior Assurance Manager (DH) (Minute POLARC 17/47-49) |
| Rob Houghton | Chief Information Officer (RH) (Minute POLARC 17/50) |
| Sharon Gilkes | Business Performance and IT Transformation Director (SG) (Minute POLARC 17/50) |
| Sally Smith | Head of Financial Crime (SS) (Minute POLARC 17/52) |

Apologies for absence:

| | |
|----------------|-------------------------------|
| Paula Vennells | Chief Executive Officer (CEO) |
|----------------|-------------------------------|

POLARC 17/43 WELCOME AND CONFLICTS OF INTEREST

- (a) A quorum being present, the Chair opened the meeting. The directors declared that they had no conflicts of interest in the matters to be considered at the meeting in accordance with the requirements of section 177 of the Companies Act 2006 and the Company's articles of association.

POLARC 17/44 MINUTES OF THE MEETING HELD ON 28TH MARCH 2017, MATTERS ARISING AND ACTIONS LIST

- (a) The minutes of the meeting held on 28th March 2017 were approved as presented and the Chair of the committee was authorised to sign them as a true record.

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- (b) The Committee noted the updated actions list.

POLARC 17/45

POMS ARC REPORT

POMS ARC Report

- (a) The Committee received a verbal report from Amanda Bowe, POMS ARC Chairman following the POMS ARC meeting held on 16 May 2017.
- (b) AB reported that good progress had been made to embed the POMS risk framework, but highlighted two areas of concern:
1. Potential risk of non-compliance in the branch network following mystery shopping undertaken by the POMS compliance team; and
 2. the lack of MI available to enable POMS to oversee POL as their Appointed Representative.
- AB recognised that plans were in place to rectify both issues.
- (c) The ARC asked for more detail on the mystery shopping results and AB explained that issues had arisen with the sale of life insurance and despite recent training the mystery shopper had not been provided with all the necessary information. NK stressed that there had been no customer detriment and that the video mystery shopping had been a very small sample, but that the exercise had highlighted a need to revisit and test the training provided. **AB promised the POL ARC more detail once the internal audit had been completed.**

ACTION: NK

- (d) The second concern regarding MI was in development and initiatives such as EUM and SuccessFactors later in the year would assist.
- (e) AB explained that the POMS ARC had a good framework in place for assurance activity, with routine updates and a deep dive later in the year.
- (f) The POMS ARC had received an interim paper on vulnerable customers and had agreed the high level principles although acknowledged that more work was need to embed them. The ARC asked how vulnerable customers were being identified and how staff were being trained. It was noted that **Jonathan Hill would report to the RCC in July and the ARC in September on POL's proposed approach to vulnerable customers.**

ACTION: JH

- (g) AB reported that EY had attended the POMS ARC meeting to report on the POMS audit and to ratify the interim profit. No adverse issues had arisen and at the private meeting the auditors had provided a positive report on the POMS processes and management capability.
- (h) AB reported that Susie Hayward, POMS Head of Risk and Compliance had resigned and although AB was sorry to see her leave recruitment had commenced to replace her.

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- (i) NK reported the regulatory developments of the Insurance Distribution Directive and the Senior Manager Regime for Insurance and noted that the POMS ARC received an hours training before each meeting to keep them updated.

ACTION: JM

The ARC requested future training on regulatory developments and specifically asked for a list of all the material regulators and regulations which affected POMS and POL.

- (j) The Committee noted the report from the POMS ARC Chairman.

POLARC 17/46

ANNUAL REPORT AND ACCOUNTS 2016/17 (ARA)

- (a) The Committee received a report from Alisdair Cameron, CFOO and Amanda Radford, Financial Controller.

ARA Covering Note

- (b) AR presented the draft financial statement section of the ARA, which had been prepared ready for signing at the end of July assuming that
 1. confirmation of investment funding is received from BEIS by the end of June
 2. the EY audit procedures are complete, and
 3. the legal review of control accounts in POLSAP by Deloitte is finalised.

Financial Statements

- (c) The Committee reviewed the Financial Statements and Accounts in respect of Post Office Limited for the year ending 26th March 2017. The ARA had been prepared on a basis consistent with prior years with the following exceptions:

1. Impairment of fixed assets. The Financial Statements were presented with a change to the treatment of fixed assets moving to an impairment basis. This may have to be reversed if we cannot see our way to commercial sustainability post the Funding settlement.
2. Accounting for [IRRELEVANT] The accounting treatment for

IRRELEVANT

3. Closure of the defined benefits pension scheme. With the closure of the DB scheme the net pension asset of £210m (which under accounting rules had been revaluated from £193m) had been removed from the balance sheet.
AR explained that there had been some debate with EY about the discount rate to be used to value the pension scheme asset. EY believed that the discount rate used was at the prudent end of the range, however in the round were content to support it.
The ARC supported this prudent approach.

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- (d) Work had been undertaken to verify the existence and value of the fixed assets included on the balance sheet. This was now being audited by EY. The controls over the revalued assets were being reviewed as part of the Financial Controls Framework.
- (e) The consolidated income statement, page 6 of the Financial Statements shows an EBITDAS of £13m compared with a restated loss of (£17m) in 2016, and includes amongst other things; the discontinued Cash in Transit business; the effect of the pension closure; and the strong underlying trading improvement.

ACTION: CFOO

The ARC thanked AR for the detailed presentation and stressed the need to explain the changes in the front end ARA narrative.

- (f) The ARC asked for comfort on the accuracy of the £42m Postmaster Compensation provision. The CFOO explained that the quantum of the provision had reduced significantly as the Network Transformation programme draws to a close. We were comfortable with the size of the provision which was intended to be a prudent but realistic amount based on the likely branch numbers and closure dates, with changes to the branches in the programme inevitably changing the compensation paid. EY had checked the accuracy of the calculations and had not discovered any issues, but would continue to reconcile the actual payments and the provisions made. However, they had not completed their work and could reach a different judgement on the provision at year-end.
- (g) AR explained the Quality of Earnings calculation and the year on year improvement in EBITDAS, excluding one-offs, of £35m.
- (h) Ernst and Young (EY) External Audit Risk Results
The Committee reviewed the preliminary audit results report which summarised the findings from EY audit of Post Office Limited's financial position and operations for the 52 week period ended 26th March 2017.
- (i) EY explained that the audit report was as advanced as it could be at this stage and subject to finalisation of the outstanding areas it was anticipated that EY would issue an unqualified audit opinion. Specifically:
 1. The revenue recognition work was completed satisfactorily
 2. The layout and classification of the P&L account were agreed
 3. Accounting treatment for Pension; IRRELEVANT discontinued Retail Cash in Transit Business; Sparrow litigation; Postmaster compensation; POMS; Goodwill and Fixed Asset impairment were all satisfactory subject to the areas already reported to the ARC

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- (j) EY would continue to monitor the contingent liability disclosures nearer to the date of signing the ARA.

ACTION: JM

The ARC discussed the Postmaster Litigation and JM was asked to circulate a note to update the ARC on the funding of the Postmasters' action.

- (k) EY recognised the progress made to improve the financial control environment. More work would be done to check the Joiners, Movers and Leavers data and manager access.
- (l) The Committee noted the progress and findings from the EY report.
- (m) The Chair explained that the papers covering; Top Risks; Executive Declaration; and Principle risks for the ARA would be taken next and considered as part of the ARA discussion.

POLARC 17/47

TOP RISKS

- (a) JM introduced the top risks and explained the changes made since the January report. The risks had been grouped into risk universe categories which were now aligned to the placemat work, and were cross referenced to any risks highlighted in the executive declarations.
- (b) A few risks had been downgraded including **IRRELEVANT** Alignment because of the closer working relationship with **IRRELEVANT** including engagement with **IRRELEVANT** through the CEOs. However a new **IRRELEVANT** had now been added to the register.
- (c) The ARC discussed the IA risk and its effect on Post Office. JM advised the Committee that contingency planning was already underway for any RMG strike action.
- (d) The ARC challenged the consistency in reducing the IT delivery risk whilst IT delivery capability remained a disclosable risk in the ARA. **The ARC asked the Executive to consider the IT risk scoring again as despite the reduction in IR35 implications there were still challenges to the delivery of the IT transformation.**

ACTION: RH

- (e) The ARC discussed the reduction in the people capability risk. The CFOO explained the good track record on recent hires which had enhanced the people capability of the business. There had been debate at GE over the impact of cost reductions with an outcome that whilst individual situations might arise as a consequence, the overall risk was not extreme. There was now much better capability in the IT function, however if the ARC felt the reassessment was premature **the Executive would reconsider the people capability risk score to see if the change was justified.**

ACTION: MK

- (f) The Committee noted the report.

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POLARC 17/48 EXECUTIVE DECLARATION

- (a) DH introduced the Executive Declaration paper and explained the results and the 15 items which had been considered appropriate to disclose in the ARA. The ARC challenged whether more of the detail of the 58 disclosures which had been omitted from the report should have been presented to the ARC.
- (b) DH assured the ARC that 27 of the disclosures had been shared with the Financial Controller to understand if they required any accounting adjustment, and 31 of the disclosures were not considered to be material or were sufficiently addressed by other generic disclosures.
- (c) The Committee agreed the approach to disclosure as set out in the report, and noted the items to be disclosed.

POLARC 17/49 PRINCIPAL RISKS FOR THE ANNUAL REPORT AND ACCOUNTS

- (a) JM explained that the Top risks and Executive Declarations fed into the disclosures in the risk section in the ARA, but that the less material risks were still visible to the Executive.
- (b) The Chairman asked if the ARC was comfortable with the 15 risk which had been identified from the executive declarations and their cross reference to the 7 principle risks for the ARA.
- (c) The ARC asked if the HMRC fine should be disclosed in the ARA, JM reported that it would not be disclosed by HMRC. The CFOO explained that the Executive acknowledged that the inaccurate registration was an error which should not have happened but this was a historical problem, reflected over and under registration, the remedial action was now in place and this fine although significant was not considered a material amount for disclosure.
- (d) The Committee approved the draft principal risks, as set out in Appendix 1 to the report, for inclusion in the Annual Report and Accounts 2016/17.
- (e) DH left the meeting.

POLARC 17/50 IT CONTROLS UPDATE

- (a) Rob Houghton, CIO, and Sharon Gilkes, Business Performance and IT Transformation Director joined the meeting. The Chairman recognised the good progress being made and asked RH to give an update on the recent Ransomware Cyber Attack, and the internal audit report on access controls.
- (b) RH explained that the Post Office had not seen any evidence of the Ransomware attack compromising the IT systems. The investment to replace all the admin laptops a year ago had been

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- (c) key as the new machines had high protection against viruses, which would have caught the attack if it had reached Post Office.
- (d) Over the weekend the IT security team had upped the spam filter for incoming mail and made sure that any vulnerable parts of the operation were not connected to the network.
- (e) Contact had also been made to IT suppliers to ensure that they were safe. The in-branch SSK and AEI machines which run on older software had been checked and were OK.
- (f) HR reported that the business does use some XP software but that this was ring-fenced behind a fire wall, these machines would be patched over time but they were not a threat to the wider business.
- (g) A report had been sent to BEIS to update them on the position and provide details and contact numbers for IT and Business Continuity.
- (h) The ARC thanked RH and his team for the work to date. RH was pleased with the position but would be more comfortable when the ITSOC (IT security centre) was completely operational.
- (i) INTERNAL AUDIT – JOINERS, LEAVERS AND MOVERS
JA introduced the report of the internal audit carried out on the 26th April to test access management and Joiners, Movers and Leavers (JML) processes. The audit had found that there was; no overall process or ownership for JML; no system and data owner; and no access management process. The ARC were very concerned about the findings of the audit report.
- (j) JM explained that she had taken over responsibility for setting up the oversight for JML with involvement from HR, HR Operations and IT. The ARC thanked JM for taking on the coordination role but queried whether delivery should be owned by one individual who had complete dependencies on other functions; no matter how well understood and managed.

ACTION: JM

It was agreed that this would be monitored and if issues arose and remained unresolved JM would advise the ARC Chair.

- (k) JM recognised that the actions highlighted in the internal audit report needed to be addressed urgently to ensure the HR data is correct.

ACTION: JA

It was stressed that a similar issue had been raised at the ARC three years ago and the Committee asked JA to investigate who had taken ownership of the issue at that time, and why it had not been put right.

- (l) The ARC were very concerned with Leavers still having access to the system. RH reported that removing Leavers from the

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system was straightforward if the information processes were in place.

- (m) The ARC asked if the Executive were comfortable that the payroll was accurate and that Leavers were not receiving inappropriate pay. **EY assured the ARC that their payroll audit tests had not shown any problems but that they would go back and check again to give assurance.**

ACTION: EY

The ARC asked the CFOO to brief the CEO on the discussion and the urgency of the situation and asked the CFOO and the CEO to be ready to discuss at the Board on the 25th May.

ACTION: CFOO

- (n) The Committee noted the report.
- (o) RH and SG left the meeting.

POLARC 17/51

FINANCIAL REPORTING CONTROLS

- (a) The Committee thanked AR and EY for their work on the financial controls.
- (b) EY explained that they were investigating one area of the Journal Controls in POLSAP which they did not at this point think was a material risk to the results. An update would be provided when the situation was clear.
- (d) The Committee noted the report.

POLARC 17/52

FINANCIAL CRIME RISK UPDATE

- (a) The Committee received a report from Sally Smith, Head of Financial Crime.
- (b) SS explained the work undertaken with HMRC to deliver the action plan which was in place. AML training was underway with branch training starting 10 days ago.
- (c) There was no further news on the HMRC AML penalty or the 4th AML directive, but the meetings with HMRC were positive. The ARC asked if SS was getting the support that she needed from the business and SS assured the ARC that she was.
- (d) Product Risk assessments were broadly on plan, with work on **IRRELEVANT** nearing completion and good progress on **IRRELEVANT** and **IRRELEVANT**. Work was underway on **IRRELEVANT** **IRRELEVANT** to articulate the risks and understand the actions required.
- (e) HMRC had flagged that it proposed to review bill payments later in the year. SS advised that work was underway with the legal team to review the legal and regulatory framework around bill payments to determine the extent of POL's responsibilities.

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- (f) The ARC asked about the AML training completion rates. SS explained the flaws in the original HR data which had now been cleansed but still included people on long term sick or maternity leave. However the completion rates had significantly improved.
- (g) JM acknowledged that the accuracy of HR data had been an issue and migration to SuccessFactors involved a cleanse, and would therefore resolve many of these issues.

ACTION: MK

The ARC asked for the plan to cleanse the HR data to be presented by the HR Director at the next ARC, and to return to update the ARC at every following alternate meeting.

- (h) SS assured the ARC that all the risk assessments were due by the end of May.
- (i) The Committee noted the report.
- (j) SS left the meeting.

POLARC 17/53

FINANCIAL SERVICES CONDUCT RISK UPDATE

- (a) The Committee noted the report.

POLARC 17/54

SAFETY

- (a) The Committee noted the report.

POLARC 17/55

TRANSFORMATION – CHANGE RISK UPDATE

- (a) The Committee noted the report.

POLARC 17/56

TAX UPDATE

- (a) The Committee received the interim tax update from the CFOO who explained the main areas of taxation which effect the Company:
 - Value Added Tax
 - Corporation Tax, and
 - Employment taxes/PAYE
- (b) The CFOO reported the partial VAT exemption from HMRC and the advisory relationship with KPMG for VAT advice. KPMG believe that the partial exemption was secure but the CFOO recognised the need to keep close to HMRC on VAT.
- (c) AR explained that as the Company moved to a position of profitability more focus would need to be given to Corporation Tax and the treatment of Research & Development spend. AR reported the activity to recruit a tax generalist to be responsible for all areas with the ongoing external support for specialist advice.

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ACTION: CFOO

The CFOO reminded the ARC that a Tax strategy paper was due at the November ARC meeting, which would include any outstanding HMRC issues, the response to the tax internal audit, and tax planning as the Company moves into profit.

- (d) The ARC discussed the possible change of emphasis away from EBITDAS, when the Government investment funding is in place, and the Company moves into profit. The CFOO proposed that at this point the Board should consider moving to profit after tax as the primary scorecard measure.
- (e) The Committee noted the report and understood that a further update would be provided at the November meeting.

POLARC 17/57

INTERNAL AUDIT REPORT

- (a) The Committee received a report from Johann Appel, Senior Manager Internal Audit.
- (b) The Chairman noted that at the previous meeting JA had flagged there would be approximately 9 IA reports to table at this meeting and queried why this was not the case. JA explained that he had started with a back log in the plan but that all the internal audits for 2016/17 had now been completed with reports in final draft. Final reports would be available in the next 2 weeks.
- (c) The ARC asked for assurance that management were not prevaricating or negotiating away the action points. JA assured the ARC that this was not the case.

ACTION:JA

The ARC asked JA to introduce SLAs for AI reports:

- 10 working days following fieldwork to complete and issue the draft report to management; and
- 10 working days for management to respond.

ACTION: JA

The IA process should set out how reports would be provided, and the timings for response. The GE member responsible should see the initial draft report, and be involved in ensuring that managers respond with the agreed timescale.

- (d) The Committee noted the Internal Audit Report.

RISK UPDATE

POLARC 17/58

SUPPLY CHAIN PILOT OF THE PLACEMAT

- (a) The Committee noted the report which would presented at the next ARC.

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POLARC 17/59 BUSINESS CONTINUITY PLANNING

- (a) The Committee noted the business continuity and crisis management update.

DECISION PAPERS

POLARC 17/60 MODERN SLAVERY ACT STATEMENT

- (a) The Committee received a report in the name of Martin Kirke, Group HR Director, presented by JM.
- (b) The ARC asked where the modern slavery risk existed in the Business. JM explained that there was potential for risk in the postmaster network, but that the statement provided a proportionate response to the legislation.
- (c) The ARC challenged the passive nature of the statement and asked whether the business should be doing more, especially with regards to postmasters' assistants.

ACTION: JM/MK **The ARC asked for a note on the number of Postmaster contracts which had been amended to take into account the modern slavery act.**

ACTION:JM/MK **The ARC supported the statement but asked for feedback on how the requirements of the Modern Slavery Act were being deployed in the business**

- (d) The Committee recommended the 2017/18 Modern Slavery Act Statement to the Board for approval and endorsed the actions set out in the report with the addition of those actions raised by the ARC.

NOTING PAPERS

POLARC 17/61 WHISTLEBLOWING REPORT

- (a) JM presented the Whistleblowing (WB) report and explained that 4 specific WB reports had been received since March 2016. She acknowledged that this was a very low number of WB incidents and explained that individuals used other processes to register issues, and this data was not captured as WB. A communication had also been sent out to advertise the help line.
- (b) The ARC asked if postmasters' assistants had access to the WB helpline, and although they do not have access to WB they can use the Grapevine help line to report. JM reported that 2 recent incidents were registered by postmaster assistants on Grapevine, which gave some comfort that the process was recognised by postmasters' assistants.
- (c) The ARC recognised that 4 incidents was very low but accepted that the Executive were doing all the right things to promote the support.

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- (d) The Committee noted the report.

POLARC 17/62

ANY OTHER BUSINESS

- (a) There being no further business the Chair closed the meeting at 13.05pm.

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Chair

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Date

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Post Office Limited ARC Committee

Status Report as at: 19 September 2017

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| Action included on the ARC agenda | |
| Action recommended for closure | |
| Action closed | |

| REFERENCE | ACTION | Action Owner (GE Member) | Due Date | STATUS | Open/Closed |
|---------------------------------------|--|-----------------------------------|--|--|-------------|
| 22 January 2016 POLARC 16/03 (q) | <u>Risk Update</u> For the Executive to work with the external auditors to set out what a three year roadmap to benchmark against the UK Corporate Governance Code would like. | Jane MacLeod (General Counsel) | May 2018 ARC | <u>Corporate Governance Capability</u> - The Chairman of the ARC & GC have agreed to revisit the benchmarking with the UK Corporate Governance Code in May 2018 (to coincide with the preparation of the 2017/18 Annual Report and Accounts). | To Close |
| 28 September 2016 POLARC 16/43 (g) | <u>BOI UK Report</u> A review of the 2nd and 3rd lines of defence in the Post Office Money branch distribution model to be undertaken in autumn 2017/18. | Jane MacLeod (General Counsel) | September 2017 ARC | Internal Audit has discussed this with the BOI Internal Audit team. Action arose from BOI risk team. There is now no longer an expectation that this will be done by BOI. The three lines of defence model is being reviewed by POL as part of ongoing work in regulatory compliance and accountabilities. | Closed |
| 30 January 2017 POLARC 17/04 (i) | <u>Network Conduct Risk Action Plan</u> The Committee asked to see, quarterly, a network conduct risk scorecard, and action plans against the areas highlighted as concerns, with a highlight on any regulatory changes which will affect the network risk. | Jonathan Hill | March, September and November 2017 ARC | Provided in agenda papers. | To Close |
| 28 March 2017 POLARC 17/25 (g) | <u>Safety</u> MH was asked to provide more industry information to understand the benchmarking. | Martin Hopcroft | September 2017 ARC | Due to the reorganisation of one of our sources, the BSIA, who are undertaking a benchmarking exercise with their members, reviews planned with our FM Providers and scoping meetings planned with a 3rd Party Auditor we will be receiving additional benchmark data over the next couple of weeks and will therefore be in a position to provide a more comprehensive summary alongside the H&S deep dive discussion with PO Board and GE planned for October and the next ARC. Initial reports are encouraging. | Open |
| 28 March 2017 POLARC 17/37 (b) | <u>ARC Effectiveness Review Against Terms of Reference</u> GC advised that the ToR would be reviewed with recommendations for changes being brought to the next ARC meeting. | Jane MacLeod (General Counsel) | March 2018 ARC | Resourcing constraints and the focus on the Placemat have meant this work has not started. This will be completed for year end. | Open |

| REFERENCE | ACTION | Action Owner (GE Member) | Due Date | STATUS | Open/Closed |
|---------------------------------|--|--|--------------------|---|-------------|
| 18 May 2017 POLARC 17/45 (c) | <u>POMS ARC Report - Mystery Shopping, Sale of Life Insurance</u> Regarding the potential risk of non-compliance in respect of branch sales of life insurance, POL ARC had asked for more detail on the mystery shopping results. | Nick Kennett | September 2017 ARC | The Video Mystery Shopping results for the Agency CRM branches for the period April 2017 – July 2017 is currently at 11% red, 30% amber and 50% green. The red results are due to the CRM not giving incorrect information to customers, this information is key to the decision making process so would be graded red. The risk that customers are miss-sold a product based on these results is minimal as the counter colleagues cannot sell term life products through Horizon and the sales process on Horizon for Over 50s ensures customers are given the correct information. No issues have been identified for Mortgage Specialists. Non-video mystery shopping (counter colleagues) Over the period of November 2016, January – March 2017, a number of mystery shop visits were conducted in Agency, DMB and WH Smiths branches of counter colleagues. The visits focussed on the introductory conversation for Over 50s, the sale of which can be completed in a number of branches by counter colleagues. The visits sought to test the product knowledge and sales process. Of the 6 knowledge questions tested, 3 questions resulted in poor results: (1) Did the colleague tell you about the cover starting after 12 months? (2) Did the colleague explain the benefits and exclusions of the Funeral Benefit Option? (3) Did the colleague correctly explain the cancellation rate? Immediate action was taken following the results, for example training materials were reviewed to ensure these areas were included. Results were shared with the network teams as well. FS Risk reviewed the results and identified that the wording of questions 1 and 3 might have contributed to the poor results. Other areas identified were the change of the sales process since moving to IRRELEVANT; had not been factored into the shops for February and March. All questions and sales process have been reviewed for the start of the new round of mystery shopping, all questions have been approved by the POMS Compliance team. FS Risk have also had a conversation with product managers regarding the instructions/questions on Horizon with a view to reviewing these. | To Close |
| 18 May 2017 POLARC 17/45 (f) | <u>POMS ARC Report - Vulnerable Customers Paper</u> POMS ARC had received an interim paper on vulnerable customers which agreed the high level principles but required further work to embed them. POL ARC asked how vulnerable customers had been identified and queried how staff would be trained. It was noted that Jonathan Hill would report to RCC in July and ARC in September on POLs proposed approach to vulnerable customers. | Jonathan Hill | September 2017 ARC | To be addressed through the Vulnerable Customer Policy on the agenda. | To Close |
| 18 May 2017 POLARC 17/45 (i) | <u>POMS ARC Report - Training on Regulatory Developments</u> Noting that POMS ARC received an hour of training before each of its meetings (to maintain awareness of regulatory developments) POL ARC requested future training on regulatory developments and specifically asked for a list of all the material regulators and regulations which affected both POMS and POL. | Jane MacLeod (General Counsel) | September 2017 ARC | An additional hour has been reserved prior to each ARC meeting. Forward topics to be discussed with ARC Chair. | To Close |
| 18 May 2017 POLARC 17/46 (e) | <u>Annual Report and Accounts 2016/17</u> Noting that the ARA had been prepared on a basis consistent with prior years except for three changes arising from the impairment of fixed assets, accounting for, and the closure of the defined benefits pension scheme. ARC stressed the need to explain the changes in the front and ARA narrative. | Alisdair Cameron (Chief Finance and Operations Officer) | September 2017 ARC | Annual Report and Accounts to be submitted to the September ARC. | To Close |

| REFERENCE | ACTION | Action Owner (GE Member) | Due Date | STATUS | Open/Closed |
|---------------------------------|--|-----------------------------------|--------------------|---|-------------|
| 18 May 2017 POLARC 17/46 (j) | <u>Ernst and Young External Audit Risk Results</u> The ARC discussed the Postmaster Litigation and JM was asked to circulate a note to update the ARC on the funding of the Postmasters' action. | Jane MacLeod (General Counsel) | September 2017 ARC | Note circulated to the ARC on 22 May confirming: The claim is being funded by Therium Litigation Funding IC (http://www.therium.com) The Claimants have entered into individual Conditional Fee Arrangements with Freeths. The details of these arrangements are confidential to Freeths and the claimants, and have not therefore been shared with us. The Claimants also have the benefit of Legal Expenses Insurance (underwritten by QBE, CBL Insurance and Somo Canopus). We have been provided with redacted copies of the policy documents, and are taking advice on their adequacy to provide security for costs should we be successful in our defence of the claim. | Closed |
| 18 May 2017 POLARC 17/47 (d) | <u>Top Risks - IT Delivery Risk</u> The ARC challenged the consistency in reducing the IT delivery risk whilst IT delivery capability remained a disclosable risk in the ARA. The ARC asked the Executive to consider the IT risk scoring again as despite the reduction in IR35 implications there were still challenges to the delivery of the IT transformation. | Rob Houghton (CIO) | September 2017 ARC | This has been discussed with management. Current view on Top Risks provided in agenda papers. | To Close |
| 18 May 2017 POLARC 17/47 (e) | <u>Top Risks - People Capability Risk</u> The ARC discussed the reduction in the people capability risk. There had been debate at GE over the impact of cost reductions with an outcome that whilst individual situations might arise as a consequence, the overall risk was not extreme. There was now much better capability in the IT function, however if the ARC felt the reassessment was premature the Executive would reconsider the people capability risk score to see if the change was justified. | Martin Kirke | September 2017 ARC | This has been discussed with management. Current view on Top Risks provided in agenda papers. | To Close |
| 18 May 2017 POLARC 17/50 (j) | <u>IT Controls Update - Internal Audit - Joiners, Movers and Leavers (JML)</u> The internal audit carried out on the 26.04.2017 to test access management found that there was; no overall process or ownership for JML; no system and data owner; and no access management process. General Counsel had taken over responsibility for setting up the oversight for JML with involvement from HR, HR Operations and IT. The ARC thanked General Counsel for taking on the coordination role but queried whether delivery should be owned by one individual who had complete dependencies on other functions; no matter how well understood and managed. It was agreed that the JML process would be monitored and if issues arose and remained unresolved General Counsel would advise the ARC Chair. | Jane MacLeod (General Counsel) | Ongoing | A JML Steering Group has been established under the chairmanship of the GC. This meets monthly and is monitoring the implementation of the actions arising from the Audit Plan. Delivery of these actions is tracked through the Internal Audit report. | To Close |
| 18 May 2017 POLARC 17/50 (k) | <u>IT Controls Update - Internal Audit - Joiners, Movers and Leavers</u> An internal audit had found that there was no overall process or ownership for Joiners, Movers and Leavers, no system and data owner and no access management process. The actions arising from the internal audit report required urgent attention to ensure HR data was correct. It was stressed that a similar issue had been raised at the ARC three years ago and the Committee asked JA to investigate who had taken ownership of the issue at that time, and why it had not been put right. | Johann Appel | September 2017 ARC | As requested at the May ARC, the CEO and CFO briefed the Board at its meeting on 25 May. In relation to the point that a similar issue had been raised at the ARC three years ago which the Committee asked JA to investigate, we have reviewed the audit report from that time and the findings were substantially the same as the current audit. It appears however that the reason why these actions were not followed up was due to: (i) staff leaving and not properly handing over details of their accountabilities; and (ii) audit actions being taken into projects which then had their scope changed without understanding the impact. | To Close |

| REFERENCE | ACTION | Action Owner (GE Member) | Due Date | STATUS | Open/Closed |
|-------------------------------------|---|---|--------------------|--|-------------|
| 18 May 2017 POLARC 17/50 (m) | <u>IT Controls Update - Internal Audit - Joiners, Movers and Leavers - Payroll</u> The ARC asked if the Executive were comfortable that the payroll was accurate and that Leavers were not receiving inappropriate pay. EY assured the ARC that their payroll audit tests had not shown any problems but that they would go back and check again to give assurance. | Ernst and Young | September 2017 ARC | We had 1153 leavers from 1/11/2016 – 31/5/2017 and eight leavers (0.7%) were overpaid. Three individuals have repaid in full and the final chasers have been sent for the other five cases. The causes have been investigated and in all cases this was caused by late notification by the line manager to the shared service centre. Reminders have been issued of the need for prompt notification of leavers to avoid overpayment. | To Close |
| 18 May 2017 POLARC 17/50 (m) | <u>IT Controls Update - Internal Audit - Joiners, Movers and Leavers - Board Update</u> The ARC asked the CFOO to brief the CEO on the discussion held at POL ARC and the urgency of the situation. ARC asked the CFOO and the CEO to be ready to discuss at the Board on the 25th May. | Alisdair Cameron (Chief Finance and Operations Officer) | May 2017 Board | Update was provided to the Board at its May meeting. | Closed |
| 18 May 2017 POLARC 17/52 (h) | <u>Financial Crime Risk Update</u> In respect of AML training completion rates, the original HR data had been cleansed but still included peoples on long term sick or maternity leave. Migration of data to Success Factors involved a cleanse, and would therefore resolve many of these issues. The ARC asked for the plan to cleanse the HR data to be presented by the HR Director at the next ARC, and to return to update the ARC at every following alternate meeting. | Martin Kirke | September 2017 ARC | There has been a significant improvement in the completion of compliance training, from an average of 76% to 97%. In relation to cleansing compliance training data prior to publishing names of non-completion, this is what we now do (which has significantly improved reporting of noncompliance):- <ul style="list-style-type: none"> • All new starters were being included and the business rule has now been established that they have 30 days to complete the training (they are only reported if this has been exceeded) • Users on long term sick leave or on maternity leave are excluded from the report (they are required to complete within 30 days of return similar to new starters) • Significantly improved the SuccessFactors Assignment profiles (the automatic assignment of learning to groups of users) to ensure that all learning is being automatically assigned by SuccessFactors correctly • We have also raised direct with SAP the issue around people claiming they have completed relevant compliance training when the system has not recorded this. In all such cases SAP support have provided system logs as evidence to demonstrate compliance was failed or not completed. | To Close |
| 18 May 2017 POLARC 17/56 (c) | <u>Tax Update</u> The CFOO reminded the ARC that a Tax strategy paper was due at the November ARC meeting, which would include any outstanding HMRC issues, the response to the tax internal audit, and tax planning as the Company moves into profit. | Alisdair Cameron (Chief Finance and Operations Officer) | November 2017 ARC | | Open |
| 18 May 2017 POLARC 17/57 (c)(i) | <u>Internal Audit Report</u> The ARC asked JA to introduce SLAs for AI reports: <ul style="list-style-type: none"> • 10 working days following fieldwork to complete and issue the draft report to management; and • 10 working days for management to respond. | Johann Appel | September 2017 ARC | Addressed in Internal Audit report. | Closed |
| 18 May 2017 POLARC 17/57 (c)(ii) | <u>Internal Audit Report</u> The IA process should set out how reports would be provided, and the timings for response. The GE member responsible should see the initial draft report, and be involved in ensuring that managers respond with the agreed timescale. | Johann Appel | September 2017 ARC | Addressed in Internal Audit report. | Closed |
| 18 May 2017 POLARC 17/60 (c)(i) | <u>Modern Slavery Act Statement - Postmaster Contracts</u> The ARC asked for a note on the number of Postmaster contracts which had been amended to take into account the Modern Slavery Act. | Martin Kirke | September 2017 ARC | See Appendix to action sheet. | To Close |

| REFERENCE | ACTION | Action Owner (GE Member) | Due Date | STATUS | Open/Closed |
|-------------------------------------|---|-----------------------------|--------------------|-------------------------------|-------------|
| 18 May 2017 POLARC 17/60 (c)(ii) | <u>Modern Slavery Act Statement - Feedback</u> The ARC supported the statement but asked for feedback on how the requirements of the Modern Slavery Act were being deployed in the business. | Martin Kirke | September 2017 ARC | See Appendix to action sheet. | To Close |

Memo

Author: Kelly Godden/John Whitefoot

Sponsor: Martin Kirke

25 September 2017

At the ARC meeting on 18 May 2017, the ARC approved the draft Modern Slavery Statement for 2017 and recommended to the Post Office Board that the Statement be approved for signing and posting on Post Office's external website. Nevertheless the ARC requested further information:

- on the number of Postmaster contracts which had been amended to take into account the Modern Slavery Act, and
- as to how the requirements of the Modern Slavery Act were being deployed in the business

Number of Postmaster contracts which had been amended to take into account the Modern Slavery Act.

1. The standard contract between Post Office Limited and postmasters allows Post Office to amend the contract following consultation with the National Federation of Sub-Postmasters. Further, Postmasters have a contractual requirement to adhere to any written instructions issued by Post Office from time to time, as well as adhering to any statutory obligations, which includes the Modern Slavery Act.
2. Post Office has now issued guidelines which reminds postmasters that they have a duty to comply with the Modern Slavery Act and noting that compliance is a contractual requirement. The guidelines include the following statements:
 - a. *You must ensure that you read, understand and comply with this Guide and the Modern Slavery Act 2015. Further information regarding the Act can be sourced from the Government's website gov.uk*
 - b. *You are responsible for the prevention, detection and reporting of modern slavery in any part of your Post Office branch and any associated retail business or supply chains.*
 - c. *You must notify Post Office Limited as soon as possible if you believe or suspect that a breach of, or conflict with the Act has occurred, or may occur in the future. You must do this in the following by contacting the Network Business Support Centre.*
 - d. *You should raise any concerns you have about any issue or suspicion of modern slavery in any parts of your or our business or supply chain at the earliest possible stage.*
 - e. *You should report it to us even if you are unsure about whether a particular act, the treatment of workers more generally, or their working conditions within any tier of your or our business and/or your or our supply chains constitutes modern slavery.*

- f. We aim to encourage openness and will support anyone who raises genuine concerns in good faith in relation to modern slavery, even if they turn out to be mistaken.*
3. Accordingly the guidelines now apply to all postmasters, and all postmasters are therefore subject to the contractual requirements.

How are the requirements of the Modern Slavery Act being deployed in the business?

1. The Whistleblowing Policy has been updated to include references to raising concerns about Modern Slavery.
2. Our Code of Business Standards now includes reference to Modern Slavery.
3. We have adapted the Post Office recruitment policy to address MSA requirements.
4. We conducted an assessment of the Post Office procurement process to ensure it aligns with the MSA. As part of this process we reviewed the criteria used by Post Office to evaluate whether suppliers meet Post Office's minimum tendering requirements. As a result of this we have now reviewed our standard form procurement contracts to ensure that they cover POL with regards to compliance with the MSA legislation.
5. Our PQQ process has also been amended to take account of MSA. Suppliers must now confirm that they comply with the MSA and provide a copy of their statement
6. We have reviewed the Postmaster Contract of Engagement and have written Guidelines for Postmasters to assist them in complying with MSA legislation.

ARC 25 September 2017

Supplemental to POL ARC Action 17/50k: Briefing note provided to POL Board Meeting on 25 May 2017

Prepared by: Johann Appel

Post Office Identity and Access Management (IAM) (Including Joiners, Leavers & Movers' process) – 2013 Audit Action Status

Context:

Following a recent Adverse report on logical access controls in Post Office, the ARC have asked Internal Audit to investigate the reasons why similar findings from a 2013 audit have not been addressed. It was also noted that E&Y have repeatedly reported poor access controls for a number of years.

The 2013 IAM review of PO access management reported *high risk control gaps requiring immediate management action*. At the time of the review the separation from RM was ongoing, PO was still following RM defined processes and was looking to define its new IT operating model and processes. Remedial actions were agreed with management at the time - all actions were structured in 3 parts: policy, process design and systems deployment.

Status of 2013 agreed actions:

The actions related to policy and procedures have been completed. However, most of the actions which were related to process and system deployment haven't been completed. The main reasons why actions were not completed are:

- Actions were transferred as tasks to the IT Transformation programme (e.g. EUC tower deployment), but the related risks haven't been transferred into the programme risk register, nor have they been tracked for completion.
- IT Transformation programme scope changed and without an appropriate risk register, outstanding audit actions were no longer visible.
- Action owners left the business without an appropriate transfer of knowledge or handover of open actions.

Below a summary of the top concerns raised in 2013, high level agreed actions and their completion status:

| Key Audit Findings 2013 (All repeat findings of 2017 audit) | Agreed Action 2013 | Why was solution not implemented or not sustainable? |
|--|--|--|
| 1. There is no overview of all local area network accounts' access rights. | The risk of having no overview of accounts access rights was accepted by management for the current transition period, until IT & Change will adopt the Future Operating model (tower based). After the SISD and EUC tower is established, a feasibility study will be conducted into an appropriate solution, an appropriate decision will be made. | The feasibility study on how to obtain an overview of all access rights an account/user has, has not been performed once the SISD and EUC towers were stood up. The reason for which this was not done is most probably due to action owners leaving the business and risk not being tracked adequately. All action owners have since left the business. |

ARC 25 September 2017

Supplemental to POL ARC Action 17/50k: Briefing note provided to POL Board Meeting on 25 May 2017

Prepared by: Johann Appel

| Key Audit Findings 2013 (All repeat findings of 2017 audit) | Agreed Action 2013 | Why was solution not implemented or not sustainable? |
|---|--|--|
| 2. Access rights are granted on a 'mirroring with a similar account role' basis instead of a fit for role principle. | Three actions were agreed to tackle this issue (policy, process, system implementation). 1 st action was completed. The policy was designed to require access to be granted on a need to know/need to have basis. 2 nd action was completed. The process defined was not sustainable as it was defined on a short term to fit separation from RM needs. 3 rd action was not completed. | Overall the solution did not achieve the objective of granting role based access rights, because the design of role based access rights was not appropriately defined. The business did not identify minimum access required per role/function, therefore an IT solution was not implemented by the EUC tower as initially agreed. All action owners left the business |
| 3. Movers' access rights are not reviewed and updated to remain appropriate to the new role. | The following actions were agreed: 1. A reminder on the people change form for the line managers to review movers' access rights. 2. Line managers to actually review access rights. 3. IT to implement a control to verify that movers' access rights were reviewed periodically. | First action was completed, and the last 2 were not. Action owners for action 2 & 3 left the business. |
| 4. Leavers accounts are not systematically disabled in time and there is no control to verify that a leaver's access was revoked. | Short term actions: 1. Specific requirements regarding disabling leavers' accounts to be included in the EUC contract / service requirements. 2. ISAG to define what 'timely' is in disabling leavers' accounts. Long term actions: 3. POL to implement a monitoring control (spot check) to verify leavers' accounts have been disabled. 4. HRSC will circulate the leavers list to the relevant IT stakeholders to revoke access. | The short term actions related to PO policies and procedures and EUC control requirements were completed. The long term actions have been executed for a period of time by Roger Middleton (Separation Project Manager and Interim IT Governance and Risk Manager). Once Roger left the business the controls/tasks stopped, because they were not embedded in a defined process, but reliant on a person. All action owners left the business. |

ARC 25 September 2017

Supplemental to POL ARC Action 17/50k: Briefing note provided to POL Board Meeting on 25 May 2017

Prepared by: Johann Appel

| Key Audit Findings 2013 (All repeat findings of 2017 audit) | Agreed Action 2013 | Why was solution not implemented or not sustainable? |
|--|--|--|
| 5. No review of accounts access rights is in place. | Three actions were agreed: <ol style="list-style-type: none"> 1. ISAG to ensure that the 'to be' IAM process will require line managers to review access rights. 2. ISAG to investigate how data/system ownership can be deployed. 3. IT to ensure list of system access rights will be provided to line managers for them to review. | 1 st action was completed. Actions 2 and 3 were not completed. They were transferred to projects and never followed through. All action owners left the business. |

Update Post Board meeting:

The Board was advised of the JML issue highlighted by the IT Internal Audit report which had revealed a lack of ownership and control for joiners, movers and leavers. The CEO had assured the Board that she now had a detailed plan to mitigate the risk highlighted by the IT audit. The CFOO acknowledged that the position was not good enough but reported that of the 1000 people who had left the Business through OSOP a very few had been left on the system for a short period of time, 4-5 days. A small overpayment of £23k gross and £12k net had been made through payroll which was being recovered. The problem had arisen because line managers had not completed the correct leavers' procedure but additional plans were now being out in place for all joiners, movers and leavers.

Annual Report and Accounts 2016/17

Author: Amanda Radford

Sponsor: Al Cameron

Date: 25th September 2017

ARC Papers

We have created a suite of documents for review at the September 2017 ARC in relation to the Annual Report and Accounts for 2016/2017. These comprise:-

1. Annual Report and Accounts Cover Note

This paper covers the following:-

- a. Changes to the financial statements since the May 2017 ARC
- b. Details of the fixed asset impairment reversal of £272m and associated impairment review
- c. Post balance sheet review
- d. Status of audit work
- e. Post balance sheet events including Pension buy-in, liquidation of the holding company and acquisition of the New Call customer base
- f. Going concern, including funding status
- g. Quality of earnings update

2. Ernst & Young Audit Results Update Paper to the ARC

EY have updated their audit findings and this paper covers:-

- a. Conclusion of audit items which were outstanding as at May 2017
- b. EY's conclusions on the fixed asset impairment reversal, impairment review and going concern
- c. Summary of audit differences
- d. Status of audit work

3. ARA financials ("Back section")

The primary statements and notes to the financial accounts for the Group and Company only accounts.

4. ARA "Front section"

This covers the CEO and Chairman's Statement, Finance and Business Review and Governance sections of the ARA. This is in early draft and is subject to EY Review. EY will provide a verbal update on the status of their review at the ARC

An updated version of the **POL Briefing Book** is available in the online reading room.

Annual Report and Accounts 2016/17

Author: Amanda Radford

Sponsor: Al Cameron

Date: 25th September 2017

Executive Summary

Context

1. In May the ARC reviewed the draft financial statements, briefing book and Ernst & Young (“EY”) audit findings to 18th May 2017. At the point of the report, the clarity on the timing of the value of investment funding was uncertain and there were a number of key matters on which neither POL nor EY were able to conclude. These included:-
 - a. Fixed asset impairment reversal
 - b. Going concern
 - c. Subsequent events review to the date of signing the accounts
2. In May we reported an underlying operating profit of £93m and an EBITDAS profit of £13m with net assets of £165m.
3. After concluding on funding, the draft 2016/17 Annual Report and Accounts (ARA) is presented to the ARC for review.
4. The papers comprise the ARA and a report from Ernst & Young on their findings as at 18th September 2017.

Questions addressed in this report

5. The following questions are addressed in this report:
 - a. In summary, what were the changes to POL’s final financial results since the May ARC?
 - b. What is the effect of the impairment reversal on the financial statements?
 - c. How did we conclude on the value of the impairment reversal?
 - i. How did we determine which assets to include in our review?
 - ii. How did we determine an appropriate depreciation rate and net book value?
 - iii. How did we verify the existence of assets?
 - iv. How does the impairment reversal differ from the previous estimate?
 - v. What is the net book value of the major categories of asset on our balance sheet?
 - d. How did we determine the value in use for the assets and conclude that there is sufficient headroom to maintain the balance sheet value?
 - i. How have we determined POL’s CGUs?
 - ii. How have we determined POL’s future pre-tax cash flows?
 - iii. How did we determine an appropriate discount rate?

- iv. How does the carrying value of assets compare to future cash flows?
- e. What adjustments have been identified as a result of the post balance sheet event review undertaken by Post Office and EY?
- f. What is the status of the audit work on the ARA?
- g. What other matters are we drawing to the ARC's attention in their review?
 - i. Post balance sheet events
 - ii. Going concern
 - iii. Quality of earnings

Conclusion

- 6. Since the ARC on 18th May 2017, a post balance sheet review has been conducted and we have concluded on a number of accounting judgements which have been agreed with our auditors, EY.
- 7. We have completed the work on the reversal of the fixed asset impairment. This has resulted in the reversal of an impairment charge of £272m in FY16/17.
- 8. Further to the initial working capital extension and network subsidy payment (NSP) for FY18/19 (£60m) and FY19/20 (£50m), government funding has now been confirmed in principle through to FY20/21 for both the third year NSP (£50m) and investment funding for the three year period of up to £210m. The confirmation of funding and the continued forecast profitability of Post Office demonstrates our longer-term commercial sustainability. On this basis, we have completed an impairment review and have concluded that there is sufficient value in use to support the fixed asset impairment reversal. In addition, the funding supports the position that Post Office Limited is a going concern and the accounts have been prepared accordingly.
- 9. The results of the post balance sheet review are three non-adjusting post balance sheet event disclosures resulting from (1) the pension buy-in effected on 20th July 2017 (2) placing Postal Services Holding Company into liquidation and (3) the acquisition of New Call.
- 10. In addition, following a review of debtors and creditors at the year end, POL has identified a small number of adjustments which have been reflected in the revised financial statements. The net effect of the adjustment is £65k debit to the income statement which includes the write-off of a £0.5m debtor balance relating to Merlin House. In finalising our post balance sheet review work, we have identified an over accrual on purchase orders of £221k. Given that this is immaterial, we have not adjusted the accounts.

11. We have also finalised the accounting treatment of the disposal of Great Portland Street which has resulted in a profit on disposal recognized in capital and investments of £4m and a resulting increase in net assets.
12. EY have identified two judgmental differences and one factual misstatement which have not been adjusted in the income statement (see section e – Post Balance Sheet Events). The factual misstatement relates to an onerous lease discount rate. Our approach to the discount rate is consistent with previous years and should the adjustment be posted the effect would be to debit capital and investments. It would not affect EBITDAS.
13. The cumulative effect of the adjustments posted since the May 2017 ARC do not affect EBITDAS and hence the bonus position is unchanged. There would be no impact on the bonus position if we were to post the purchase order accrual credit of £221k or the adjustments which EY have identified for the discount rate on onerous leases as they are an adjustment to the capital and investments. If we were to accept the judgmental adjustment for gift vouchers, EBITDAS would increase by £1m.

Input Sought

14. The ARC is requested to recommend approval of the ARA to the Board for its approval on 26th September 2017 and to delegate authority to Tim Parker, Paula Vennells and Alisdair Cameron to finalise the front end and sign thereafter.

The Report

In summary, what were the changes to POL's financial results since the May ARC?

15. There has been no change to the EBITDAS of £13m or operating profit of £93m since the May ARC.
16. On the Post Office Group balance sheet, there has been an increase in net assets by £20m to £186m since the presentation of the financial statements to ARC in May (£165m). This principally represents an increase in the impairment reversal of £17m and £4m from the disposal of Great Portland Street. Para 26 contains a reconciliation of the original estimate of the impairment reversal of £255m to the final value of £272m.

What is the effect of the impairment reversal on the financial statements?

17. Following the procedures outlined below, an adjustment to the impairment charge of £272m has been calculated and agreed with EY, subject to finalisation of impairment

testing. As this is a change in accounting estimate, there is no prior year adjustment required to the accounts. We have credited the P&L under the “Capital and Investment” heading and debited fixed and intangible assets on the Balance Sheet. POL has a resulting net assets position of £186m. Subject to annual impairment testing, fixed assets will be capitalised and depreciated from the beginning of FY17/18.

18. The change in accounting estimate resulted from the financial performance of Post Office and a profitable EBITDAS position. Confidence in the delivery of the profitable position became apparent during the final quarter of the FY16/17 together with confirmation of the funding position for the next three years and, supported by the value in use calculations, we have reversed the impairment as at 26 March 2017.

How did we conclude on the value of the impairment reversal?

How did we determine which assets to include in our review?

19. **Time period for review of completed assets** – due to the rapid and continuing transformation of the Post Office, significant recent investment and a depreciation policy which starts at 3 years it was considered appropriate and prudent to focus the review on assets purchased within the last 3 financial years (FY14/15 to FY16/17). This population of assets was estimated to have the greatest remaining economic life and net book value. For completeness, in addition to this testing, high value items (with a gross book value of £150k or greater) were reviewed to determine whether high value items >3 years old should be considered for impairment reversal.
20. **Time period for review of assets under construction (“AUC”)** – in line with completed assets, the time period under review was 3 years but from the date the asset was completed and placed into use.
21. **Low value items** – we did not reverse the impairment charge on low value items on the fixed asset register. Low value items were defined as £2.5k for property, plant and equipment and £50k for intangible assets.

How did we determine an appropriate depreciation rate and net book value?

22. **Depreciation rates applied** – as outlined in para 23, the value re-instated was based on what the depreciation would have been using POLs depreciation rates by asset category. Comparator companies were reviewed to determine if there were any material differences between the previously disclosed POL depreciation rates and the rates of similar companies. This provides a guide only as the classification within categories varies from company to company. The table below shows the rates for Post Office compared to a basket of companies and with specific reference to Royal Mail and NHS England.

| Organisation | Motor vehicles | | Plant & Machinery | | Fixtures & Equipment | | Software | |
|------------------------|----------------|-----|-------------------|-----|----------------------|-----|----------|-----|
| | Min | Max | Min | Max | Min | Max | Min | Max |
| | Yrs | Yrs | Yrs | Yrs | Yrs | Yrs | Yrs | Yrs |
| Post Office (existing) | 2 | 12 | 3 | 15 | 2 | 15 | 1 | 6 |
| Post Office (new) | 3 | 12 | 3 | 15 | 3 | 15 | 3 | 6 |
| Royal Mail | 2 | 12 | Not stated | | 3 | 15 | 3 | 10 |
| NHS England | 5 | 10 | 5 | 10 | 5 | 10 | 2 | 5 |
| Basket* - Low | 2 | 5 | 3 | 10 | 2 | 10 | 1 | 3 |
| Basket* - Average | 3 | 10 | 4 | 16 | 4 | 16 | 4 | 9 |
| Basket* - High | 5 | 15 | 5 | 25 | 10 | 25 | 7 | 15 |

**includes listed multi-site retailers, banks and similar sized entities*

Depreciation rates for Freehold Land, Freehold buildings and Leasehold buildings are "Not depreciated", "Up to 50 years" and "Shorter of the period of the lease and 50 years". These are unchanged from the previously disclosed rates and are consistent with Royal Mail.

23. **Calculation of the asset value to be re-instated** - under IAS 36.117, *the increased carrying amount due to impairment reversal should not be more than the depreciated historical cost would have been if the impairment had not been recognised.* All assets were reinstated to their depreciated value as at 26 March 2017 using the relevant depreciation estimate. For example, an asset acquired in April 2016 for £1m with a 5 year depreciation life would be reinstated as at the FY16/17 year end with a value of £0.8m.

How did we verify the existence of assets?

24. In order to reverse the impairment charge, a verification exercise was performed to determine which assets were still in existence. The approach taken to verify assets by material asset category is described below.

25. **Motor vehicles** – the vehicles on the register were matched, by number plate reference, to the approved vehicle fleet listing at 26 March 2017.

26. **Land and buildings** – all buildings are managed by BNP. Land and buildings on the register were matched by post code to the land and buildings on the BNP managed listing as at 26 March 2017.

27. **Assets under construction (“AUC”)** – each AUC has an allocated Project Manager and Finance Director. Written confirmation was obtained from the Project Manager of the status of the asset and approved by the business unit Finance Director.

28. **Intangible assets** – each intangible asset has an allocated Business Owner, Project Manager and Finance Director. Written confirmation was obtained from the Business Owner, or where appropriate the Business Owner of the status of the asset and valuation of the asset. This was approved by the business unit Finance Director.

How does the impairment reversal differ from the estimate prepared for the May ARC?

29. Following the completion of the POL review and audit testing by EY there were, as expected, a number of adjustments made which reduced the initial impairment reversal estimate from £255m to £272m. These are listed below, together with a brief explanation for each of the adjustments which affect NBV.

| | Number of items | NBV |
|--|-----------------|------------|
| | £m | £m |
| Original estimate of impairment reversal | | 255 |
| Change in impairment estimate AUCs (Note 3) | 33 | 56 |
| EY audit adjustments | | |
| Reduction of impairment reversal – AUC’s (Note 1) | 20 | (35) |
| Reduction of impairment reversal – other assets (Note 2) | 52 | (4) |
| Actual impairment reversal | | 272 |

Note 1 – AUCs less than three years old where initial assumptions have changed (1) assets could not be verified (2) assets no longer in use (3) assets related to closed branches

Note 2 – Assets less than 3 years old. Assets disposed of after review concluded the branch is closed or the asset was no longer in used

Note 3 – In May, the review of AUCs was still ongoing. We have now concluded the review and this has resulted in an increase in to the AUC balance. Of the £55m NBV adjustment, c £30m relates to end user computing, a POL wide programme to migrate to new laptops, desktops, printers and servers

What is the net book value of the major categories of asset on our balance sheet?

30. Following the completion of the impairment review, the net book value of major categories of asset and significant assets within those categories are as follows:-

- a. Fixtures and equipment (£104m) which includes fit-out of agency branches (£58m); equipment within the DMB network (£13m); and end user equipment (£20m).

- b. Software (£137m) which includes Horizon (£49m); Back office transition and transformation (£14m); upgrades to Credence, CFS, Success Factors, Moneygram and other Post Office Systems (£23m)
- c. Land & Buildings (£40m) which includes Finsbury Dials fit-out (£8m); fit-out of DMB network (£24m) and other properties (£9m).

How did we determine the value in use for the assets and conclude that there is sufficient headroom to maintain the balance sheet value?

- 31. Under IAS 36, we are required to demonstrate that the carrying value of assets, including the fixed and intangible assets that we have recognised on the balance sheet, can be supported by a value in use calculation for POLs cash generating units ("CGUs").
- 32. This requires Post Office to (1) divide Post Office into appropriate CGUs (2) identify the carrying value of assets (3) estimate the future pre-tax cash flows of the CGUs (4) determine an appropriate discount rate and apply to the cash flows and (5) compare the carrying value of the assets with the future discounted cash flows

How have we determined POLs CGUs?

- 33. IAS 36 defines a CGU as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. [IAS 36:6]. We have concluded that POL has two CGU's – POL and POMs.
- 34. POMS has historically been identified as a separate CGU by POL and we have continued to consider this appropriate. The Post Office operates using a National network of branches and deem this national network infrastructure asset group to be the smallest identifiable asset group that generates cash flows that are largely independent. Due to the distinct nature of the services provided it is expected that upon closure of a branch customers would locate their next nearest branch and continue to use POL services. A customer can obtain the same service at any post office (their savings account etc. is accessible from any branch). As a result, POL is a CGU and it is at that level that the network should be assessed for impairment.

How have we determined POLs future pre-tax cash flows?

- 35. Using the business plan as a starting point, in line with accounting standards, we have removed projects which are not supported by the current asset base including future reorganisations or new project investment spend. This gives an impairment plan baseline. Replacement or maintenance capex spend has been included together with the associated effects on the income statement. The effect is to create a cash flow

forecast which is in line with accounting standards on which to perform the impairment assessment.

| EBITDAS | FY17/18 | FY18/19 | FY19/20 | FY20/21 |
|---|----------------|----------------|----------------|----------------|
| | £m | £m | £m | £m |
| Group Impairment plan – no initiatives | 28 | (5) | (21) | (22) |
| Remove POMS EBITDA | (7) | (9) | (13) | (17) |
| POL EBITDAS | 21 | (14) | (34) | (39) |
| Impairment overlays | | | | |
| Revenue | | (26) | (31) | (36) |
| Cost | | 55 | 70 | 81 |
| New Call | (3) | | | |
| Impairment plan | 18 | 15 | 5 | 6 |
| Business plan | 28 | 50 | 72 | 96 |
| Variance | (10) | (35) | (68) | (90) |
| | | | | |
| EBITDA | | | | |
| Impairment plan | 88 | 75 | 55 | 56 |
| Business plan | 98 | 110 | 122 | 146 |

36. In order to create separate POL and POMS cash flow forecasts for impairment testing, the EBITDA of POMS (as extracted from the POMS 5 year plan) has been deducted from the consolidated EBITDA for the Group. The working capital and capex assumptions have then been applied to derive the cash flows for POL and POMS.
37. As discussed in para 49, we have received confirmation of up to £210m of investment funding. Consistent with prior years, neither the Post Office nor the government makes any distinction between investment and replacement capex spend. We have therefore assumed that replacement asset spend is funded by government investment funding.
38. The value in perpetuity used in the value in use calculation is a pre-tax cash flow number of £56m. In using this as a terminal value, we have made a number of implicit assumptions:-
- i. There is no EBITDAS growth beyond FY20/21
 - ii. Working capital remains neutral
 - iii. POL continues to receive a network subsidy payment from government to maintain the network. We do not believe and government has not indicated that network subsidy will be removed.

How have we determined an appropriate discount rate?

39. In order to calculate value in use, we are required to apply an appropriate pre-tax discount rate. The discount rates used for POL and POMS were 9% and 12% respectively. POL (9%) is considered to be an estimate of the rate that the market would expect on an equally risky investment. This rate has been estimated following review of the discount rates in use by state owned international postal organisations, such as La Poste, Australia Post etc. Postal organisations are considered to be the most appropriate comparator in this circumstance as the rates demonstrate the risks associated with the cash inflows related to similar products and services. No other UK entity offers sufficiently similar products and services to the Post Office.

| Organisation | Discount rate | Average pre tax |
|--|---|-----------------|
| La Poste | Pre-tax 6.6% to 11.6% | 9.1% |
| Deutsche Post | Pre-tax 7.5% to 8.4% | 7.95% |
| Post Office Ireland | Pre-tax 8% | 8% |
| Australia Post | Post tax 7.5% to 9.3% converted to 9.4% to 11.6% post tax | 10.5% |
| Average including Deutsche Post | | 8.9% |
| Average excluding Deutsche Post (State owned) | | 9.2% |

40. A discount rate of 12% has been used within the POMS impairment review. This is considered to be prudent and as noted below, the impairment review is not sensitive to significant changes in discount rate.

How does the carrying value of assets compare to future cash flows?

41. Applying the discount rates of 9% for POL and 12% for POMS to the prudent baseline forecast there is significant headroom on the impairment review.

| | POL | POMS |
|-------------------------------------|--------------|-------------|
| EBITDA growth – baseline forecast | | |
| FY17/18 | 2% | 11% |
| FY18/19 | (15)% | 19% |
| FY19/20 | (27)% | 49% |
| FY20/21 | 2% | 33% |
| Perpetuity growth | 0% | 0% |
| Discount rate | 9% | 12% |
| DCF | £488m | £128m |
| Asset value | | |
| Fixed assets | £272m | £8m |
| Net working capital and provisions* | £3m | £(1m) |
| Goodwill | - | £44m |
| Total asset value | £275m | £51m |
| Headroom | £213m | £77m |

**Assets included which directly contribute to cash flow generation net of provisions for transformation, onerous leases and NT severance*

42. IAS 36 requires sensitivities to be applied to the value in use calculation. We have applied an increase in the discount rate to 11% for POL and 15% for POMS and have assumed an EBITDA decline of 2% per annum from year 5. Under all scenarios, including the combined effect of an increase in discount rate and a decline in EBITDA, there is sufficient headroom on the value in use calculation to support the net book value of fixed and intangible assets on the balance sheet. We are therefore confident that the impairment reversal is supported by the value in use calculation.

| Increase discount rate to 11% (POL) and 15% (POMS) and EBITDA decline of 2% from year 5 | | |
|---|-------|-------|
| | POL | POMS |
| DCF | £323m | £121m |
| Headroom | £48m | £70m |

What adjustments have been identified as a result of the post balance sheet event review undertaken by Post Office and EY?

43. As part of the finalisation of the financial statements POL have conducted additional procedures which have identified a number of adjustments. EY have also substantially completed their outstanding audit procedures and post balance sheet review which have resulted in a small number of judgmental and factual income statement misstatements which have not been adjusted. The onerous lease adjustments, if posted, would not affect EBITDAS as they are an adjustment to capital and investments. The judgemental adjustment in relation to gift vouchers would be a credit of just over £1m to the income statement and would increase EBITDAS. A summary of the EY unadjusted income statement adjustments is shown in 44b and 44c below.
44. The POL review focused on testing the material Receivables and Payables balances as at FY16/17 year end, with a focus on testing the clearing of balances (i.e. receipts or payments) after the year end, and reviewing support for any un-cleared items. The review has identified a number of adjustments, which are summarised in Appendix 1; these net to a debit to the P&L of £65k. These adjustments have been reflected in the annual report and accounts. With the exception of the Merlin cash centre balance, the adjustments mainly relate to aged balances which are no longer required or supported, which are individually immaterial. In finalising our post balance sheet review work, we have identified an over accrual on purchase orders of £221k (44a). Given that this is immaterial, we have not adjusted the accounts.

a. POL additional procedures – non adjusted

| | £ | £ | £ | £ |
|--|----------------------|---|----------------|-----------|
| | Balance Sheet | | P&L | |
| Adjustment 1 | | | | |
| DR Accruals | 221,000 | | | |
| CR Admin expenses | | | | (221,000) |
| Review of old purchase orders identified accruals which were no longer required as at the year-end | | | | |

b. EY Judgemental Adjustments

| | £ | £ | £ | £ |
|---|---------------|-----------|---------|-------------|
| | Balance Sheet | | P&L | |
| | DR | CR | DR | CR |
| Adjustment 1 | | | | |
| DR Revenue | 1,040,139 | | | |
| CR Accrued income | | | | (1,040,139) |
| Adjustment to accrual rate for Gift Voucher accrued income from 3% to 3.91% | | | | |
| Adjustment 2 | | | | |
| DR Admin expenses (Capital & investment) | | | 709,000 | |
| CR Lease provision | | (709,000) | | |
| Adjustment to onerous and vacant lease provision for judgemental element of discount rate | | | | |

c. EY Factual Misstatements

| | £ | £ | £ | £ |
|---|---------------|-----------|---------|----|
| | Balance Sheet | | P&L | |
| | DR | CR | DR | CR |
| Adjustment 1 | | | | |
| DR Admin expenses (Capital & investment) | | | 663,000 | |
| CR Lease provision | | (663,000) | | |
| Adjustment to onerous and vacant lease provision for judgemental element of discount rate | | | | |

What is the status of the audit work on the ARA?

45. Subject to the completion of the matters outlined below, we expect that EY which will issue an unqualified audit opinion on the ARA for FY16/17.

- Finalisation of audit procedures in a limited number of areas including fixed asset impairment reversal assessment and update on provision for legal claims
- Going concern assessment, in particular, letter of comfort from BEIS in relation to investment funding for FY18/19 to FY20/21 and NSP for FY20/21
- Review of the front half of the ARA and completion of review on financials
- Finalisation of pension plan assets testing in respect of Blackrock investment fund (£365m)
- Letter of representation
- Completion of subsequent events review

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What matters are we drawing to the ARCs attention in their review?

Post Balance Sheet Events

46. Further to the May ARC paper, the following items have been identified as non-adjusting post balance sheet events which have been disclosed in the financial statements

- a. **Pension buy-in** – On 20th July 2017, the Trustees of the pension scheme entered into an agreement with Rothesay Life PLC in which a pension buy-in was effected.

Under the bulk annuity purchase agreements, the Trustees of the pension plan have effectively bought an asset that provides income which matches closely the benefit payments from the pension plan. It achieves a material risk reduction as changes in income mirror changes in benefits due to e.g. inflation and longevity.

The accounting surplus will reduce by the difference between the insurance premium and the value of the insured liabilities. This loss will be recognised in Other Comprehensive Income in FY17/18. As POL has no right to a future surplus in the scheme, there will be an equal and opposite adjustment to the asset ceiling through Other Comprehensive Income. As a result, there is no effect on the net assets position of the Group.

In addition, as part of these arrangements, a data risk premium of £2.1m has been paid by the Trustees to the insurer. As these premiums are not directly attributable to insuring the pension liability, these amounts will be taken to the Profit & Loss account under Capital and Investments in FY17/18. The corresponding entry is through Other Comprehensive Income and, as a result, there is no effect on the net assets position of the Group.

Under IAS 10, the pension buy-in is a material event which has arisen after the year end and, as such, POL has disclosed this as a non-adjusting subsequent event in the ARA.

- b. **Postal Services Holding Company Limited placed into liquidation** – on 12th June 2017, Post Office's parent company, Postal Services Holdings Limited, was placed into liquidation and all of the ordinary shares that were held by Postal Services Holdings Limited in Post Office Limited were transferred to the ownership of the Secretary of State for Business, Energy and Industrial Strategy. We expect the process to be complete and the company dissolved by March 2018.
- c. **Acquisition of New Call** - On 30 March 2017, the Group acquired the residential broadband and home phone customer base, along with certain other assets, of New Call Telecom Limited, for cash consideration of £2m. Further consideration of £6m is contingent on the number of New Call customers that successfully migrate to the Group's systems by a particular date.

The provisional fair value of the net assets acquired is £6m. The only major class of assets acquired are the intangible assets associated with residential and home phone customer base acquired from New Call Telecom Limited. Fair values are described as provisional due to the proximity of the acquisition to the FY16/17 year end.

The goodwill arising from the acquisition, provisionally valued at £2m, represents the opportunity to grow the New Call customer base by exploiting the Post Office branch network. The goodwill arising on acquisition is not deductible for income tax purposes. Associated acquisition expenses have been charged to the income statement in FY17/18.

The transaction between POL and the seller is deemed to be a business combination under IFRS 3. As the transaction has occurred since the year end but before the signing of the accounts, under IFRS 3, POL is required to disclose the acquisition as a non-adjusting post balance sheet event.

Going Concern

47. The financial statements have been prepared on the basis that POL is a going concern.

48. On 27 November 2013, a funding agreement was announced providing:

- Funding of £280m for 2015-16 (received April 2015)
- Funding of £220m for 2016-17 (received April 2016)
- Funding of £140m for 2017-18 (received April 2017)
- Extension of the existing working capital facility with BEIS to 31 March 2018 of £950m.

49. As the previous funding round expires as at March 2018, POL has been working with BEIS on securing funding for the next 3 years. On 30 March 2017, POL and the Secretary of State for BEIS signed a Funding Agreement and an Amendment to the Working Capital Facility confirming that the following funding package will be made available to POL from April 2018.

- Extension of the existing working capital facility of £950m with BEIS to 31 March 2021
- Network subsidy payment of £60m for 2018-19
- Network subsidy payment of £50m for 2019-20

50. In addition the Secretary of State for BEIS has confirmed in principle in a letter dated 25th July 2017 (and BEIS will be providing a letter of comfort) that the following additional funding will be also be made available to POL

- Network subsidy payment of £50m for 2020-21
- Investment funding of up to £210m for the period April 2018 to March 2021

51. Consistent with previous years, the network subsidy payment and investment funding will be received in the form of grants and are non-refundable.

52. Consistent with the previous funding round, the network subsidy payments and investment funding are conditional on European Commission approval. Known as State Aid approval, POL has always received the required consent and, as in previous years, we expect this to be a formality and do not expect the funding to be withheld. The application for State Aid has been submitted and we anticipate confirmation in Spring 2018. The working capital facility is not classified as state aid and requires no further approval.
53. Going concern analysis has been prepared using the business case strategic plan model (scenario 36). For consistency, this is the plan that has been used and subsequently sensitised for the impairment review.
54. The business forecasts show that, further to delivering a profit in FY16/17, profitability is sustained throughout the strategic plan period at both an EBITDA level and EBITDAS level with EBITDAS rising from £28m in FY17/18 to £96m in FY20/21 and EBITDA increasing from £98m to £146m over the same period.
55. The level of capital and investment spend required for continued transformation comes from EBITDA and government funding in the first year of the plan but in FY19/20 and FY20/21 principally from POL's EBITDA generation.
56. The table in Appendix 2 shows the cash flow forecast for the current year (FY17/18) budget and the subsequent three years of the strategic plan business forecast which demonstrate that Post Office has sufficient cash headroom to continue to trade for the full plan period. Downside scenarios for FY18/19 to FY20/21 have been overlaid reflecting lower cash flows should:-
- Retail revenue deteriorate faster than expected
 - (Financial Services & Telco) and POMS growth reduce by 50%
 - Non staff cost savings assumed in the plan not be delivered.
57. Given that POL is trading in line with budget at P5, being £2.0m ahead at an EBITDAS level, we have not overlaid sensitivities on the FY17/18 EBITDAS forecast.
58. POL has a number of levers to mitigate downside risk should sensitivities to the strategic plan materialise:-
- Whilst the loan drawdown shown is the current forecast, it assumes a flat utilisation of the NRF (Note Recirculation facility). We have the option of increasing the NRF utilisation at peak times of cash consumption (particularly over Christmas and Easter) to reduce the loan drawdown whilst remaining within the annual cap.
 - POL has the ability to borrow up to £50m from other sources, as well as up to £50m in finance leases, which would improve the headroom capacity shown if required. We are currently discussing a £50m revolving credit facility with a combination of Barclays, Lloyds and RBS which would supplement available borrowing. Conversations with the banks are well advanced and once the accounts are signed, we anticipate a c.6 week period to appoint the co-ordinator

bank and create the requisite facility documentation. We expect to present to the Board for approval in late November and for this facility to be available from December 2018.

- POL is currently reviewing cash management processes and believes that there are opportunities to reduce the level of network cash hence increasing the headroom available for either operating or investment spend. The business plan does not currently assume that we deliver network cash savings. Initiatives include (1) removing excess cash from branches (2) effective utilisation of the NRF cap limits and (3) improving cash declaration compliance (4) managing the inward remittance position to one day's processing. A cash management steering group has been created to manage and monitor the delivery of these initiatives.
- Planned project spend would be delayed until sufficient funds become available.

59. Should the investment funding profile received not match the profile within the business plan then POL would adjust capital and investment spend to match the receipt of investment funding, where it could not be covered by EBITDA generation and the utilisation of borrowings.

60. Based on the analysis, current trading performance and the confirmation of continuing government support, there is available borrowing headroom throughout the strategic plan period and for the going concern period to October 2018. On a monthly basis we remain within the facility.

61. Royal Mail Plc is a key trading partner with Post Office Limited and, in arriving at the conclusion that Post Office Limited is a going concern, the assumption is made that Royal Mail Plc is a going concern or that an alternative mails provider would work similarly with Post Office Limited providing a similar level of income. On 26th May 2017, Royal Mail Plc published their accounts in which the Director's concluded that it was a going concern. In addition, Royal Mail published a Viability Statement as part of their Annual Report and Accounts. In the Viability Statement the Directors of Royal Mail conclude that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to March 2020.

62. Post Office Ltd and Royal Mail entered into a ten year agreement (Mails Distribution Agreement) in 2012 for the provision of mails products through post offices.

63. The directors believe that Post Office Limited will be able to meet its liabilities as they fall due for at least the next 12 months from the date of signing of the financial statements and that it is therefore appropriate to prepare accounts on a going concern basis.

Quality of Earnings

64. Adjusted for the net one-off items included within EBITDAS, the reported earnings improvement increases from £30m to £35m, reducing the relative impact of one-offs. There has been no change to this table as a result of the post balance sheet work completed by POL and EY.

| | 2016-17 | 2015-16 | Change | Change |
|--|-----------|-------------|-------------|--------------|
| Post Office Limited (consolidated) | £m | £m | £m | % |
| Reported profit from continuing operations | 93 | 112 | (19) | (17) |
| Network Subsidy Payment | (80) | (130) | 50 | (38) |
| Add back depreciation | 0 | 1 | 0 | 0 |
| Reported EBITDAS | 13 | (17) | 30 | (176) |
| | | | | |
| Bill payments (a) | (3) | | | |
| Pensions one-off item – closure impact on current year costs (b) | (2) | | | |
| HMRC Anti-Money Laundering penalty (c) | 1 | | | |
| Telecoms line rental income recognition (d) | 1 | | | |
| Gamma one-off income release | | (5) | | |
| Billing corrections re 2014-15 | | 2 | | |
| Back-billing to RM for Certificates of Posting work | | (2) | | |
| Fujitsu compensation for poor service in 2013-14 | | (4) | | |
| Change in Telecoms bad debt policy | | 1 | | |
| | | | | |
| Total adjustments | (3) | (8) | | |
| | | | | |
| Adjusted to exclude one-offs | 10 | (25) | 35 | (156) |

a. Bill payments

A review of deferred income in relation to bill payments was completed in the year which resulted in a one-off credit to the income statement.

b. Pensions past service credit

As a consequence of the closure of RMPP to future accruals, a £1.8m credit in relation to current year service cost has been recognised in the income statement. The prior year impact of £19m has been taken below the line in "Closure of Operations".

c. HMRC AML penalty

Following a review by HMRC a £785k provision for historical AML premises registration non-compliance penalties has been made.

d. Telecoms line rental

During the year a correction was made to telecoms line rental income recognition to recognise revenue over the life of the contract with the customer.

Appendix 1

| Balance | FY16/17 balance £ | Adjustment value Dr / (Cr) to P&L £ | Description |
|--|----------------------------------|--|--|
| Branch sundry receivables | 3,115,870 | 557,360 | Unsupported balance relating to closure of Merlin cash centre. |
| Out of scope - net pay advances | 288,983 | 99,658 | Unreconciled difference on HR balance sheet reconciliation, not supportable. |
| Property prepayments | 1,009,185 | 37,718 | Difference between CFS and BNP Paribas TB. |
| Out of scope - customer deposits | 8,710 | 8,710 | Deposit due from landlord dating back to FY14/15, never recovered or receipt not matched against this debtor. |
| Out of scope - small residual balances | (284,799) | (284,799) | Residual items from system migration that are not supportable. |
| Out of scope - FSC provisions | (178,371) | (58,919) | Residual item dating back to 2014-15 described as a general provision and represents the excess of the provision calculated at year end. |
| Other payables | (1,740,683) | (294,406) | Aged purchase orders identified as part of FCF review, opex credit held centrally until sufficient certainty to release. |
| Total posted | | 65,322 | |

Appendix 2

| | FY17/18 | FY18/19 | FY19/20 | FY20/21 |
|---|----------------|----------------|----------------|----------------|
| | £m | £m | £m | £m |
| EDTDAS | 28,019 | 50,237 | 71,973 | 95,895 |
| Network payment | 70,000 | 60,000 | 50,000 | 50,000 |
| EBITDA | 98,019 | 110,237 | 121,973 | 145,895 |
| Working capital movement | (82,992) | (58,883) | (7,000) | (7,000) |
| Cashflow from Investing | | | | |
| Investment funding | 70,000 | 189,000 | 21,000 | 0 |
| Capital and investment | (291,870) | (183,815) | (141,157) | (111,164) |
| Cashflow from Investing - TOTAL | (221,870) | 5,185 | (120,157) | (111,164) |
| Cashflow from Financing activities | | | | |
| Interest payable | (9,417) | (11,130) | (13,817) | (17,560) |
| Tax losses receipt FRES | 10,000 | 0 | 0 | 0 |
| Cash movement before net loan increase/(decrease) | (206,260) | 45,408 | (19,001) | 10,171 |
| Net loan increase/(decrease) | 206,260 | (45,408) | 19,001 | (10,171) |
| Net movement | 0 | 0 | 0 | 0 |
| Closing loan position | 767,260 | 721,852 | 740,853 | 730,682 |
| Working capital facility | 950,000 | 950,000 | 950,000 | 950,000 |
| Restriction due to level of network cash | (100,000) | (100,000) | (100,000) | (100,000) |
| Available headroom | 82,740 | 128,148 | 109,147 | 119,318 |
| RISKS | | | | |
| Retail revenue declines at an additional 2% per annum | | (12,118) | (23,305) | (33,803) |
| FS&T revenue growth delivered at 50% of forecast rate | | (5,585) | (5,562) | (10,029) |
| POMS grows at 50% of forecast rate | | (3,311) | (6,956) | (10,518) |
| Cost savings from income growth decline (at 50% assumed) | | 10,507 | 17,912 | 27,175 |
| Savings in non-staff cost base not delivered | | (841) | (11,433) | (17,827) |
| TOTAL RISKS | | (11,348) | (29,345) | (45,002) |
| RISK ADJUSTED HEADROOM | 82,740 | 117,641 | 91,236 | 92,143 |
| MANAGEMENT MITIGATION | | | | |
| Reduce or postpone investment | 50,000 | 75,000 | 100,000 | 100,000 |
| Commercial RCF | 50,000 | 50,000 | 50,000 | 50,000 |
| MITIGATED HEADROOM | 182,740 | 242,641 | 241,236 | 242,143 |
| <i>The majority of cost savings within staff costs relate to the closure of the DB scheme which was completed at the end of FY16/17. There is no risk associated with the delivery of the DB cost savings</i> | | | | |

Post Office Limited

Registered Number 2154540

Post Office Limited
Financial Statements
2016-2017

Post Office Limited

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report, which includes the Directors' Report, Remuneration Report and Corporate Governance Statement, and the Group and Parent Company Financial Statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare Financial Statements for each financial year. Under that law the directors have elected to prepare the Group consolidated Financial Statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU"). The financial reporting framework that has been applied in the preparation of the Parent Company Financial Statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Under company law the directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company, and of the profit or loss of the Group and Parent Company for that period.

In preparing these Financial Statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRS as adopted by the EU, and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Parent Company Financial Statements respectively;
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the Financial Statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the Group's Financial Statements, Article 4 of the International Accounting Standards Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

The Directors are responsible for preparing the Directors' report and the Corporate Governance report in accordance with the Companies Act 2006 and applicable regulations.

The Directors confirm that to the best of their knowledge:

- The Group consolidated Financial Statements, prepared in accordance with IFRS as adopted by the EU and in accordance with the provisions of the Companies Act 2006 give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- The Parent Company Financial Statements prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 101 "Reduced Disclosure Framework", give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- The management report contained in this report includes a fair view of the development and performance of the business and the position of the Group as a whole and of the Company, together with a description of the principal risks and uncertainties they face.

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF POST OFFICE LIMITED

We have audited the consolidated Financial Statements of Post Office Limited for the 52 week period ended 26 March 2017 which comprise the Group Consolidated Income Statement, the Group Consolidated Statement of Comprehensive Income, the Group Consolidated Balance Sheet, the Group Consolidated Statement of Cash Flows, the Group Consolidated Statements of Changes in Equity, the related notes 1 to 23, the Parent Company Statement of Comprehensive Income, the Parent Company Balance Sheet, the Parent Company Statement of Changes in Equity and the related notes 1 to 19. The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company Financial Statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page **x1**, the directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 26 March 2017 and of the Group's profit for the 52-week period then ended;
- the group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- the Group and Parent Company Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- based on the work undertaken in the course of the audit
 - ▶ the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

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- ▶ the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements;

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Peter McIver (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
 2017

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Consolidated income statement
for the 52 weeks ended 26 March 2017 and 27 March 2016

| | 2017 £m | | | | 2016 (restated) £m | | | | |
|--|---------|-----------------|-----------------------|------------------------|--------------------|-----------------|-----------------------|------------------------|---------|
| | Notes | Revenue trading | Closure of activities | Capital and investment | Total | Revenue trading | Closure of activities | Capital and investment | Total |
| Continuing operations: | | | | | | | | | |
| Turnover | | 957 | - | - | 957 | 964 | - | - | 964 |
| Network Subsidy Payment | | 80 | - | - | 80 | 130 | - | - | 130 |
| Revenue | | 1,037 | - | - | 1,037 | 1,094 | - | - | 1,094 |
| Costs | 2,4,17 | (978) | 19 | (116) | (1,075) | (1,016) | - | (283) | (1,299) |
| Investment funding | 4 | - | - | 140 | 140 | - | - | 150 | 150 |
| Impairment | 4 | - | - | 168 | 168 | - | - | (136) | (136) |
| Depreciation | | - | - | - | - | (1) | - | - | (1) |
| Share of post-tax profit from joint venture | 10 | 34 | - | - | 34 | 35 | - | - | 35 |
| Operating profit / (loss) from continuing operations | | 93 | 19 | 192 | 304 | 112 | - | (269) | (157) |
| Finance costs | 6 | (6) | - | - | (6) | (5) | - | - | (5) |
| Pensions net financing income | 17 | 8 | - | - | 8 | 8 | - | - | 8 |
| Profit / (loss) before taxation from continuing operations | | 95 | 19 | 192 | 306 | 115 | - | (269) | (154) |
| Taxation credit / (charge) | 7 | 9 | (25) | - | (16) | 4 | - | - | 4 |
| Profit / (loss) for the financial year from continuing operations | | 104 | (6) | 192 | 290 | 119 | - | (269) | (150) |
| Discontinued operations: | | | | | | | | | |
| Loss for the financial year after tax from discontinued operations | 20 | - | (47) | - | (47) | - | (17) | - | (17) |
| Profit / (loss) for the financial year | | 104 | (53) | 192 | 243 | 119 | (17) | (269) | (167) |
| EBITDAS | | 13 | | | | (17) | | | |

Revenue trading represents the underlying trading of the business excluding the closure of activities, investment funding, restructuring and transformation costs, and impairment of capital expenditure.

Closure of activities is the £48 million net loss of the Retail Cash in Transit operation which has been discontinued during the year less the £1 million provision release from the Mobile operation that was discontinued in prior year (note 20), plus £19 million one-off pension gain resulting from the closure of the defined benefit plan. The reversal of £25 million tax losses asset has also been allocated to closure of activities as this is related to the closure of the defined benefit plan (note 7). Prior year results have been restated to show the Retail Cash in Transit net loss as discontinued, the impact of this on prior year revenue and costs has been summarised within note 1.

Capital and investment (note 4) includes investment funding, impairment of capital expenditure and transformational spend. In the current year there has been a reversal of impairment to the value of £272 million, further detail is given in note 1.

EBITDAS is one of the Group's key financial measures and is calculated by taking Revenue excluding the Network Subsidy Payment, less costs from revenue trading excluding depreciation, plus joint venture share. For the year ended 26 March 2017 EBITDAS was £13 million (2016 restated: EBITDAS loss of £17 million).

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Consolidated statement of comprehensive income
for the 52 weeks ended 26 March 2017 and 27 March 2016

| | Notes | 2017 £m | 2016 (restated) £m |
|--|-------|--------------|--------------------------|
| Profit / (loss) for the financial year from continuing operations | | 290 | (150) |
| Loss for the financial year from discontinued operations | 20 | (47) | (17) |
| Profit / (loss) for the financial year | | 243 | (167) |
| Other comprehensive income not to be reclassified to profit or loss in future periods | | | |
| Remeasurements on defined benefit surpluses | 17 | (249) | (9) |
| Withholding tax effect | | 30 | - |
| Income tax effect | 7 | 25 | 5 |
| Total comprehensive profit / (loss) for the year | | 49 | (171) |

There are no other comprehensive income items that will be reclassified to the profit and loss in future periods.

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Consolidated statement of cash flows
for the 52 weeks ended 26 March 2017 and 27 March 2016

| | | 2017 | 2016 |
|--|-------|--------------|------------------|
| | Notes | £m | (restated) £m |
| Cash flows from operating activities | | | |
| Operating profit from revenue trading from continuing operations | | 93 | 112 |
| Operating loss from discontinued operations | 20 | (47) | (17) |
| Total profit before capital and investment | | 46 | 95 |
| Adjustment for: | | | |
| Share of profit from joint venture | 10 | (34) | (35) |
| Pension operating costs | 2 | 24 | 30 |
| Working capital movements: | | (6) | (81) |
| Decrease/(increase) in trade and other receivables | | 81 | (16) |
| Decrease in trade and other payables | | (95) | (59) |
| Increase in inventories | | (1) | - |
| Increase in provisions for discontinued operations | 20 | 5 | 3 |
| Increase/(decrease) in revenue trading provisions | 15 | 4 | (9) |
| Pension operating costs paid | | (22) | (23) |
| Cash payments in respect of capital and investment items: | | (50) | (109) |
| Investment funding | | 140 | 150 |
| Restructuring costs | | (190) | (253) |
| Other | | - | (6) |
| Net cash outflow from operating activities | | (42) | (123) |
| Income tax recovered | 7 | 9 | 9 |
| Cash flows from investing activities | | | |
| Dividends received from joint ventures | 10 | 35 | 35 |
| Acquisition of insurance business | | - | (44) |
| Purchase of tangible and intangible non-current assets | | (115) | (136) |
| Net cash outflow from investing activities | | (80) | (145) |
| Net cash outflow before financing activities | | (113) | (259) |
| Cash flows from financing activities | | | |
| Finance costs paid | | (7) | (5) |
| Payments to finance lease creditors | | (8) | - |
| Proceeds of borrowings from BEIS | 14 | 96 | 155 |
| Net cash inflow from financing activities | | 81 | 150 |
| Net decrease in cash and cash equivalents | | (32) | (109) |
| Cash and cash equivalents at the beginning of the year | 12 | 712 | 821 |
| Cash and cash equivalents at the end of the year | 12 | 680 | 712 |

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Consolidated balance sheet
at 26 March 2017 and 27 March 2016

| | Notes | 2017 £m | 2016 £m |
|---|-------|----------------|------------|
| Non-current assets | | | |
| Intangible assets | 8 | 181 | 44 |
| Property, plant and equipment | 9 | 144 | 9 |
| Investments in joint venture | 10 | 66 | 67 |
| Retirement benefit surplus | 17 | 1 | 196 |
| Trade and other receivables | 11 | 13 | 12 |
| Total non-current assets | | 405 | 328 |
| Current assets | | | |
| Inventories | | 7 | 6 |
| Trade and other receivables | 11 | 329 | 411 |
| Cash and cash equivalents | 12 | 680 | 712 |
| Total current assets | | 1,016 | 1,129 |
| Total assets | | 1,421 | 1,457 |
| Current liabilities | | | |
| Trade and other payables | 13 | (563) | (655) |
| Financial liabilities - interest bearing loans and borrowings | 14 | (561) | (465) |
| - obligations under finance leases | | - | (8) |
| Provisions | 15 | (58) | (151) |
| Total current liabilities | | (1,182) | (1,279) |
| Non-current liabilities | | | |
| Other payables | 13 | (22) | (25) |
| Provisions | 15 | (31) | (16) |
| Total non-current liabilities | | (53) | (41) |
| Net assets | | 186 | 137 |
| Equity | | | |
| Share capital | 18 | - | - |
| Share premium | 18 | 465 | 465 |
| Retained earnings | | (281) | (330) |
| Other reserves | 18 | 2 | 2 |
| Total equity | | 186 | 137 |

The financial statements on pages [x] to [x] were approved by the Board of Directors on [x] 2017 and signed on its behalf by:

P A Vennells
Chief Executive

A Cameron
Chief Financial Officer

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Consolidated statement of changes in equity
for the 52 weeks ended 26 March 2017 and 27 March 2016

| | Notes | Share premium £m | Retained earnings £m | Other reserves £m | Total equity £m |
|---|-------|------------------------|----------------------------|-------------------------|--------------------------------|
| At 27 March 2016 | | 465 | (330) | 2 | 137 |
| Profit for the year | | - | 243 | - | 243 |
| Remeasurements on defined benefit surplus | 17 | - | (249) | - | (249) |
| Withholding tax effect | | - | 30 | - | 30 |
| Income tax effect | 7 | - | 25 | - | 25 |
| At 26 March 2017 | | 465 | (281) | 2 | 186 |

| | Notes | Share premium £m | Retained earnings £m | Other reserves £m | Total equity £m |
|---|-------|------------------------|----------------------------|-------------------------|-----------------------|
| At 30 March 2015 (restated) | | 465 | (159) | 2 | 308 |
| Loss for the year | | - | (167) | - | (167) |
| Remeasurements on defined benefit surplus | 17 | - | (9) | - | (9) |
| Income tax effect | 7 | - | 5 | - | 5 |
| At 27 March 2016 | | 465 | (330) | 2 | 137 |

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Notes to the financial statements

1. Accounting Policies**Financial year**

The financial year ends on the last Sunday in March and for this reason these financial statements are made up for the 52 weeks ended 26 March 2017 (2016: 52 weeks ended 27 March 2016).

Basis of preparation

The Group financial statements on pages [x] to [x] have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. Unless otherwise stated in the accounting policies below, the financial statements have been prepared under the historic cost accounting convention.

The Company is incorporated and domiciled in the United Kingdom. The Group consolidated financial statements are presented in sterling and all values are rounded to the nearest £million except where otherwise indicated.

The presentational format of the income statement has been changed in the current year to a columnar format presenting the results of the Group in total and split between Revenue trading, Closure of activities, and Capital and investment. The prior year results have also been presented in the new format. The change in format was considered appropriate this year because of the discontinued operation and the closure of the defined benefit plan, which are significant items requiring separate presentation.

Revenue trading represents the underlying trading of the business excluding the closure of activities, investment funding, restructuring and transformation costs, and impairment of capital expenditure. Closure of activities includes the net loss of the Retail Cash in Transit operation which has been discontinued in the year, including all revenue and costs in the year which relate directly to the operation. Closure of activities also includes the one-off pension gain resulting from the closure of the defined benefit plan. Capital and investment includes investment funding from the Government, impairment of capital expenditure and reversal of previous impairment, and transformational spend.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary undertaking as at 26 March 2017. Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date such control ceases. A set of financial statements has been prepared for Post Office Management Services Limited (subsidiary) for the 52 weeks ended 26 March 2017. The year end date is in line with the Company. The subsidiary uses consistent accounting policies where appropriate and its results have been consolidated into the group financial statements. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions are eliminated in full.

New standards, amendments and interpretations issued not yet effective for the current year

The following standards and interpretations, which have been issued by the IASB and are relevant for the Group, become effective after the current year-end and have not been early adopted by the Group.

These standards have already been endorsed by the EU excluding amendments to IFRS 16 Leases, amendments to IAS 7, and amendments to IAS 12 which are all expected to be endorsed in Q4 2017 as per the 13 July 2017 EFRAG Endorsement Status Report.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments was first issued in November 2009 and has since been amended several times. A complete version of the standard was issued in July 2014 and is a replacement of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 covers the classification, measurement and derecognition of financial assets and financial liabilities, together with a new hedge accounting model and a new expected credit loss model for calculating impairment. The new standard becomes effective for annual periods beginning on or after 1 January 2018. The Group expects to complete its analysis of the expected impact during 2017.

IFRS 15 Revenue from Contracts with Customers

The IASB issued IFRS 15 Revenue from contracts with customers in May 2014. The new standard provides a single, five-step revenue recognition model, applicable to all sales contracts, which is based upon the principle that revenue is recognised when control of goods or services are transferred to the customer. It replaces all existing revenue recognition guidance under current IFRS and becomes effective for annual periods beginning on or after 1 January 2018. The Group expects to complete its analysis of the expected impacts on revenue recognition and disclosure requirements during 2017. A summary of the types of revenue recognised by the Group is summarised in note 1.

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Amendments to IFRS 16 Leases

The scope of IFRS 16 includes leases of all assets, with certain exceptions. IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17, except for two exemptions which are leases of low value assets and short-term leases (leases with a lease term of 12 months or less). At the commencement date of the lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the asset. Lessees will be required to re-measure the lease liability upon the occurrence of certain events as an adjustment to the asset value. The amendments are effective for annual periods beginning on or after 1 January 2019. The Group is currently considering the impact of the new standard; a material impact is expected as a number of arrangements that are currently accounted for as operating leases will come onto the Group's balance sheet. The Group's current lease commitments are disclosed in note 19.

IAS 7 Disclosure Initiative – Amendments to IAS 7

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The amendment is effective for annual periods beginning on or after 1 January 2017. The Group is currently considering the impact of this change.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12

The IASB issued the amendments to IAS 12 Income Taxes to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Entities are required to apply the amendments retrospectively. The change is effective for annual periods beginning on or after 1 January 2017. It is anticipated that the application of these amendments will have no significant impact on the Group's income statement or balance sheet.

There are no other standards and interpretations in issue but not yet adopted that the Directors anticipate will have a material effect on the reported income or net assets of the Group. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Fundamental accounting concept – going concern

The group has net assets of £186 million at 26 March 2017 (2016: £137 million).

A funding agreement with Government was announced on 27 November 2013 which provided for:

- Funding of £280 million for 2015-16
- Funding of £220 million for 2016-17
- Funding of £140 million for 2017-18
- Extension of the existing working capital facility with the Department for Business, Energy & Industrial Strategy (BEIS) with a limit of £950 million from 30 March 2015 up to 31 March 2018.

At 26 March 2017 £389 million of the working capital facility was undrawn (2016: £485 million).

Post Office and the Secretary of State for BEIS signed a Funding Agreement and an Amendment to the Working Capital Facility confirming that the following funding package will be made available to Post Office from April 2018:

- Extension of the existing working capital facility of £950 million with BEIS to 31 March 2021
- Network subsidy payment of £60 million for 2018-19
- Network subsidy payment of £50 million for 2019-20.

In addition the Secretary of State for BEIS has confirmed in principle in a letter dated 25 July 2017 that the following additional funding will be also be made available to Post Office:

- Network subsidy payment of £50 million for 2020-21
- Investment funding of up to £210 million for the period April 2018 to March 2021.

The network subsidy payment and investment funding will be received in the form of grants and are non-refundable.

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State aid approval for the funding for 2018-19 to 2020-21 has not yet been received. The working capital facility is not classified as state aid and requires no further approval.

After careful consideration of the plans for the coming years, the Directors continue to believe that Post Office will be able to meet its liabilities as they fall due for the next 12 months. Accordingly, on that basis, the Directors consider that it is appropriate that these financial statements have been prepared on a going concern basis.

Prior year restatements

In preparing the financial statements for the current year, the comparative figures for the year ended 27 March 2016 have been restated. The Retail Cash in Transit operation has been discontinued during the current year and has been presented as part of discontinued operations. The comparatives in the income statement have been restated and allocated to discontinued operations. The restatement affects revenue and costs.

Within this report, the comparative income statement and statement of comprehensive income for the year ended 27 March 2016 have been restated. The operating profit from revenue trading on the cash flow statement has also been restated. There has been no effect on the balance sheet or statement of changes in equity.

The following table shows the impact of the restatement on the income statement for the year ended 27 March 2016:

| | As previously reported £m | Restatement £m | 27 March 2016 Restated £m |
|---|------------------------------|-------------------|---------------------------------|
| Turnover | 981 | (17) | 964 |
| Costs* | (1,040) | 24 | (1,016) |
| Loss for the year from continuing operations | (157) | 7 | (150) |
| Loss for the year from discontinued operations | (10) | (7) | (17) |
| Loss for the year after discontinued operations | (167) | - | (167) |

*Costs exclude £1 million of depreciation which is separated on the face of the income statement in the current year.

The presentational format of the income statement has been changed in the current year to a columnar format presenting the results of the Group in total and split between Revenue trading, Closure of activities, and Capital and investment. The definition of these headings is defined within a memorandum to the consolidated income statement. The prior year results have also been presented in the columnar format which is different to the format they were presented in the last set of financial statements.

Critical accounting estimates and judgements in applying accounting policies

The Group makes certain estimates and assumptions regarding the future. Estimates and assumptions are continually evaluated based on historical experience and other factors. In the future, actual experience may differ from these estimates and assumptions.

In addition the Group has to make judgements in applying its accounting policies which affect the amounts recognised in the accounts. The most significant areas where judgements and estimates are made are discussed below:

Pension assumptions

The costs, assets and liabilities of the pensions operated by the Group are determined using methods relying on actuarial estimates and assumptions.

The Post Office section of the Royal Mail Pension Plan (RMPP) was closed to future accrual on 31 March 2017. A Memorandum of Understanding was executed on 21 March 2017 which removed the unconditional right to refund from the Plan. As a result of these events there has been a one-off credit to the income statement, and the surplus has been written off through other comprehensive income. This is described in further detail within note 17.

The values of these adjustments are particularly sensitive to changes in assumptions for discount rates, mortality and inflation rates. The Group exercises its judgement in determining the assumptions to be adopted, after discussion with its Actuary. Details of the key assumptions are set out in note 17.

Pension liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term.

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Judgement has been applied in determining that for these purposes a high quality corporate bond constitutes AA rated or equivalent status bonds.

Provisions

The Group has recognised provisions where a present legal or constructive obligation exists as a result of a past event, where it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Severance provisions are recognised for business reorganisation where the plans are sufficiently detailed and well advanced and where appropriate communication to those affected has been undertaken at the balance sheet date. Postmasters' compensation provisions are recognised when either Postmasters agree to terminate their existing contracts or sign the new format contracts under Network Transformation. The total provision for Postmasters' compensation at the year end date represents management's best estimate of the future obligation. Provisions are detailed in note 15. Due to the nature of provisions the future amount settled may be different from the amount that has been provided.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate the risks specific to that liability.

Impairment of non-current assets

The Group assesses whether there are any indicators of impairment for all non-currents assets at each reporting date as well as if events or changes in circumstances indicate that the carrying value may be impaired. Where appropriate, an impairment loss is recognised in the income statement for the amount by which the carrying value of the asset (or cash generating unit) exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use.

In previous years, due to ongoing operational losses (excluding the Network Subsidy Payment), impairment losses have been recognised and the carrying value of some assets have been impaired to zero on acquisition. In the current year the Group has made a profit from continuing operations and this is expected to be sustainable. In addition, the Group has secured a Network Subsidy Payment to March 2021, and continued investment funding over that period from Government. In this circumstance the Group no longer considers there to be indicators of impairment, and there has been a change in accounting estimate to reflect this. An impairment test was performed at the year end to support this; details of this are in note 9.

The change in accounting estimate has resulted in a reversal of impairment losses in the current year, and the carrying value of assets has been increased. The reversal is no more than the depreciated historical cost if the impairment had not been recognised. The reversal of the impairment loss has been recognised in the income statement for the current year and the change will be applied in future years subject to a continuous review of trading and funding.

Each asset category is described below:

Property, plant and equipment excluding freehold property, long leasehold property and land:

Property, plant and equipment is recognised at cost, including attributable costs in bringing the asset into working condition for its intended use. These assets have a relatively short useful life and in previous periods due to ongoing operational losses (excluding Network Subsidy Payment) they have been impaired to zero on acquisition. In the current year the impairment loss was reversed at the year end, and depreciation will be recognised going forwards on a straight-line basis over the following useful lives:

| | Range of asset lives |
|-----------------------------|----------------------|
| Plant and Machinery | 3 – 15 years |
| Motor vehicles and trailers | 3 – 12 years |
| Fixtures and equipment | 3 – 15 years |

In the current year the asset lives for Motor vehicles and trailers and Fixtures and equipment have been changed to range from 3 years, not 2 years as reported in prior years. This is to reflect the range of asset lives actually in use for the current asset portfolio.

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Freehold property, long leasehold property and land:

As with other property, plant and equipment this is recognised at cost, including attributable costs in bringing the asset into working condition for its intended use. These assets have a long useful life and a fair market value, therefore these assets have not been impaired on acquisition but would be considered for impairment if indicators existed. They are depreciated on a straight-line basis over the following useful lives:

| | Range of asset lives |
|---------------------|---|
| Land and buildings: | |
| Freehold land | Not depreciated |
| Freehold buildings | Up to 50 years |
| Leasehold buildings | The shorter of the period of the lease, 50 years or the estimated remaining useful life |

The remaining useful lives of freehold buildings are reviewed periodically and adjusted where applicable on a prospective basis.

Intangible assets with a finite useful life:

Intangible assets acquired separately or generated internally are initially recognised at cost. In previous periods these assets were impaired to zero for the reasons noted above. In the current year the impairment loss was reversed at the year end, and amortisation will be recognised going forwards on a straight-line basis over the following useful life:

| | |
|----------|--------------|
| Software | 3 to 6 years |
|----------|--------------|

In the current year the range of asset lives for Software has been changed to start from 3 years, not 1 year as reported in prior years. This is to reflect the range of asset lives actually in use for current Software assets.

Intangible assets arising on acquisition or with an indefinite useful life:

These assets are considered for impairment individually in line with Group policy noted above but are not automatically impaired. Goodwill is considered separately below.

Goodwill

Goodwill is initially recognised at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is recognised at cost less any accumulated impairment losses. The Group's management undertakes an impairment review annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important that could trigger an impairment review include the following:

- significant underperformance compared to historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy of the overall Group; and
- significant negative micro- or macro-economic trends.

Goodwill was not considered to be impaired at the date of the last review.

Non-current assets within subsidiaries

Post Office's subsidiary is considered a separate cash generating unit. The need for impairment of assets is considered within the subsidiary and is dependent on whether indicators of impairment exist within that subsidiary.

Discontinued operations

The Group has treated the closure of its Retail Cash in Transit operation as a discontinued operation in the year. The prior year results have also been restated for this. The Retail Cash in Transit operation was considered to be a separate component of Post Office, as its revenue, costs and cash flows were distinguishable from the rest of the Group and the nature of the operation was different to the rest of the business.

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Revenue

Turnover from Retail, Financial Services and Telecoms comprises the value of services provided from the Group's principle activities in providing a whole range of services through its physical and digital channels. Turnover from Financial Services and some Retail services comprises the commission received. Turnover relating to line rental for telecoms services is recognised evenly over the period to which the charges relate and revenue from calls is recognised at the time the call is made. Turnover from all other transactions is recognised when the transaction is completed. All turnover is derived wholly from within the United Kingdom.

Post Office Management Services turnover comprises the value of services provided from the principle activities in providing insurance intermediary services through its network of Post Office branches across the UK, online and contact centre channels. Turnover comprises commissions received from provision of the intermediary services excluding taxes.

The Network Subsidy Payment is Government grant revenue recognised to match the related costs of making available the network of public Post Offices that the Secretary of State for Business, Energy & Industrial Strategy considers appropriate.

Capital and investment expenditure

Capital and investment items are items of income and expenditure arising from the operations of the business which, due to the nature of the events giving rise to them, require separate presentation on the face of the income statement to allow a better understanding of financial performance in the year and in comparison to prior years. Items classified within here will be material either because of size or nature and relate to the transformation of the business rather than ordinary trading. This separate reporting of capital and investment expenditure helps to provide a better picture of the Group's underlying performance. Capital and investment expenditure comprises investment funding, restructuring and transformation costs, and impairment of capital expenditure.

Leases

Finance leases, where substantially all the risks and rewards incidental to ownership of the leased item have passed to the Group, are capitalised at the inception of the lease with a corresponding liability recognised for the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where substantially all the risks and rewards of ownership of the asset are retained by the lessor, are classified as operating leases and rentals are charged to the income statement over the lease term. The aggregate benefit of incentives are recognised as a reduction of rental expenses over the lease term on a straight-line basis.

Investments in joint ventures

Investments in joint ventures within the Group's financial statements are accounted for under the equity method of accounting. Under this method the investment is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the joint venture less any impairment in value. The income statement reflects the Group's share of post-tax profits from the joint venture.

Inventories

Inventories include stationery, retail and lottery products and are carried at the lower of cost and net realisable value after adjusting for obsolete or slow-moving stock.

Taxation

The charge for current income tax is based on the results for the year as adjusted for items which are not taxed or are disallowed. It is calculated using tax rates in legislation that has been enacted or substantively enacted by the balance sheet date.

Deferred income tax assets and liabilities are recognised for all taxable and deductible temporary differences and unused tax assets and losses except:

- initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit and loss;
- taxable temporary differences associated with investments in subsidiaries and interest in joint ventures, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future; and
- deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which they can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the tax asset is realised or the liability is settled, based on tax rates that have been substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

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Current and deferred tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly to equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Pensions and other post-retirement benefits

Membership of occupational pension schemes is open to most permanent UK employees of the Group. All members of defined benefit schemes are contracted out of the earnings-related part of the State pension scheme.

The pension assets of the defined benefit schemes are measured at fair value. Liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term.

The Post Office section of the RMPP closed to future accrual on 31 March 2017. A Memorandum of Understanding was executed on 21 March 2017 which removed the unconditional right to refund from the Plan. As a result of these events the surplus relating to this Plan has been derecognised in the year, in line with IFRIC 14 which states that if the entity does not have an unconditional right to refund then an asset shall not be recognised.

Full actuarial funding valuations are carried out at intervals not normally exceeding three years as determined by the Trustees and, actuarial valuations are carried out at each balance sheet date and form the basis of the surplus or deficit disclosed. When the calculation at the balance sheet date results in net assets to the Group, the recognised asset is limited to the present value of any future refunds of the plan or reductions in future contributions to the plan (the asset ceiling). As noted above, the RMPP Plan has been closed and no future refunds will be made to the Group. Therefore in accordance with IFRIC 14 the pension asset has been derecognised.

For defined benefit schemes, the amounts charged to operating profit, as part of staff costs, are the current service costs and any gains and losses arising from settlements, curtailments and past service costs. The net difference between the interest costs and the expected return on plan assets is recognised as net pensions interest in the income statement. Actuarial gains and losses are recognised immediately in the statement of comprehensive income. Any deferred tax movement associated with the actuarial gains and losses is also recognised in the statement of comprehensive income. In the current year there are further impacts on the income statement and statement of comprehensive income as a result of the closure of the RMPP Plan; these have been described within note 17.

For defined contribution schemes, the Group's contributions are charged to operating profit, as part of staff costs, in the period to which the contributions relate.

Foreign currencies

The functional and presentational currency of the Group is sterling (£).

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are recognised in profit or loss.

Trade receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any non-collectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Borrowing costs

Borrowing costs in relation to the working capital loan facility are recognised as an expense when incurred unless they are directly attributable to the construction or development of a qualifying asset, in which case they are capitalised using the weighted average cost of borrowing for the period of construction/development.

Investment funding

Investment funding is from the Government and includes the Network Subsidy Payment and Government grant. The Government grant is shown separately in the income statement to match the expenditure to which it relates.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax rate.

Financial instruments

The classification of financial instruments included on the balance sheet is set out below:

Financial assets

Financial assets are measured at fair value at the balance sheet date. They are classified into the following categories, loans and receivables or available for sale, as appropriate based on the purpose for which they were

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required. Financial liabilities are measured at either fair value at the balance sheet date or as financial liabilities measured at amortised cost.

Financial liabilities – interest-bearing loans and borrowings

All loans and borrowings are classified as financial liabilities measured at amortised cost.

Financial liabilities – obligations under finance leases

All obligations under finance lease and hire purchase contracts are classified as financial liabilities measured at amortised cost.

Fair value measurement of financial instruments

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date.

Where there is no active market, fair value is determined using valuation techniques. These include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and discounted cash flow analysis and pricing models.

Derecognition of financial instruments

A financial asset or liability is derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and on hand, including cash in the Post Office network and short-term deposits (cash equivalents) with an original maturity date of three months or less. In addition the Group uses current deposit accounts as a readily available source of cash and these funds are also categorised as cash equivalents. Cash equivalents are classified as loans and receivable financial instruments.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of bank overdrafts.

The subsidiary Post Office Management Services Limited holds some fiduciary cash balances, these are held on trust on behalf of insurance third parties, see note 12 for details.

2. Staff costs and numbers

Employment and related costs were as follows:

| | 2017 | 2016 (restated) |
|--|-------------|--------------------|
| | £m | £m |
| People costs within revenue trading: | | |
| Wages and salaries | 157 | 164 |
| Social security costs | 21 | 19 |
| Pension costs (note 17) | 24 | 30 |
| Total people costs within revenue trading | 202 | 213 |
| Other operating costs within revenue trading | 776 | 803 |
| Total revenue trading costs | 978 | 1,016 |

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There is a People costs credit within closure of activities of £19 million (2016: £nil) relating to a one-off past service adjustment in respect of the closure of the RMPP defined benefit pension plan.

People costs within capital and investment relate to severance costs as part of restructuring and are disclosed within note 4.

Period end and average employee numbers were as follows:

| | Period end employees | | Average employees | |
|-----------------|----------------------|-------|-------------------|-------|
| | 2017 | 2016 | 2017 | 2016 |
| Total employees | 5,302 | 6,605 | 6,054 | 6,667 |

Total employee numbers can be categorised as follows:

| | 2017 | 2016 |
|---|--------------|-------|
| Administration | 1,275 | 1,261 |
| Directly managed branches (DMB) | 2,807 | 3,344 |
| Supply Chain | 833 | 1,360 |
| Network and DMB transformation programmes | 387 | 640 |
| Total | 5,302 | 6,605 |

3. Operating profit from continuing operations before capital and investment

Operating profit from continuing operations before capital and investment expenditure is stated after charging:

| | 2017 £m | 2016 £m |
|---|-------------|------------|
| Postmasters' fees | 388 | 413 |
| Depreciation | - | 1 |
| Cost of inventories recognised as an expense | 4 | 3 |
| Operating lease charges – Land and buildings | 14 | 17 |
| Fees payable to the group's auditor for audit and other services: | £000 | £000 |
| -parent company and group audit | 524 | 346 |
| -audit of subsidiary | 60 | 70 |
| -audit related assurance services | 38 | 40 |
| -other assurance services | 106 | 106 |

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4. Capital and investment

| | 2017 | 2016 |
|--|--------------|-------|
| | £m | £m |
| Investment funding | 140 | 150 |
| Restructuring: | | |
| Business transformation | (6) | (13) |
| Network transformation including Postmasters' compensation | (36) | (177) |
| Directly managed branch transformation | (18) | (23) |
| IT transformation | (9) | (30) |
| Restructuring – severance | (46) | (29) |
| - other | (1) | (11) |
| Total restructuring costs | (116) | (283) |
| Impairment: | | |
| Impairment of intangible assets (note 8) | (78) | (93) |
| Impairment of property, plant and equipment (note 9) | (26) | (43) |
| Reversal of impairment on intangible assets (note 8) | 137 | - |
| Reversal of impairment on property, plant and equipment (note 9) | 135 | - |
| Total impairment reversal / (charge) | 168 | (136) |
| Total capital and investment income / (loss) | 192 | (269) |

Restructuring:

Restructuring costs are those incurred in order to implement the major transformation programmes, primarily the Directly Managed Branch and Network programmes which are discussed further in the Financial Review on page [x]. Network transformation includes the costs of Postmasters' compensation of £10 million (2016: £102 million) which are payments made to Postmasters as a result of the ongoing programme. Postmasters' compensation costs in 2017 were £10 million but these were offset by a release in the provision of £34 million (credit to the income statement); this is due to a change in the accounting estimate as the programme nears completion and the expected number of branches to convert decreases.

Impairment and reversal of impairment:

See the accounting policies on page [x] for details.

5. Directors' emoluments

The Directors received the following emoluments:

| | 2017 | 2016 |
|---|--------------|-------|
| | £000 | £000 |
| Emoluments, excluding pension contributions and LTIP* | 1,231 | 1,194 |
| Contributions to pension schemes | 4 | 4 |
| Amounts receivable under Long-Term Incentive Plans | 229 | 44 |

*Figures include any cash supplements received in lieu of pension and any payments in lieu of notice.

| Directors accruing pension entitlements during the period under: | 2017 | 2016 |
|--|---------------|--------|
| | Number | Number |
| Defined benefit schemes | - | - |
| Defined contribution schemes | 1 | 1 |

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The highest paid Director received the following emoluments:

| | 2017 | 2016 |
|--|-------------|------|
| | £000 | £000 |
| Emoluments and LTIP, excluding pension contributions but including cash supplements received in lieu of pensions | 672 | 620 |
| Company contributions to pension schemes | - | - |

Remuneration for each director for the financial year 2016/17

| Name | Annualised salary/fees 2016-17 (note 1) | Actual salary/fees 2016-17 | Benefits 2016-17 | Cash in lieu of pension 2016-17 | STIP 2016-17 | LTIP 2016-17 | Total 2016-17 | Total 2015-16 |
|---------------------------|--|----------------------------------|---------------------|---------------------------------------|-----------------|-----------------|------------------|------------------|
| Non Executive Directors | | | | | | | | |
| Tim Franklin | 40,000 | 40,000 | - | - | - | - | 40,000 | 40,000 |
| Virginia Holmes | 35,000 | 35,000 | - | - | - | - | 35,000 | 40,000 |
| Alasdair Marnoch (note 2) | - | - | - | - | - | - | - | 15,000 |
| Ken McCall (note 3) | 50,000 | 50,000 | - | - | - | - | 50,000 | 12,500 |
| Neil McCausland (note 4) | - | - | - | - | - | - | - | 25,000 |
| Tim Parker (note 5) | 75,000 | 75,000 | - | - | - | - | 75,000 | 37,500 |
| Alice Perkins (note 6) | - | - | - | - | - | - | - | 33,333 |
| Carla Stent (note 7) | 45,000 | 45,000 | - | - | - | - | 45,000 | 8,833 |
| Richard Callard (note 8) | - | - | - | - | - | - | - | - |
| Executive Directors | | | | | | | | |
| Paula Vennells | 250,000 | 250,000 | 9,900 | 62,500 | 198,000 | 151,200 | 671,600 | 619,752 |
| Alisdair Cameron | 240,000 | 240,000 | 14,100 | 55,800 | 160,080 | 77,760 | 547,740 | 510,254 |

Note 1: The annualised fees are shown as at 26 March 2017 or at the date of leaving.

Note 2: Alasdair Marnoch resigned from the Board and left on 31 July 2015

Note 3: Ken McCall was appointed to the Board on 21 January 2016

Note 4: Neil McCausland resigned from the Board and left on 30 September 2015

Note 5: Tim Parker was appointed to the Board on 1 October 2015. Tim donates the after tax value of his Board fees to charity.

Note 6: Alice Perkins resigned from the Board and left on 31 July 2015

Note 7: Carla Stent was appointed to the Board on 21 January 2016

Note 8: Richard Callard is an employee of the Shareholder Executive of the Department for Business, Energy and Industrial Strategy.

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Remuneration Policy Summary

The table below describes the STIP and LTIP available for the Executive Directors. The remuneration framework for the Executive Directors requires consent from the Special Shareholder each year.

| | |
|----------------------------------|--|
| Short-Term Incentive Plan (STIP) | <p>The STIP drives and rewards performance over the single financial year against key financial and operational targets taken from the business scorecard. Metrics and targets are determined and set each year according to business priorities.</p> <p>80% of the STIP plan is determined by business targets, with the remaining 20% linked to the achievement of personal performance objectives.</p> <p>The target opportunities for the Chief Executive and Chief Financial Officer are 48% and 40% with a maximum for stretch performance of 80% and 66.66% respectively.</p> |
| Long-Term Incentive Plan (LTIP) | <p>The LTIP is designed to reward and retain key executives and senior managers on the achievement of strategic longer term targets linked to the development and growth of a sustainable business.</p> <p>The specific performance targets are determined for each LTIP cycle with reference to the three-year plan which is agreed with the Special Shareholder.</p> <p>The target opportunities for the Chief Executive and Chief Financial Officer are 70% and 50%, with stretch performance of 98% and 70% respectively.</p> |

Differences in remuneration policy for the Executive Directors and employees generally

The remuneration policy for the Executive Directors takes account of their level of responsibility and their influence over Post Office's performance. Accordingly, a higher proportion of their total remuneration package is at risk and subject to performance (under the STIP and LTIP). The incidence and potential amounts payable under such incentives across the workforce are determined by their role and grade within the organisation.

Claw-back provision

Executive Directors have claw-back clauses in their contracts, as well as the STIP and LTIP rules, which provide for the return of any over-payments in the event of misstatement of the accounts, error or gross misconduct on the part of an Executive Director. These provisions are structured in line with market best practice.

6. Net finance costs

| | 2017 | 2016 |
|---------------------------|-------------|------|
| | £m | £m |
| Interest payable on loans | (4) | (2) |
| Finance charges | (2) | (3) |
| Total | (6) | (5) |

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7. Taxation

(a) Taxation gains recognised in the year

| | 2017 | 2016 |
|---|-------------|------|
| | £m | £m |
| Corporation tax credit for year | (9) | (9) |
| Deferred tax credit relating to the origin and reversal of temporary differences | 24 | 2 |
| Effect of change in tax rate | 1 | 3 |
| Income tax charge / (credit) reported in the consolidated income statement | 16 | (4) |

Deferred income tax of £25 million (2016: £5 million) has been credited to other comprehensive income relating to actuarial movements in the retirement benefit surplus. This offsets the deferred tax debit of £25 million (2016: £5 million) that has been reported in the consolidated income statement.

The net charge recognised in the income statement is £16 million (2016: net credit of £4 million). Of this net charge, a credit of £9 million relates to normal revenue trading. The remaining £25 million charge is linked to the closure of the defined benefit plan and therefore has been recognised within Closure of activities in the income statement.

(b) Factors affecting current tax charge on profit on ordinary activities

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 20% (2016: 20%). The differences are explained below:

| | 2017 | 2016 |
|--|-------------|------------------|
| | £m | (restated) £m |
| Profit / (loss) on ordinary activities before tax from continuing operations | 306 | (154) |
| Loss on ordinary activities before tax from discontinued operations | (47) | (17) |
| Accounting profit / (loss) before taxation | 259 | (171) |
| Profit / (loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20% (2016: 20%) | 52 | (34) |
| Net decrease in tax charge as a result of recognition of deferred tax assets | (44) | 8 |
| Expenditure disallowable for tax | - | 1 |
| Losses from disposals ineligible for relief | (1) | - |
| Effect of unutilised losses carried forward | 16 | 28 |
| Joint venture profit after tax included in Group pre-tax profit | (7) | (7) |
| Total current tax (see above) | 16 | (4) |

(c) Deferred tax

Deferred tax assets relate to the following:

| | Balance sheet | | Income statement | |
|---|---------------|------|------------------|------|
| | 2017 | 2016 | 2017 | 2016 |
| | £m | £m | £m | £m |
| Pensions temporary differences | - | (25) | (25) | (5) |
| Losses available for offset against future taxable income | - | 25 | - | - |
| Total deferred tax asset | - | - | (25) | (5) |
| Income statement | - | - | (25) | (5) |

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(d) Factors that may affect future tax charges

The Group has unrecognised deferred tax assets of £181 million (2016: £166 million), comprising £54 million (2016: £78 million) relating mainly to fixed asset timing differences, £6 million (2016: £1 million) relating to timing differences on provisions and £121 million (2016: £87 million) relating to tax losses that are available to offset against future taxable profits. The Group has rolled over capital gains of £2 million (2016: £2 million); no tax liability would be expected to crystallise should the assets into which the gains have been rolled be sold at their residual value, as it is anticipated that a capital loss would arise.

The Finance Act 2013 reduced the main rate of corporation tax to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2018. Following these changes, deferred tax balances were reduced from 20% to 18%. The impact of this change on deferred tax balances is included in these financial statements.

8. Intangible assets

| | Software | | Goodwill | | Total | |
|--|------------|------------|------------|------------|------------|------------|
| | 2017 £m | 2016 £m | 2017 £m | 2016 £m | 2017 £m | 2016 £m |
| Cost | | | | | | |
| At 27 March 2016, 29 March 2015 | 389 | 297 | 44 | - | 433 | 297 |
| Reclassifications | (53) | - | - | - | (53) | - |
| Additions | 78 | 93 | - | 44 | 78 | 137 |
| Disposals | (91) | (1) | - | - | (91) | (1) |
| At 26 March 2017, 27 March 2016 | 323 | 389 | 44 | 44 | 367 | 433 |
| Amortisation and impairment | | | | | | |
| At 27 March 2016, 29 March 2015 | 389 | 297 | - | - | 389 | 297 |
| Reclassifications | (53) | - | - | - | (53) | - |
| Amortisation and impairment (note 4) | 78 | 93 | - | - | 78 | 93 |
| Impairment reversal (note 4) | (137) | - | - | - | (137) | - |
| Disposals | (91) | (1) | - | - | (91) | (1) |
| At 26 March 2017, 27 March 2016 | 186 | 389 | - | - | 186 | 389 |
| Net book value | | | | | | |
| At 26 March 2017, 27 March 2016 | 137 | - | 44 | 44 | 181 | 44 |

Goodwill relates to the acquisition from Bank of Ireland of the business and assets of the joint insurance business. The goodwill sits within Post Office Management Services Limited. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. Management determined that no impairment was necessary for the current year (2016: £nil).

Refer to note 9 for details of the impairment review performed for Software.

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9. Property, plant and equipment

| | Land and Buildings | | | Motor Vehicles £m | Plant and machinery £m | Fixtures and equipment £m | Total £m |
|---|--------------------|-------------------------|--------------------------|-------------------------|---------------------------------|------------------------------------|-------------|
| | Freehold £m | Long leasehold £m | Short leasehold £m | | | | |
| Cost | | | | | | | |
| At 29 March 2015 | 83 | 55 | 115 | 40 | 1 | 783 | 1,077 |
| Reclassification* | (6) | 3 | (22) | - | - | 25 | - |
| Additions | 1 | - | - | 4 | - | 38 | 43 |
| Disposals | (1) | - | (3) | (1) | - | (3) | (8) |
| At 27 March 2016 | 77 | 58 | 90 | 43 | 1 | 843 | 1,112 |
| Reclassification* | (12) | 8 | - | - | - | 57 | 53 |
| Additions | 1 | - | - | - | - | 25 | 26 |
| Disposals | (21) | (25) | (67) | (17) | - | (130) | (260) |
| At 26 March 2017 | 45 | 41 | 23 | 26 | 1 | 795 | 931 |
| Depreciation and impairment | | | | | | | |
| At 29 March 2015 | 74 | 54 | 115 | 40 | 1 | 783 | 1,067 |
| Reclassification* | (6) | 3 | (22) | - | - | 25 | - |
| Depreciation and impairment | 2 | - | - | 4 | - | 38 | 44 |
| Disposals | (1) | - | (3) | (1) | - | (3) | (8) |
| At 27 March 2016 | 69 | 57 | 90 | 43 | 1 | 843 | 1,103 |
| Reclassification | (12) | 8 | - | - | - | 57 | 53 |
| Depreciation and impairment (notes 3 and 4) | 1 | - | - | - | - | 25 | 26 |
| Impairment reversal (note 4) | (5) | (26) | - | - | - | (104) | (135) |
| Disposals | (21) | (25) | (67) | (17) | - | (130) | (260) |
| At 26 March 2017 | 32 | 14 | 23 | 26 | 1 | 691 | 787 |
| Net book value | | | | | | | |
| At 26 March 2017 | 13 | 27 | - | - | - | 104 | 144 |
| At 27 March 2016 | 8 | 1 | - | - | - | - | 9 |

Depreciation rates are disclosed within accounting policies (note 1). No depreciation is provided on freehold land, which represents £3 million (2016: £3 million) of the total cost of properties.

In previous years, due to ongoing operational losses (excluding the Network Subsidy Payment), impairment losses have been recognised and the carrying value of some assets have been impaired to zero on acquisition. In the current year the Group has made a profit from continuing operations and this is expected to be sustainable. In addition, the Group has secured Network Subsidy Payments to March 2021, and continued investment funding over that period from Government of up to £210 million. In these circumstances the Group no longer considers there to be indicators of impairment, and there has been a change in accounting estimate to reflect this. The change in accounting estimate has been made as at the year end date as this is the point at which there was sufficient evidence of a value in use.

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An impairment test was performed at the year end to support this. Software and property, motor vehicles and fixtures and equipment were tested for impairment at the year end by comparing the carrying amount of each Cash Generating Unit (CGU) with the recoverable amount determined from value in use calculations.

The discounted net cash flows from the value in use calculations were used to determine the recoverable amount of the CGU's identified, being Post Office Limited and Post Office Management Services Limited. Value in use is determined using the Group's net cash inflows from the continued use of the assets within each CGU over a four year period, with no nominal growth rate assumed outside of this period. A pre-tax discount rate of 9% (Post Office Limited) and 12% (Post Office Management Services Limited) has been used to discount the forecasted cash flows.

A sensitivity analysis has been performed in assessing the value in use of software and property, motor vehicles and fixtures and equipment. This has been based on changes in key assumptions considered to be possible by management. This included an increase in the discount rate of up to two per cent and a decrease in the growth rate by up to two per cent. The sensitivity analysis showed that no impairment would arise under each scenario.

Management therefore believes that any reasonably possible change in the key assumptions would not cause the carrying amount of any CGU's to exceed their carrying value.

As a result of the conclusions made, there has been a reversal of impairment losses in the current year, and the carrying value of assets has been increased. The reversal is no more than the depreciated historical cost if the impairment had not been recognised. The reversal of the impairment loss has been recognised in the income statement for the current year and the change will be applied in future years subject to a continuous review of trading and funding.

10. Investments in joint ventures

The following entity has been included in the consolidated financial statements using the equity method:

Joint ventures

During 2016-17 and 2015-16, the Group's only joint venture investment was a 50% interest (1,000 £1 ordinary A shares) in First Rate Exchange Services Holdings Limited, whose principal activity is the provision of Bureau de Change. First Rate Exchange Services Holdings Limited is a company registered in the United Kingdom. The registered address of First Rate Exchange Services Holdings Limited is Great West House, Great West Road, Brentford, Middlesex, TW8 9DF.

| | 2017 | 2016 |
|---|----------------------|---------------|
| | Joint venture | Joint venture |
| | £m | £m |
| Share of net assets | | |
| Total net investment at 27 March 2016, 29 March 2015 | 67 | 67 |
| Share of post tax pre dividend profit | 34 | 35 |
| Dividend | (35) | (35) |
| Total net investment at 26 March 2017, 27 March 2016 | 66 | 67 |

| | 2017 | 2016 |
|---|----------------|---------|
| | Joint | Joint |
| | venture | venture |
| | £m | £m |
| Share of assets and liabilities: | | |
| Current assets | 222 | 187 |
| Non-current assets | 7 | 6 |
| Share of gross assets | 229 | 193 |
| Current liabilities | (163) | (126) |
| Share of net assets | 66 | 67 |
| Share of revenue and profit: | | |
| Revenue | 82 | 79 |
| Profit after tax | 34 | 35 |

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11. Trade and other receivables

| | 2017 | 2016 |
|--------------------------------|-------------|------|
| | £m | £m |
| Current: | | |
| Trade receivables | 70 | 95 |
| Prepayments and accrued income | 97 | 73 |
| Client receivables | 144 | 229 |
| Other receivables | 18 | 14 |
| Total | 329 | 411 |
| Non-current: | | |
| Prepayments | 13 | 12 |

The Group receives and disburses cash on behalf of Government agencies and other clients to customers through its branch network. Amounts owed from/to Government agencies and other clients are disclosed separately as client receivables (as above) and client payables (see note 13).

As at 26 March 2017 trade receivables of £14 million (2016: £18 million) were impaired and fully provided for. During the year £13 million (2016: £4 million) of the provision has been utilised and an additional £9 million (2016: £8 million) has been provided for. Trade receivables of £13 million (2016: £23 million) were past due but not impaired. The aging analysis of the trade receivables are as follows:

| | 2017 | 2016 |
|---|-------------|------|
| | £m | £m |
| Not yet overdue | 57 | 72 |
| Past due not more than one month | 4 | 12 |
| Past due more than one month and not more than two months | 3 | 3 |
| Past due more than two months | 6 | 8 |
| Total | 70 | 95 |

The fair value of trade and other receivables is not materially different from the carrying value.

12. Cash and cash equivalents

| | 2017 | 2016 |
|---|-------------|------|
| | £m | £m |
| Cash in the Post Office Limited network | 666 | 653 |
| Short-term bank deposits | 12 | 57 |
| Fiduciary cash balances held on behalf of insurance third parties | 2 | 2 |
| Total cash and cash equivalents | 680 | 712 |

Where interest is earned it is at a floating or short-term fixed rate. The fair value of cash and cash equivalents is not materially different from the carrying value.

The fiduciary cash balances are held within Post Office Management Services Limited and are held on trust on behalf of insurance third parties and cannot be called upon should the Company become insolvent.

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13. Trade and other payables

| | 2017 | 2016 |
|------------------|-------------|------|
| | £m | £m |
| Current: | | |
| Trade payables | 51 | 51 |
| Accruals | 161 | 163 |
| Deferred income | 33 | 39 |
| Social security | 10 | 8 |
| Client payables | 296 | 375 |
| Capital payables | 11 | 16 |
| Other payables | 1 | 3 |
| Total | 563 | 655 |
| Non-current: | | |
| Other payables | 22 | 25 |

The fair value of trade and other payables is not materially different from the carrying value.

14. Financial liabilities – interest bearing loan and borrowings

| | 2017 | 2016 |
|---|-------------|------|
| | £m | £m |
| Department for Business, Energy & Industrial Strategy | 561 | 465 |

The loan under the facility is short dated on a programme of liquidity management and matures 1 day after the year end (2016: 1 day). The fair value of borrowings approximate their carrying value due to the short term maturities of the loan. On maturity it is expected that further loans will be drawn down under this facility, which expires in 2018. The undrawn committed facility, in respect of which all conditions precedent had been met at the balance sheet date, is £389 million (2016: £485 million). The average interest rate on the drawn down loans is 0.8% (2016: 1.0%).

The facility is currently restricted to funding the cash and near cash items held within the Post Office Limited network.

The facility (including drawn down loans) is secured by a floating charge over all assets of Post Office Limited and a negative pledge over cash and near cash items. The negative pledge is an agreement not to grant security over the assets or to set up a vehicle that has the same effect.

15. Provisions

| | Network Transformation | Onerous Leases | Severance | Other | Total |
|---|---------------------------|-------------------|-----------|-----------|-----------|
| | £m | £m | £m | £m | £m |
| At 27 March 2016 | 134 | 19 | 3 | 11 | 167 |
| Charged to capital and investment | 10 | 20 | 50 | 3 | 83 |
| Charged to revenue trading | - | - | - | 5 | 5 |
| Charged for discontinued operation | - | - | - | 44 | 44 |
| Utilisation | (68) | (7) | (43) | (38) | (156) |
| Unused amounts in the year – capital and investment | (34) | (11) | (1) | (7) | (53) |
| Unused amounts in the year – revenue trading | - | - | - | (1) | (1) |
| At 26 March 2017 | 42 | 21 | 9 | 17 | 89 |

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| | Network Transformation £m | Onerous Leases £m | Severance £m | Other £m | Total £m |
|-------------------------|---------------------------------|-------------------------|-----------------|-------------|-------------|
| Disclosed as: | | | | | |
| At 26 March 2017 | | | | | |
| Current | 28 | 7 | 9 | 14 | 58 |
| Non – current | 14 | 14 | - | 3 | 31 |
| | 42 | 21 | 9 | 17 | 89 |
| At 27 March 2016 | | | | | |
| Current | 132 | 6 | 3 | 10 | 151 |
| Non-current | 2 | 13 | - | 1 | 16 |
| | 134 | 19 | 3 | 11 | 167 |

The Network Transformation provision relates to payments due to postmasters in relation to the major transformation programme, see the accounting policies note on page [X] for further details of this provision. The reduction in the provision from prior year reflects a change in the accounting estimate as the programme nears completion and the expected number of branches to convert decreases.

Other provisions of £17 million (2016: £11 million) include £9 million of smaller provisions including £1 million for personal injury claims and £1 million which sits within the subsidiary Post Office Management Services Limited and relates to the repayment of commission received in the event of the cancellation of insurance policies. It also includes £8 million (2016: £3 million) in relation to the discontinued operation as disclosed in note 20.

16. Financial assets and liabilities

a. Financial assets and liabilities by category

The breakdown of the Group's financial instruments at 26 March 2017 and 27 March 2016 is shown below:

| | 2017 | | | 2016 | | |
|--|---------------|----------------------|--------------|---------------|----------------------|-------------|
| | Current £m | Non current £m | Total £m | Current £m | Non Current £m | Total £m |
| Financial assets | | | | | | |
| Trade and other receivables | 320 | - | 320 | 396 | - | 396 |
| Cash and cash equivalents | 680 | - | 680 | 712 | - | 712 |
| Financial liabilities | | | | | | |
| Trade and other payables | (520) | (4) | (524) | (608) | (4) | (612) |
| BEIS loan | (561) | - | (561) | (465) | - | (465) |
| Finance leases obligations | - | - | - | (8) | - | (8) |
| Total financial assets/ (liabilities) | (81) | (4) | (85) | 27 | (4) | 23 |

Except for prepayments, social security and deferred income, which have been excluded from the table above, all of the Group's financial assets and liabilities by nature and classification for measurement purposes are considered loans and receivables.

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The fair value of the Group's financial assets and liabilities approximate their carrying value due to the short-term maturities of these instruments. The fair value of financial assets and liabilities is defined as the amount at which the Group would expect to receive upon selling an asset or pay to transfer a liability in a transaction between market participants at the measurement date.

The nature of the inputs used in determining the values of the financial assets and liabilities is quoted prices (unadjusted) in active markets for identical assets and liabilities. All of the Group's financial assets and liabilities are therefore considered as Level 2 in the fair value hierarchy.

The Group has no Level 1 and Level 3 financial instruments and there have been no transfers between the levels of fair value hierarchy during the period.

b. Financial risk management objectives and policies

The Group is exposed to a variety of financial risks: market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and aims to minimise potential adverse effects on the Group's financial performance.

Interest rate risk

The Group is exposed to changes in interest rate on floating rate debt, cash deposits and current account balances. Interest rate risk on borrowings is managed through determining the right balance of fixed and floating debt within the financing structure. Market conditions are considered when determining the desired balance of fixed and floating rate debt. Had there been a 50 basis point increase in interest rates, there would have been an £8 million favourable impact on the Group's equity and income statement. A 50 basis point decrease would have resulted in a £2 million adverse impact on the Group's equity and income statement.

Foreign currency risk

The Group is exposed to foreign currency risk resulting from balances held to operate Bureau de Change services.

The currencies which these transactions are primarily denominated are the US dollar and Euro. The Group's foreign currency risk management objective is to minimise the impact on the Income Statement of fluctuations in the exchange rates. The Group hedges its foreign currency risk principally through external forward foreign currency contracts to cover near-term future revenues with a number of providers including First Rate Exchange Services Holdings Limited.

The following table demonstrates the sensitivity of financial instruments to a reasonably possible change in the US dollar and Euro exchange rates, assuming they are unhedged and with all other variables held constant, on profit/(loss) before tax and equity.

| | Strengthening / (weakening) US dollar rate | Effect on profit before tax | Effect on equity | Strengthening / (weakening) in euro rate | Effect on profit before tax | Effect on equity |
|-------------|--|-----------------------------------|--------------------------|--|-----------------------------------|--------------------------|
| | % | £m | £m | % | £m | £m |
| | Increase / (decrease) | Increase / (decrease) | Increase / (decrease) | Increase / (decrease) | Increase / (decrease) | Increase / (decrease) |
| 2017 | 10 | 2 | 2 | 10 | 4 | 4 |
| | (10) | (2) | (2) | (10) | (4) | (4) |
| 2016 | 10 | 2 | 2 | 10 | 4 | 4 |
| | (10) | (2) | (2) | (10) | (4) | (4) |

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Financial credit risk arises from cash balances (including bank deposits and cash and cash equivalents) held by the Group and business credit risk arises from exposures to customers. Business risk includes commission receivable and client related settlements for amounts paid out of the Post Office network on their behalf.

The Group aims to minimise its financial credit risk through the application of risk management policies approved by the Board. Counterparties are limited to major banks and financial institutions. The policy restricts the exposure to any one counterparty by setting appropriate credit limits. The maximum exposure to credit risk is limited to the carrying value of each class of asset summarised in note 11.

Business credit risk is monitored centrally. The level of bad debt provision is less than 2% (2016: less than 2%) of turnover.

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Capital management

The Group's objectives when managing capital (defined as the net of borrowings and amounts due under finance leases and cash and cash equivalents excluding cash in the Post Office Network) are to safeguard its ability to continue as a going concern and to maintain an optimal capital structure in order to support the business and maximise stakeholder value. In managing the Group's capital levels the Board and the Group Executive regularly monitor the level of debt in the Group, the working capital requirements and the forecast cash flows. The Board and Group Executive plan accordingly following this review process in order to meet the Group's capital management objectives.

Liquidity risk

The Group's primary objective is to ensure that the Group has sufficient funds available to meet its financial obligations as they fall due. This is achieved by aligning short-term investments and borrowing facilities with forecast cash flows. Typical short-term investments include short term bank deposits with approved counterparties. Borrowing facilities are regularly reviewed to ensure continuity of funding.

The Group has adequate cash reserves to meet operating requirements in the next 12 months.

At 26 March 2017 the Group has unused facility of £389 million (2016: £485 million). The current facility expires in 2018. An extension of the working capital facility to March 2021 was agreed on 30 March 2017.

The tables below analyses the Group's financial assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and include interest, where applicable.

| At 26 March 2017 | 12 Months £m | 1-2 Years £m | Total £m |
|--|-----------------------------|-----------------------------|---------------------|
| Financial assets | | | |
| Trade and other receivables | 320 | - | 320 |
| Cash and cash equivalents | 680 | - | 680 |
| Financial liabilities | | | |
| Trade and other Payables | (520) | (4) | (524) |
| Interest bearing loan | (561) | - | (561) |
| Finance leases obligations | - | - | - |
| Total financial liabilities | (81) | (4) | (85) |
| At 27 March 2016 | 12 Months £m | 1-2 Years £m | Total £m |
| Financial Assets | | | |
| Trade and other receivables | 396 | - | 396 |
| Cash and cash equivalents | 712 | - | 712 |
| Financial Liabilities | | | |
| Trade and other Payables | (608) | (4) | (612) |
| Interest bearing loan | (465) | - | (465) |
| Finance leases obligations | (8) | - | (8) |
| Total financial assets/ (liabilities) | 27 | (4) | 23 |

There were no financial assets or liabilities in the current or prior year that were due to mature after 2 years.

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17. Pensions

The disclosures in this note reflect the two defined benefit schemes: the Post Office section of the Royal Mail Pension Plan (RMPP) which is independent from the Royal Mail section of the RMPP, and a 7% share of the Royal Mail Senior Executive Pension Plan (RMSEPP). Royal Mail Group Ltd is the principle employer of RMSEPP and Post Office Ltd became a participating employer with effect from 1 April 2012. This disclosure also includes the Post Office Pension Plan (POPP), which is a defined contribution scheme.

The disclosures in this note show the value of the assets and liabilities that have been calculated at the balance sheet date.

Post Office participates in pension schemes as detailed below.

| Name | Eligibility | Type |
|---|----------------------|----------------------|
| Royal Mail Pension Plan (RMPP)* | UK employees | Defined benefit |
| Royal Mail Senior Executive Pension Plan (RMSEPP) | UK senior executives | Defined benefit |
| Post Office Pension Plan | UK employees | Defined contribution |

*The RMPP closed to future accrual on 31 March 2017.

Defined Contribution

The charge in the income statement for the defined contribution scheme and the Group contributions to this scheme were £3 million (2016: £3 million) during the year. New employees joining the Group are able to pay contributions to POPP after they have worked for the Group for a year.

Under the Pensions Act 2008, from 1 May 2017 the Group will auto-enrol all eligible employees into POPP regardless of their length of service.

Defined Benefit

Both RMPP and RMSEPP are funded by the payment of contributions to separate Trust administered funds. It should be noted that the assumptions used for these pension disclosures are not the same as the assumptions used for funding the plans. The latest full actuarial funding valuation of the RMPP was carried out as of 31 March 2015 using the projected unit method. For RMPP, this valuation was concluded at £62.7 million surplus (2012: £135 million surplus) on a Technical Provisions basis. Valuations are carried out triennially and the next one for the RMPP is due to be carried out as at 31 March 2018. RMPP includes sections A, B and C each with different terms and conditions:

- Section A is for members (or beneficiaries of members) who joined before 1 December 1971;
- Section B is for members (or beneficiaries of members) who joined after 1 December 1971 and before 1 April 1987 or to Section A members who chose to receive Section B benefits;
- Section C is for members (or beneficiaries of members) who joined after 1 April 1987 and before 1 April 2008.

The latest full actuarial funding valuation for RMSEPP was carried out as at 31 March 2015 using the projected unit method. For 100% of RMSEPP, the valuation concluded at £17 million surplus on a Technical Provisions basis. The next full valuation for RMSEPP is expected to be carried out as at 31 March 2018.

A series of changes to RMPP and RMSEPP have taken effect since 1 April 2008.

The changes encompassed are:

- The Plans closed to new members from 31 March 2008;
- All pensions and benefits earned before 1 April 2008 retained a link to final pensionable salary, benefits accrued from 1 April 2008 were earned on a "career average pensionable salary" basis;
- RMPP employees can continue to take their pension on reaching age 60 but the normal retirement age increased to age 65 for benefits earned from 1 April 2010;
- From 1 April 2010 it was possible to draw pension earned before the change to normal retirement age at age 55 (subject to an actuarial reduction in the pension benefit), and continue working while still contributing to the RMPP until the maximum level of benefits was reached;
- RMSEPP was closed to future accrual on 31 December 2012;

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- In relation to RMPP only, from 1 April 2014 pensionable salary was amended to the amount in force as at 31 March 2014, increasing each 1 April thereafter in line with RPI (up to 5% each year), with allowance for certain promotional increases; and
- The Post Office section of the RMPP closed to future accrual on 31 March 2017 and so no further defined benefits accrue in respect of Post Office employment after that date; however for as long as a member remains in employment with the Group or has not taken pension, pre-1 April 2012 pension benefits are linked to pensionable salary and post-31 March 2012 benefits receive in-deferment increases (linked to CPI).

Payment to the RMPP of £14m (2016: £17 million) was made by the Group during the year in respect of regular future service contributions. The regular future service contributions for RMPP expressed as a percentage of pensionable pay, has remained at 17.1% (2016: 17.1%) effective from April 2010. Following formal consultation with employees in 2016, the Trustee agreed to Post Office's request for the closure of the Post Office section of the RMPP to future accrual. Closure to future accrual means that no contributions in respect of normal service accrual will be made after 31 March 2017. However it is expected that there will be redundancy payments to be made to the RMPP during 2017/18.

Even though RMSEPP had a funding surplus on a Technical Provisions basis at 31 March 2015, under the Schedule of Contributions agreed for the 2015 valuation, payments of £11m per annum will be made. Post Office's share of these payments will be 7% which is £1m per annum. A payment of £1 million was made by the Group during the year. The payments will continue to the later of 30 September 2018 and the date the 31 March 2018 valuation is completed.

A current liability of £1 million (2016: £nil) has been recognised for payments to the RMPP and RMSEPP schemes relating to redundancy. During the year payments of £3 million (2016: £3 million) relating to redundancy were made.

The weighted average duration of the Post Office section of the RMPP is around 26 years, and for RMSEPP is around 20 years.

On 21 March 2017 Post Office executed a Memorandum of Understanding with the Trustee of the RMPP. This clarified the Trustee's powers to distribute surplus without Post Office's agreement and Post Office has concluded that as a result of the Memorandum of Understanding, Post Office no longer has an unconditional right to refund from the Plan. In light of this, in accordance with IFRIC 14 the RMPP pension surplus was derecognised as at 26 March 2017, and the resulting loss has been recognised in Other Comprehensive Income.

The following disclosures relate to the gains/losses and surplus/deficit in respect of Post Office's obligations to RMPP and RMSEPP:

a) Major long-term assumptions

The size of the defined benefit obligation shown in the accounts is materially sensitive to the assumptions adopted. Small changes in these assumptions could have a significant impact on this value. The overall income statement charge and past service adjustment in the income statement are also sensitive to the assumptions adopted.

The major long-term assumptions in relation to both RMPP and RMSEPP were:

| | At 26 March 2017 | At 27 March 2016 |
|---|-------------------------|------------------|
| | % pa | % pa |
| Increases to benefits that retain a link to pensionable pay | 3.4 | 2.8 |
| Rate of pension increases – RMPP sections A/B | 2.3 | 1.8 |
| Rate of pension increases – RMPP section C | 3.4 | 2.8 |
| Rate of pensions increases – RMSEPP members transferred from Section A or B of RMPP | 2.3 | 1.8 |
| Rate of pension increases – RMSEPP all other members | 3.4 | 2.8 |
| Rate of increase for deferred pensions | 2.3 | 1.8 |
| Discount rate | 2.3 | 3.5 |
| Inflation assumption (RPI) – RMPP & RMSEPP | 3.4 | 2.9 |
| Inflation assumption (CPI) – RMPP & RMSEPP | 2.3 | 1.8 |

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The ultimate cost of the RMPP plan to the Group will depend upon future events rather than the assumptions made. The assumptions made may not be borne out in practice and as such the cost of the plan may be higher (or lower) than disclosed.

In common with other defined benefit schemes, the main risk in relation to the arrangements is the value of the assets does not keep pace with the increase in the value of the liabilities. This can arise for many reasons, but the most significant risks are as follows:

Investment risk: If the assets of the arrangements fall short of expectations, this will lead to a decrease in the funded status.

Asset volatility: The arrangements hold return seeking assets (including equities and property) which are expected to outperform corporate bonds in the long term but give exposure to volatility and risk in the short term. RMPP does, however, invest in liability driven investment (LDI) assets, for example bonds and swaps, which mitigate the impact of interest rate and inflation volatility on the funded status.

Inflation risk: Higher inflation rates than expected will act to increase the plan liabilities as benefits will increase to a higher level than assumed. The arrangements have a maximum pension increase (generally 5% per annum) written into the rules which limits the increase for many benefits, so limiting the impact of high inflation. This includes benefits retaining a link to pensionable pay in RMPP. In addition, the arrangement holds assets that increase in value as price inflation expectations rise, so mitigating the impact of rising inflation expectations. These assets include LDI assets in respect of RMPP.

Changes in bond yields: A decrease in corporate bond yields will increase the plan liabilities, although this can be expected to be partially offset by an increase in the value of any corporate bond holdings and, potentially, the LDI assets.

Pensioner longevity: If members live longer than expected, the liabilities would be greater than currently anticipated because pensions would be paid for over a longer time than assumed.

Liabilities accrued in the Royal Mail Pension Plan to 31 March 2012 were largely transferred to the Royal Mail Statutory Pension Scheme. These liabilities are substantially no longer an obligation of the Group and consequently the transfer resulted in a significant removal of pension risk from the Group.

The following table shows the potential impact on the value of Post Office's defined benefit obligation in respect of RMPP and RMSEPP of changes in key assumptions:

| | 2017 £m | 2016 £m |
|--|-------------------|------------|
| Changes in RPI and CPI inflation of +0.1% pa | (9) | (5) |
| Changes in discount rate of +0.1% pa | 9 | 5 |
| Changes in real salary growth of +0.1% pa | - | (2) |
| Changes in CPI assumptions of +0.1% pa | (4) | (1) |
| An additional 1 year life expectancy | (10) | (6) |

The sensitivity analysis has been prepared using projected benefit cashflows as at the latest full actuarial valuation of the plan. The same method was applied as at the previous reporting date. The accuracy of this method is limited by the extent to which the profiles of the plan cashflows have changed since those valuations although any change is not expected to be material in the context of the above sensitivity analysis.

Mortality: The mortality assumptions used to calculate the value of Post Office's defined benefit obligation in respect of RMPP and RMSEPP are based on the latest self-administered pension scheme (SAPS "S2" series) mortality tables as shown in the following table:

| Base mortality tables | 2017 | 2016 |
|-----------------------|---|--|
| Males | 100% x S2PMA | 106% x S1PMA |
| Female members | 100% x S2PFA | 101% x S1DFA |
| Female dependants | 100% x S2DFA | 101% x S1DFA |
| Future improvements | CMI 2015 Core Projections with a 1.5% pa long-term trend | Medium Cohort Projections with a 1.25% pa floor |

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| | | |
|---|-----------------|----------|
| Average expected life expectancy from age 60: | 2017 | 2016 |
| For a current 60 year old male RMPP member | 28 years | 27 years |
| For a current 60 year old female RMPP member | 30 years | 30 years |
| For a current 40 year old male RMPP member | 30 years | 29 years |
| For a current 40 year old female RMPP member | 32 years | 32 years |

b) Plans' assets

The assets in the plans for the Group were:

| | Market value 2017 | Market value 2016 |
|---|--------------------------|-------------------|
| | £m | £m |
| Sectionalised RMPP | | |
| Corporate bonds* | 394 | 233 |
| Property | 13 | 11 |
| Private Equity | 7 | 10 |
| Cash and cash equivalents | 68 | 41 |
| Bond/fixed interest funds | 25 | 41 |
| Other loan/debt funds | 17 | 28 |
| Alternative asset funds | 8 | 43 |
| Fair value of RMPP assets | 532 | 407 |
| Present value of RMPP liabilities | (322) | (184) |
| Surplus in plan before asset ceiling adjustment | 210 | 223 |
| Less effect of asset ceiling | (210) | (29) |
| Surplus in plan after asset ceiling adjustment | - | 194 |

*£4 million relates to UK Government Bonds, £365 million to an LDI investment containing UK Government Bonds (a liability driven investment) and £25 million relates to infrastructure debt holdings and collateralised liability obligations holding which are a combination of GBP, AUD, EUR and USD denominated and are fixed interest.

| | Market value 2017 | Market value 2016 |
|---|--------------------------|-------------------|
| | £m | £m |
| Share of RMSEPP | | |
| UK equities | 1 | 1 |
| Overseas equities | 12 | 10 |
| Government bonds | 2 | 15 |
| Alternative asset funds | 2 | 2 |
| Property | 2 | 2 |
| Bulk annuity policy* | 13 | - |
| Fair value of share in plan assets for RMSEPP | 32 | 30 |
| Present value of share in plan liabilities for RMSEPP | (31) | (27) |
| Surplus in plan for the share of RMSEPP before asset ceiling adjustment | 1 | 3 |
| Less effect of asset ceiling | - | (1) |
| Surplus in plan for share of RMSEPP after asset ceiling adjustment | 1 | 2 |

*RMSEPP holds a bulk annuity policy with Scottish Widows. The value ascribed to this policy has been calculated using the same assumptions as used to calculate the present value of the defined benefit obligation.

As described above, no surplus is recognised for RMPP because the Group has concluded that as a result of the Memorandum of Understanding signed on 21 March 2017, the Group no longer has an unconditional right to refund from the Plan. A retirement benefit surplus of £1 million is disclosed on the balance sheet, representing the surplus in the RMSEPP Plan only.

There is no element of the above present value of liabilities that arises from plans that are wholly unfunded. With the exception of the bulk annuity policy described above, all RMPP and RMSEPP assets are securities with a quoted price in an active market.

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c) Movement in plans' assets and liabilities

Changes in the fair value of the plans' assets are analysed as follows:

| Assets | Sectionalised RMPP 2017 £m | Sectionalised RMPP 2016 £m |
|--|--|-------------------------------|
| Assets in sectionalised RMPP at beginning of period | 407 | 379 |
| Contributions paid | 17 | 19 |
| Employee contributions paid | 5 | 6 |
| Finance income | 15 | 14 |
| Actuarial gains/(losses) | 92 | (8) |
| Benefits paid to members | (4) | (3) |
| Assets in sectionalised RMPP at end of period | 532 | 407 |
| | Share of RMSEPP 2017 £m | Share of RMSEPP 2016 £m |
| Assets | | |
| Share of assets in RMSEPP at beginning of period | 30 | 31 |
| Contributions paid | 1 | 1 |
| Finance income | 1 | 1 |
| Actuarial gains/(losses) | 1 | (2) |
| Benefits paid to members | (1) | (1) |
| Share of assets in RMSEPP at end of period | 32 | 30 |

Changes in the present value of the defined benefit pension obligations are analysed as follows:

| Liabilities | Sectionalised RMPP 2017 £m | Sectionalised RMPP 2016 £m |
|---|---|----------------------------------|
| Liabilities in sectionalised RMPP at beginning of period | (184) | (150) |
| Current service cost | (23) | (27) |
| Curtailment costs* | 2 | (1) |
| Finance cost | (7) | (6) |
| Employee contributions | (5) | (6) |
| Experience adjustments on liabilities | 6 | 3 |
| Financial assumption changes | (129) | - |
| Demographic assumption changes | (5) | - |
| Benefits paid | 4 | 3 |
| Effect of closure of RMPP* | 19 | - |
| Liabilities in sectionalised RMPP at end of period | (322) | (184) |
| | Share of RMSEPP 2017 £m | Share of RMSEPP 2016 £m |
| Liabilities | | |
| Share of liabilities in RMSEPP plans at beginning of period | (27) | (26) |
| Finance cost | (1) | (1) |
| Experience adjustments on liabilities | 7 | (1) |
| Financial assumption changes | (11) | - |
| Benefits paid | 1 | 1 |
| Share of liabilities in RMSEPP at end of period | (31) | (27) |

*The gain on curtailment of £2 million is due to redundancies in the year. It is equal to a cost of £3 million in respect of enhanced retirement benefits granted to certain members, offset by a saving of £5 million due to RPI-linked in-service revaluation being replaced by CPI-linked deferred pension revaluation. The effect of the closure

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of RMPP of £19 million is a past service adjustment as a result of the closure of the Plan and is a one-off adjustment. Both of these adjustments have been allocated between revenue trading (net credit of £2 million relating to adjustments linked to current year service) and closure of activities (net credit of £19 million relating to adjustments linked to prior years' service).

d) Recognised charges

An analysis of the separate components of the amounts recognised in the performance statements of the Group is as follows:

| | Sectionalised RMPP 2017 £m | Sectionalised RMPP 2016 £m |
|---|---|-------------------------------|
| Analysis of amounts recognised in the income statement | | |
| Analysis of amounts charged to operating profit from revenue trading: | | |
| Current service cost | 23 | 27 |
| Loss due to curtailments | 2 | - |
| Effect of the closure of the RMPP | (4) | - |
| Total charge to revenue trading | 21 | 27 |
| Analysis of amounts charged to closure of activities: | | |
| (Gain) / loss due to curtailments | (4) | 1 |
| Effect of the closure of the RMPP | (15) | - |
| Total charge to operating profit | 2 | 28 |
| Analysis of amounts charged/(credited) to net pensions interest: | | |
| Interest on plan liabilities | 7 | 6 |
| Interest income on plan assets | (15) | (14) |
| Net pensions credit to financing | (8) | (8) |
| Net (credit) / charge to the income statement before deduction for tax | (6) | 20 |
| Analysis of amounts recognised in the statement of comprehensive income | | |
| Actual return on plan assets | 107 | 6 |
| Less: expected interest income on plan assets | (15) | (14) |
| Less: taxation on surplus recoverable through plan refunds | - | (2) |
| Actuarial gains/(losses) on assets (all experience adjustments) | 92 | (10) |
| Actuarial gains arising from changes in demographic assumptions | 6 | 3 |
| Actuarial losses arising from changes in financial assumptions | (129) | - |
| Actuarial losses arising from experience adjustment | (5) | - |
| Actuarial (losses)/gains on liabilities | (128) | 3 |
| Effect of the asset ceiling | (210) | - |
| Total actuarial losses recognised in the statement of comprehensive income | (246) | (7) |

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| | Share of RMSEPP 2017 £m | Share of RMSEPP 2016 £m |
|---|-------------------------------|-------------------------------|
| Analysis of amounts recognised in the income statement | | |
| Analysis of amounts charged to net pensions interest: | | |
| Interest on plan liabilities | 1 | 1 |
| Interest income on plan assets | (1) | (1) |
| Net pensions credit to financing | - | - |
| Net charge to the income statement before deduction for tax | - | - |
| Analysis of amounts recognised in the statement of comprehensive income | | |
| Actual return on plan assets | 2 | (1) |
| Less: expected interest income on plan assets | (1) | (1) |
| Less: taxation on surplus recoverable through plan refunds | - | 1 |
| Actuarial gains/(losses) on assets (all experience adjustments) | 1 | (1) |
| Actuarial gains arising from changes in demographic assumptions | 7 | - |
| Actuarial losses arising from changes in financial assumptions | (11) | (1) |
| Actuarial losses on liabilities | (4) | (1) |
| Total actuarial losses recognised in the statement of comprehensive income | (3) | (2) |

18. Equity**Called up share capital:**

| | 2017 £ | 2016 £ |
|------------------------------------|---------------|-----------|
| Authorised | | |
| Ordinary shares of £1 each | 51,000 | 51,000 |
| Total | 51,000 | 51,000 |
| Allotted and issued and fully paid | | |
| Ordinary shares of £1 each | 50,003 | 50,003 |
| Total | 50,003 | 50,003 |

Other reserves:

Other reserves of £2 million (2016: £2 million) relate to First Rate Exchange Services Holdings Limited, the joint venture entity.

Share premium:

On 7 August 2007 1,000 ordinary shares of £1 each were issued in return for £313 million cash paid by the Secretary of State for Business, Enterprise and Regulatory Reform. A share premium of £312,999,999 resulted from this subscription. In April 2008 two ordinary £1 shares were issued in return for £152 million cash paid by the Secretary of State for Business, Energy and Industrial Strategy. A share premium of £151,999,998 resulted from this subscription.

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19. Commitments

Capital commitments contracted for but not provided in the financial statements amount to £64 million (2016: £51 million).

The Group is also committed to the following minimum lease payments under non-cancellable operating leases:

| | Land and buildings | |
|----------------------------|--------------------|------------|
| | 2017 £m | 2016 £m |
| Within one year | 13 | 14 |
| Between one and five years | 34 | 35 |
| Beyond five years | 35 | 29 |
| Total | 82 | 78 |

Contingent liabilities: As a large, nationwide retailer operating in dynamic and competitive markets, we may be subject to regulatory investigations and may face damage to our reputation and legal claims.

From time to time, we may be named as a defendant in legal claims or be required to respond to regulatory actions in connection with our activities. This may include claims for substantial or indeterminate amounts of damages from customers, employees, consultants and contractors, or may result in penalties, fines, or other results adverse to us. Like any large company, we may also be subject to the risk of potential employee or agent misconduct, including non-compliance with policies and improper use or disclosure of our assets or confidential information.

On 11 April 2016, a High Court claim was issued on behalf of a number of postmasters against Post Office in relation to various legal, technical and operational matters ("the Post Office Group Litigation"). The Generic Particulars of Claim does not quantify the value of the claims.

Post Office is defending the claim, which is proceeding under a Group Litigation Order and is at a nascent stage.

The Directors do not currently consider, but continue to keep under review whether, the outcome of any current claim or action will have a material adverse impact on the consolidated position of the Group."

20. Discontinued Operations

In August 2016 the Group decided to discontinue its Retail Cash in Transit operation. The results of this operation are disclosed below. 2016 includes the prior year results relating to the mobile discontinued operation, restated to include the prior year results of the Retail Cash in Transit operation.

The mobile operation results included in the below table are a credit of £1 million for 2017 relating to unutilised provision, and a cost of £10 million for 2016 relating to the closure (split between Other operating costs of £4 million and Capital and Investment of £6 million).

| | 2017 £m | 2016 (restated) £m |
|---|------------|--------------------------|
| Revenue | 9 | 17 |
| People costs excluding restructuring costs | (19) | (20) |
| Other operating costs | (2) | (8) |
| Operating loss before capital and investment | (12) | (11) |
| Operating capital and investment expenditure | (35) | (6) |
| Loss before taxation | (47) | (17) |
| Taxation | - | - |
| Loss for the year from discontinued operation | (47) | (17) |

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Balances on the balance sheet at year end in respect of discontinued operations are shown in the table below. The current year balance relates entirely to the Retail Cash in Transit operation closure and is in respect of provisions for severance costs (£3 million), other restructuring costs (£2 million) and vacant leasehold properties (£3 million). The prior year balance relates to provisions for the Mobile operation closure costs and termination charges.

| | 2017 | 2016 (restated) |
|---|-------------|--------------------|
| | £m | £m |
| Land and buildings | - | 1 |
| Trade receivables | - | 2 |
| Accrued income | - | 1 |
| Total assets | - | 4 |
| Provisions (note 15) | (8) | (3) |
| Total liabilities | (8) | (3) |
| Total net (liabilities) / assets | (8) | 1 |

The comparatives in the Income Statement for the year ended 27 March 2016 have been restated and allocated to discontinued operations. The restatement affects revenue, people costs, and other operating costs. Within this report, the comparative income statement and statement of comprehensive income for the year ended 27 March 2016 have been restated. The operating profit from revenue trading on the cash flow statement has also been restated. There has been no effect on the balance sheet or statement of changes in equity.

The table below shows the impact of the restatement on revenue trading and closure of activities for the year ended 27 March 2016:

| | As previously reported | Restatement | 27 March 2016 Restated |
|---|---------------------------|-------------|---------------------------|
| Turnover | 981 | (17) | 964 |
| People costs | (233) | 20 | (213) |
| Other operating costs | (808) | 4 | (804) |
| Loss for the year from continuing operations | (157) | 7 | (150) |
| Loss for the year from discontinued operations | (10) | (7) | (17) |
| Loss for the year after discontinued operations | (167) | - | (167) |

21. Related party disclosures

Joint venture

The following company is a joint venture of the Group:

| Company | Country of incorporation | % Holding | Principal activities |
|---|--------------------------|-----------|----------------------|
| First Rate Exchange Services Holdings Limited | United Kingdom | 50 | Bureau de Change |

All shareholdings are equity shares.

Related party transactions

During the year the Group entered into transactions with the following related parties. The transactions were in the ordinary course of business. The transactions entered into and the balances outstanding at the financial year end were as follows:

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| | Sales/recharges to related party | | Purchases/recharges from related party | | Amounts owed from related party including outstanding loans | | Amounts owed to related party including outstanding loans | |
|---|----------------------------------|------------|--|------------|---|------------|---|------------|
| | 2017 £m | 2016 £m | 2017 £m | 2016 £m | 2017 £m | 2016 £m | 2017 £m | 2016 £m |
| First Rate Exchange Services Holdings Limited | 32 | 26 | 121 | 122 | 9 | 10 | 5 | 7 |

The sales to and purchases from related parties are made at normal market prices. Balances outstanding at the year end are unsecured, interest free and settlement is made by cash. First Rate Exchange Services Holdings Limited is a joint venture of the Group.

The Group trades with numerous Government bodies on an arm's length basis. Transactions with these entities are not disclosed owing to the significant volume of transactions that are conducted.

Separately:

- the Group has certain loan facilities with Government (note 14);
- the Group has received investment funding from the Government of £140 million, all of which was recognised through the income statement; and
- the Group has received the Network Subsidy Payment from Government (note 1).

22. Post balance sheet events

On 20 July 2017, Post Office Limited and Trustees of the Royal Mail Pension Plan (POL fund) ("Trustees") entered into an agreement with Rothesay Life PLC in which a pension buy-in was effected for the Royal Mail Pension Plan defined benefit pension scheme.

Under the bulk annuity purchase agreement, the Trustees of the pension plan have effectively bought an asset that provides income which matches closely the benefit payments from the pension plan. It achieves a material risk reduction as changes in income mirror changes in benefits due to, for example, inflation.

The accounting surplus will reduce by the difference between the insurance premium and the value of the insured liabilities. This loss will be recognised in Other Comprehensive Income in 2017-18. As described in note 17, Post Office no longer has an unconditional right to refund from the Plan and, in accordance with IFRIC 14, the RMPP pension surplus is no longer recognised on the balance sheet, with an asset ceiling applied which reduces the balance to nil. As a result of the reduction of the surplus through the pension buy-in, there will be an equal and opposite adjustment to the asset ceiling also through Other Comprehensive Income. As a result, there is no effect on Other Comprehensive Income or the net assets position of the Group.

In addition, a data risk premium of £2.1 million has been paid by the Trustees in relation to the buy-in. As these premiums are not directly attributable to insuring the pension liability, these amounts will be taken to profit and loss under Capital and Investment in 2017-18. The corresponding entry is through Other Comprehensive Income and, as a result, there is no effect on the net assets position of the Group.

On 12 June 2017, Post Office's parent company, Postal Services Holding Company Limited, was placed into liquidation. It is expected that the process will be complete and the company will be dissolved by the end of March 2018. On 12 June 2017, all of the ordinary shares that Postal Services Holding Company Limited held in Post Office were transferred to direct ownership of the Secretary of State for Business, Energy and Industrial Strategy.

On 30 March 2017 the Group acquired the residential broadband and home phone customer base, along with certain other assets, of New Call Telecom Limited, for cash consideration of £2 million. Further consideration estimated to be £6 million is contingent on the number of New Call customers that successfully migrate to the Group's systems by a particular date. The acquisition will be accounted for under IFRS 3 Business Combinations.

The provisional fair value of the net assets acquired is £6 million. The only major class of assets acquired are the intangible assets associated with residential and home phone customer base acquired from New Call Telecom Limited. Fair values are described as provisional due to the proximity of the acquisition to the 2016-17 year end.

The goodwill arising from the acquisition, provisionally valued at £2 million, represents the opportunity to grow the New Call customer base by exploiting the Post Office branch network. The goodwill arising on acquisition is not deductible for income tax purposes. Associated acquisition expenses have been charged to the income statement in FY2017-18.

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In accordance with the funding agreement with Government announced on 27 November 2013, for which State Aid approval was received on 19 March 2015, Post Office Limited received £140 million of funding on 3 April 2017.

23. Immediate and ultimate parent company

At 26 March 2017, the Directors regarded Postal Services Holding Company Limited as the immediate and ultimate parent company. The largest group to consolidate the results of the company is Postal Services Holding Company Limited, a company registered in the United Kingdom. Postal Services Holding Company Limited financial statements can be obtained from Finsbury Dials, 20 Finsbury Street, EC2Y 9AQ.

Post Office Limited

Post Office Limited
Parent Company Financial Statements
2016-2017

Post Office Limited

Company statement of comprehensive income
At 26 March 2017

| | Notes | 2017 £m | 2016 (Restated) £m |
|--|-------|------------|--------------------------|
| Profit / (loss) for the financial year from continuing operations | | 283 | (150) |
| Loss for the financial year from discontinued operations | | (47) | (17) |
| Profit / (loss) for the financial year | | 236 | (167) |
| Other comprehensive income not to be reclassified to profit or loss in future periods | | | |
| Remeasurements on defined benefit surplus | 11 | (249) | (9) |
| Withholding tax effect | | 30 | - |
| Income tax effect | | 25 | 5 |
| Total comprehensive profit / (loss) for the year | | 42 | (171) |

There are no other comprehensive income items that will be reclassified to the profit and loss in subsequent periods.

Post Office Limited

Company balance sheet
at 26 March 2017

| | Notes | 2017 £m | 2016 (Restated) £m |
|---|-------|----------------|--------------------------|
| Non-current assets | | | |
| Intangible assets | 2 | 128 | - |
| Property, plant and equipment | 3 | 144 | 9 |
| Investment in subsidiaries | 4 | 50 | 50 |
| Investments in joint venture | 5 | 66 | 67 |
| Retirement benefit surplus | 11 | 1 | 196 |
| Trade and other receivables | 6 | 13 | 12 |
| Total non-current assets | | 402 | 334 |
| Current assets | | | |
| Inventories | | 7 | 6 |
| Trade and other receivables | 6 | 327 | 413 |
| Cash and cash equivalents | 7 | 667 | 698 |
| Total current assets | | 1,001 | 1,117 |
| Total assets | | 1,403 | 1,451 |
| Current liabilities | | | |
| Trade and other payables | 8 | (554) | (650) |
| Financial liabilities - interest bearing loans and borrowings | 9 | (561) | (465) |
| - obligations under finance leases | | - | (8) |
| Provisions | 10 | (57) | (150) |
| Total current liabilities | | (1,172) | (1,273) |
| Non-current liabilities | | | |
| Other payables | 8 | (22) | (25) |
| Provisions | 10 | (30) | (16) |
| Total non-current liabilities | | (52) | (41) |
| Net assets | | 179 | 137 |
| Equity | | | |
| Share capital | 12 | - | - |
| Share premium | 12 | 465 | 465 |
| Retained earnings | | (286) | (328) |
| Total equity | | 179 | 137 |

The financial statements on pages [x] to [x] were approved by the Board of Directors on [x] 2017 and signed on its behalf by:

P A Vennells
Chief Executive

A Cameron
Chief Financial Officer

Post Office Limited

Company statement of changes in equity
at 26 March 2017

| | Notes | Share premium £m | Retained earnings £m | Total equity £m |
|---|-------|------------------------|----------------------------|-----------------------|
| At 27 March 2016 (restated) | | 465 | (328) | 137 |
| Profit for the year | | - | 236 | 236 |
| Remeasurements on defined benefit surplus | 11 | - | (249) | (249) |
| Withholding tax effect | | | 30 | 30 |
| Income tax effect | | - | 25 | 25 |
| At 26 March 2017 | | 465 | (286) | 179 |

| | Notes | Share premium £m | Retained earnings £m | Total equity £m |
|---|-------|------------------------|----------------------------|-----------------------|
| At 30 March 2015 (restated) | | 465 | (157) | 308 |
| Loss for the year | | - | (167) | (167) |
| Remeasurements on defined benefit surplus | 11 | - | (9) | (9) |
| Income tax effect | | - | 5 | 5 |
| At 27 March 2016 | | 465 | (328) | 137 |

Post Office Limited

Notes to the financial statements

1. Accounting Policies

The accounting policies which follow set out those which apply in preparing the financial statements for the year ended 26 March 2017.

Financial year

The financial year ends on the last Sunday in March and accordingly, these financial statements are made up to the 52 weeks ended 26 March 2017 (2016: 52 weeks ended 27 March 2016).

Authorisation of financial statements

The parent company financial statements of Post Office Limited (the 'Company') for the year ended 26 March 2017 were authorised for issue by the Board of Directors on [x] 2017 and the balance sheet was signed on the Board's behalf by P A Vennells and A Cameron. Post Office Limited is a limited company incorporated and domiciled in England and Wales.

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). These financial statements are prepared under the historical cost convention.

As permitted by Section 408 of the Companies Act 2006 Post Office Limited has not presented its own income statement. The result dealt with in the accounts of the Company amounted to £236 million profit (2016: £167 million loss).

The results of Post Office Limited are included in the consolidated financial statements of Post Office Group which are available from Companies House.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- (a) the requirements of IFRS 7 Financial Instruments: Disclosures
- (b) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- (c) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - i. paragraph 73(e) of IAS 16 Property, Plant and Equipment
 - ii. paragraph 118(e) of IAS 38 Intangible Assets
- (d) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 'Presentation of Financial Statements'
- (e) the requirements of IAS 7 Statement of Cash Flows
- (f) the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'
- (g) the requirements of paragraph 17 of IAS 24 'Related Party Disclosures'
- (h) the requirements of IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

Fundamental accounting concept – going concern

The Company had net assets of £179 million at 26 March 2017 (2016: £137 million).

A funding agreement with Government was announced on 27 November 2013 which provided for:

- Funding of £280 million for 2015-16
- Funding of £220 million for 2016-17
- Funding of £140 million for 2017-18
- Extension of the existing working capital facility with the Department for Business, Energy & Industrial Strategy (BEIS) with a limit of £950 million from 30 March 2015 up to 31 March 2018.

At 26 March 2017 £389 million of the working capital facility was undrawn (2016: £485 million).

Post Office and the Secretary of State for BEIS signed a Funding Agreement and an Amendment to the Working Capital Facility confirming that the following funding package will be made available to Post Office from April 2018:

- Extension of the existing working capital facility of £950 million with BEIS to 31 March 2021
- Network subsidy payment of £60 million for 2018-19
- Network subsidy payment of £50 million for 2019-20.

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In addition the Secretary of State for BEIS has confirmed in principle in a letter dated 25 July 2017 that the following additional funding will be also be made available to Post Office:

- Network subsidy payment of £50 million for 2020-21
- Investment funding of up to £210 million for the period April 2018 to March 2021.

The network subsidy payment and investment funding will be received in the form of grants and are non-refundable.

State aid approval for the funding for 2018-19 to 2020-21 has not yet been received. The working capital facility is not classified as state aid and requires no further approval.

After careful consideration of the plans for the coming years, the Directors continue to believe that Post Office Limited will be able to meet its liabilities as they fall due for the next 12 months. Accordingly, on that basis, the Directors consider that it is appropriate that these financial statements have been prepared on a going concern basis.

Prior year restatements

In preparing the financial statements for the current year, the comparative figures for the year ended 27 March 2016 have been restated for the Retail Cash in Transit operation which has been discontinued during the current year. The comparatives in the Income Statement for the year ended 27 March 2016 have been restated and allocated to discontinued operations in both the Group and Parent Company financial statements. The restatement affects revenue, people costs, and other operating costs. Within this report, the comparative income statement and statement of comprehensive income for the year ended 27 March 2016 have been restated. There has been no effect on the balance sheet or statement of changes in equity.

The comparative figures for the years ended 27 March 2016 and 29 March 2015 have also been restated for a change in the accounting policy with respect to the investment in joint venture. The restatement is in the Parent Company Financial Statements only. The change in accounting policy is described in more detail in the accounting policies.

The restatement affects the Investments in joint venture shown on the Company balance sheet. The investment value has been increased by £66 million as at 27 March 2016, which reflects the Company's share of the joint venture in line with the equity accounting method which is also adopted by the Group. This has also resulted in a restatement in Retained earnings as at 27 March 2016 and as at 29 March 2015.

The tables below shows the impact of both restatements on the income statement and balance sheet at 27 March 2016 and at 29 March 2015.

| | As previously reported £m | Restatement for discontinued operation £m | 27 March 2016 Restated £m |
|---|------------------------------|--|------------------------------|
| Loss for the year from continuing operations | (157) | 7 | (150) |
| Loss for the year from discontinued operations | (10) | (7) | (17) |
| Loss for the year after discontinued operations | (167) | 0 | (167) |

| | As previously reported £m | Restatement for change in joint venture accounting £m | 27 March 2016 Restated £m |
|-------------------------------|------------------------------|--|------------------------------|
| Investments in joint ventures | 1 | 66 | 67 |
| Retained earnings | (394) | 66 | (328) |

| | As previously reported £m | Restatement for change in joint venture accounting £m | 29 March 2015 Restated £m |
|-------------------|------------------------------|--|------------------------------|
| Retained earnings | (223) | 66 | (157) |

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Critical accounting estimates and judgements in applying accounting policies

The Company makes certain estimates and assumptions regarding the future. Estimates and assumptions are continually evaluated based on historical experience and other factors. In the future, actual experience may differ from these estimates and assumptions. In addition the Company has to make judgements in applying its accounting policies which affect the amounts recognised in the accounts. The most significant areas where judgements and estimates are made are discussed below:

Pension assumptions

The costs, assets and liabilities of the pensions operated by the Company are determined using methods relying on actuarial estimates and assumptions.

The Post Office section of the RMPP closed to future accrual on 31 March 2017. A Memorandum of Understanding was executed on 21 March 2017 which removed the unconditional right to refund from the Plan. As a result of these events there has been a one-off credit to the income statement, and the surplus has been written off through other comprehensive income. This is described in further detail within note 11. The values of these adjustments are particularly sensitive to changes in assumptions for discount rates, mortality and inflation rates. The Company exercises its judgement in determining the assumptions to be adopted, after discussion with its Actuary. Details of the key assumptions are set out in note 11.

Pension liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term. Judgement has been applied in determining that for these purposes a high quality corporate bond constitutes AA rated or equivalent status bonds.

Provisions

The Company has recognised provisions where a present legal or constructive obligation exists as a result of a past event, where it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Severance provisions are recognised for business reorganisation where the plans are sufficiently detailed and well advanced and where appropriate communication to those affected has been undertaken at the balance sheet date. Postmasters' compensation provisions are recognised when either Postmaster's agree to terminate their existing contracts or sign the new format contracts under Network Transformation. The total provision for Postmasters' compensation at the year end date represents management's best estimate of the future obligation. Due to the nature of provisions the future amount settled may be different from the amount that has been provided.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate the risks specific to that liability.

Impairment of non-current assets

The Company assesses whether there are any indicators of impairment for all non-currents assets at each reporting date as well as if events or changes in circumstances indicate that the carrying value may be impaired. Where appropriate, an impairment loss is recognised in the income statement for the amount by which the carrying value of the asset (or cash generating unit) exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use.

In previous years, due to ongoing operational losses (excluding the Network Subsidy Payment), impairment losses have been recognised and the carrying value of some assets have been impaired to zero on acquisition. In the current year the Company has made a profit from continuing operations and this is expected to be sustainable. In addition, the Company has secured a Network Subsidy Payment to March 2021, and continued investment funding over that period from Government. In this circumstance the Company no longer considers there to be indicators of impairment, and there has been a change in accounting estimate to reflect this. The change in accounting estimate has been made as at the year end date as this is the point at which there was sufficient evidence of a value in use.

The change in accounting estimate has resulted in a reversal of impairment losses in the current year, and the carrying value of assets has been increased. The reversal is no more than the depreciated historical cost if the impairment had not been recognised. The reversal of the impairment loss has been recognised in the income statement for the current year and the change will be applied in future years subject to a continuous review of trading and funding.

An impairment test was performed at the year end to support this. Details of this are given in note 3.

Each asset category is described below:

Property, plant and equipment excluding freehold property, long leasehold property and land:

Property, plant and equipment is recognised at cost, including attributable costs in bringing the asset into working condition for its intended use. These assets have a relatively short useful life and in previous periods due to ongoing operational losses (excluding Network Subsidy Payment) they have been impaired to zero on acquisition. In the current year the impairment loss was reversed at the year end, and depreciation will be recognised going forwards on a straight-line basis over the following useful lives:

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| | Range of asset lives |
|-----------------------------|----------------------|
| Plant and Machinery | 3 – 15 years |
| Motor vehicles and trailers | 3 – 12 years |
| Fixtures and equipment | 3 – 15 years |

In the current year the asset lives for Motor vehicles and trailers and Fixtures and equipment have been changed to range from 3 years, not 2 years as reported in prior years. This is to reflect the range of asset lives actually in use for the current asset portfolio.

Freehold property, long leasehold property and land:

As with other property, plant and equipment this is recognised at cost, including attributable costs in bringing the asset into working condition for its intended use. These assets have a long useful life and a fair market value, therefore these assets have not been impaired on acquisition but would be considered for impairment if indicators existed. They are depreciated on a straight-line basis over the following useful lives:

| | Range of asset lives |
|---------------------|---|
| Land and buildings: | |
| Freehold land | Not depreciated |
| Freehold buildings | Up to 50 years |
| Leasehold buildings | The shorter of the period of the lease, 50 years or the estimated remaining useful life |

The remaining useful lives of freehold buildings are reviewed periodically and adjusted where applicable on a prospective basis.

Intangible assets with a finite useful life:

Intangible assets acquired separately or generated internally are initially recognised at cost. In previous periods these assets were impaired to zero for the reasons noted above. In the current year the impairment loss was reversed at the year end, and amortisation will be recognised going forwards on a straight-line basis over the following useful life:

| | |
|----------|--------------|
| Software | 3 to 6 years |
|----------|--------------|

In the current year the range of asset lives for Software has been changed to start from 3 years, not 1 year as reported in prior years. This is to reflect the range of asset lives actually in use for current Software assets.

Intangible assets arising on acquisition or with an indefinite useful life:

These assets are considered for impairment individually in line with Group policy noted above but are not automatically impaired. Goodwill is considered separately below.

Discontinued operations

The Company has treated the closure of its Retail Cash in Transit operation as a discontinued operation in the year. The prior year results have also been restated for this. The Retail Cash in Transit operation was considered to be a separate component of Post Office, as its revenue, costs and cash flows were distinguishable from the rest of the Company and the nature of the operation was different to the rest of the business.

Leases

Finance leases, where substantially all the risks and rewards incidental to ownership of the leased item have passed to the Company are capitalised at the inception of the lease with a corresponding liability recognised for the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

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Leases where substantially all the risks and rewards of ownership of the asset are retained by the lessor are classified as operating leases and rentals are charged to the income statement over the lease term. The aggregate benefits of incentives are recognised as a reduction of rental expenses over the lease term on a straight-line basis.

Investments in joint venture

Investments in joint ventures within the Company's financial statements were in previous years stated at cost less any accumulated impairment losses.

In the current year the Company has voluntarily changed its accounting policy with respect to investments in joint ventures in order to apply the equity accounting method, consistent with that adopted by the Group.

This change in accounting policy is permitted by the amendment to IAS 27: Equity Method in Separate Financial Statements. The amendment allows entities to use the equity method to account for investments in joint ventures in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements are required to apply that change retrospectively. The amendments are effective for annual periods beginning on or after 1 January 2016.

The Company now applies equity accounting, under which the investment is carried in the Balance Sheet at cost plus post-acquisition changes in the Company's share of net assets of the joint venture less any impairment in value. Prior to this change in accounting policy, the Company measured investments in joint ventures within the Company's balance sheet at cost less any accumulated impairment losses.

The Company considers the new policy is appropriate as it provides the user of the financial statements with more relevant and reliable information and aligns the accounting between the Group and the Parent Company financial statements.

The impact on each line item of the primary financial statements is shown within the Prior year restatements section on page [X].

Inventories

Stocks, which include printing and stationery, retail and lottery products, are carried at the lower of cost and net realisable value after adjusting for obsolete or slow-moving stock.

Taxation

The charge for current income tax is based on the results for the year as adjusted for items which are not taxed or are disallowed. It is calculated using tax rates in legislation that has been enacted or substantively enacted by the balance sheet date. Deferred income tax assets and liabilities are recognised for all taxable and deductible temporary differences and unused tax assets and losses except:

- initial recognition of goodwill
- the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit and loss.
- taxable temporary differences associated with investments in subsidiaries interest in joint ventures, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future and
- deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which they can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the tax asset is realised or the liability is settled, based on tax rates that have been substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Current and deferred tax is recognised in the income statements, except to the extent that it relates to items recognised in other comprehensive income or directly to equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Pensions and other post-retirement benefits

Membership of occupational pension schemes is open to most permanent UK employees of the Company. All members of defined benefit schemes are contracted out of the earnings-related part of the State pension scheme. The RMPP defined benefit Plan was closed to future accrual on 31 March 2017.

The pension assets of the defined benefit schemes are measured at fair value. Liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term. The RMPP Plan was closed on 31 March 2017. A Memorandum of Understanding was executed on 21 March 2017 which removed the unconditional right to refund from the Plan. As a result of these events the surplus relating to this Plan has been derecognised in the year, in line with IFRIC 14.

Full actuarial funding valuations are carried out at intervals not normally exceeding three years as determined by the Trustees and, actuarial valuations are carried out at each balance sheet date and form the basis of the surplus

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or deficit disclosed. When the calculation at the balance sheet date results in net assets to the Company, the recognised asset is limited to the present value of any future refunds of the plan or reductions in future contributions to the plan (the asset ceiling). The RMPP defined benefit plan has been closed and no future refunds will be made to the Company.

For defined benefit schemes, the amounts charged to operating profit, as part of staff costs, are the current service costs and any gains and losses arising from settlements, curtailments and past service costs. The net difference between the interest costs and the expected return on plan assets is recognised as net pensions interest in the income statement. Actuarial gains and losses are recognised immediately in the statement of comprehensive income. Any deferred tax movement associated with the actuarial gains and losses is also recognised in the statement of comprehensive income. In the current year there are further impacts on the income statement and statement of comprehensive income as a result of the closure of the RMPP Plan; these have been described in further detail within note 17 to the Group accounts.

For defined contribution schemes, the Company's contributions are charged to operating profit, as part of staff costs, in the period to which the contributions relate.

Foreign currencies

The functional and presentational currency of the Company is sterling (£).

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction (or at the contracted rate if the transaction is covered by a forward foreign currency contract). Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date (or the appropriate forward contract rate). All differences are taken to the income statement.

Trade receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any non-collectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Borrowing costs

Borrowing costs are recognised as an expense when incurred unless they are directly attributable to the construction or development of a qualifying asset, in which case they are capitalised using the weighted average cost of borrowing for the period of construction/development.

Government grants

Government grants of a revenue nature are recognised to match costs in relation to the performance of certain specified activities.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax rate.

Financial instruments

Financial assets

Financial assets are measured at fair value at the balance sheet date. They are classified into the following categories as appropriate loans and receivables or available for sale as appropriate based on the purpose for which they were required. Financial liabilities are measured at either fair value at the balance sheet date or as financial liabilities measured at amortised cost.

Financial liabilities – interest-bearing loans and borrowings

All loans and borrowings are classified as financial liabilities measured at amortised cost.

Financial liabilities – obligations under finance leases

All obligations under finance lease and hire purchase contracts are classified as financial liabilities measured at amortised cost.

Fair value measurement of financial instruments

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date.

Where there is no active market, fair value is determined using valuation techniques. These include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and discounted cash flow analysis and pricing models.

Derecognition of financial instruments

A financial asset or liability is derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

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Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits (cash equivalents) with an original maturity date of three months or less.

Auditor's remuneration

The remuneration paid to auditors is disclosed in the Group financial statements (note 3).

Director's emoluments

The emoluments paid to Directors are disclosed in the Group financial statements (note 5).

2. Intangible assets

| | 2017 | 2016 |
|---------------------------------|-------------|------|
| | £m | £m |
| Cost | | |
| At 27 March 2016, 30 March 2015 | 387 | 297 |
| Reclassifications | (53) | - |
| Additions | 71 | 91 |
| Disposals | (91) | (1) |
| At 26 March 2017, 27 March 2016 | 314 | 387 |
| Impairment | | |
| At 27 March 2016, 30 March 2015 | 387 | 297 |
| Reclassifications | (53) | - |
| Impairment | 71 | 91 |
| Impairment reversal in the year | (128) | - |
| Disposals | (91) | (1) |
| At 26 March 2017, 27 March 2016 | 186 | 387 |
| Net book value | | |
| At 26 March 2017, 27 March 2016 | 128 | - |

The above intangible assets relate to software.

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3. Property, plant and equipment

| | Land and Buildings | | | Motor Vehicles £m | Plant and machinery £m | Fixtures and equipment £m | Total £m |
|---|--------------------|-------------------------|--------------------------|-------------------------|---------------------------------|------------------------------------|-------------|
| | Freehold £m | Long leasehold £m | Short leasehold £m | | | | |
| Cost | | | | | | | |
| At 29 March 2015 | 83 | 55 | 115 | 40 | 1 | 783 | 1,077 |
| Reclassification* | (6) | 3 | (22) | - | - | 25 | - |
| Additions | 1 | - | - | 4 | - | 38 | 43 |
| Disposals | (1) | - | (3) | (1) | - | (3) | (8) |
| At 27 March 2016 | 77 | 58 | 90 | 43 | 1 | 843 | 1,112 |
| Reclassification* | (12) | 8 | - | - | - | 57 | 53 |
| Additions | 1 | - | - | - | - | 25 | 26 |
| Disposals | (21) | (25) | (67) | (17) | - | (130) | (260) |
| At 26 March 2017 | 45 | 41 | 23 | 26 | 1 | 795 | 931 |
| Depreciation and impairment | | | | | | | |
| At 29 March 2015 | 74 | 54 | 115 | 40 | 1 | 783 | 1,067 |
| Reclassification* | (6) | 3 | (22) | - | - | 25 | - |
| Depreciation and impairment | 2 | - | - | 4 | - | 38 | 44 |
| Disposals | (1) | - | (3) | (1) | - | (3) | (8) |
| At 27 March 2016 | 69 | 57 | 90 | 43 | 1 | 843 | 1,103 |
| Reclassification | (12) | 8 | - | - | - | 57 | 53 |
| Depreciation and impairment (notes 3 and 4) | 1 | - | - | - | - | 25 | 26 |
| Impairment reversal (note 4) | (5) | (26) | - | - | - | (104) | (135) |
| Disposals | (21) | (25) | (67) | (17) | - | (130) | (260) |
| At 26 March 2017 | 32 | 14 | 23 | 26 | 1 | 691 | 787 |
| Net book value | | | | | | | |
| At 26 March 2017 | 13 | 27 | - | - | - | 104 | 144 |
| At 27 March 2016 | 8 | 1 | - | - | - | - | 9 |

Depreciation rates are disclosed within accounting policies (note 1). No depreciation is provided on freehold land, which represents £3 million (2016: £3 million) of the total cost of properties.

In previous years, due to ongoing operational losses (excluding the Network Subsidy Payment), impairment losses have been recognised and the carrying value of some assets have been impaired to zero on acquisition. In the current year the Group has made a profit from continuing operations and this is expected to be sustainable. In addition, the Group has secured Network Subsidy Payments to March 2021, and continued investment funding over that period from Government of up to £210 million. In these circumstances the Group

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no longer considers there to be indicators of impairment, and there has been a change in accounting estimate to reflect this. The change in accounting estimate has been made as at the year end date as this is the point at which there was sufficient evidence of a value in use.

An impairment test was performed at the year end to support this. Software and property, motor vehicles and fixtures and equipment were tested for impairment at the year end by comparing the carrying amount with the recoverable amount determined from value in use calculations.

The discounted net cash flows from the value in use calculations were used to determine the recoverable amount of Post Office Limited as a CGU. Value in use is determined using the Company's net cash inflows from the continued use of the assets over a four year period, with no nominal growth rate assumed outside of this period. A pre-tax discount rate of 9% has been used to discount the forecasted cash flows for Post Office Limited.

A sensitivity analysis has been performed in assessing the value in use of software and property, motor vehicles and fixtures and equipment. This has been based on changes in key assumptions considered to be possible by management. This included an increase in the discount rate of up to two per cent and a decrease in the growth rate by up to two per cent. The sensitivity analysis showed that no impairment would arise under each scenario.

Management therefore believes that any reasonably possible change in the key assumptions would not cause the carrying amount to exceed its carrying value.

As a result of the conclusions made, there has been a reversal of impairment losses in the current year, and the carrying value of assets has been increased. The reversal is no more than the depreciated historical cost if the impairment had not been recognised. The reversal of the impairment loss has been recognised in the income statement for the current year and the change will be applied in future years subject to a continuous review of trading and funding.

4. Investment in subsidiaries

The carrying value of £50,000,100 relates solely to the Company's investment in Post Office Management Services Limited, a 100% subsidiary of the Company. It relates to 50,000,000 shares with a nominal value of £1 and 1 share with a nominal value of £100. The registered address of Post Office Management Services Limited is Finsbury Dials, 20 Finsbury Street, EC2Y 9AQ.

5. Investments in joint ventures

| | 2017 | 2016 |
|------------------------------|-------------|------------|
| | £m | (restated) |
| | | £m |
| Investment in joint ventures | 66 | 67 |

During 2016-17 and 2015-16, the Company's only joint venture investment was a 50% interest (1,000 £1 ordinary A shares) in First Rate Exchange Services Holdings Limited with a carrying value of £66 million (2016 restated: £67 million), whose principal activity is the provision of Bureau de Change. First Rate Exchange Services Holdings Limited is a company registered in the United Kingdom. The registered address of First Rate Exchange Services Holdings Limited is Great West House, Great West Road, Brentford, Middlesex, TW8 9DF.

The comparative figures for the years ended 27 March 2016 and 29 March 2015 have been restated for a change in the accounting policy with respect to the investment in joint venture. The restatement is in the Parent Company Financial Statements only. The change in accounting policy is described in more detail in the accounting policies.

The restatement affects the Investments in joint venture shown on the Company balance sheet. The investment value has been increased by £66m as at 27 March 2016, which reflects the Company's share of the joint venture in line with the equity accounting method which is also adopted by the Group.

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6. Trade and other receivables

| | 2017 | 2016 |
|------------------------------------|-------------|------|
| | £m | £m |
| Current: | | |
| Trade receivables | 69 | 95 |
| Amounts owed by group undertakings | 4 | 6 |
| Prepayments and accrued income | 93 | 68 |
| Client receivables | 144 | 229 |
| Other receivables | 17 | 15 |
| Total | 327 | 413 |
| Non-current: | | |
| Prepayments and accrued income | 13 | 12 |

7. Cash and cash equivalents

| | 2017 | 2016 |
|---|-------------|------|
| | £m | £m |
| Cash in the Post Office Limited Network | 666 | 653 |
| Short-term Bank Deposits | 1 | 45 |
| Total | 667 | 698 |

8. Trade and other payables

| | 2017 | 2016 |
|------------------|-------------|------|
| | £m | £m |
| Current: | | |
| Trade payables | 42 | 51 |
| Accruals | 163 | 159 |
| Deferred income | 33 | 39 |
| Social security | 10 | 8 |
| Client payables | 295 | 375 |
| Capital payables | 11 | 16 |
| Other payables | - | 2 |
| Total | 554 | 650 |
| Non-current: | | |
| Other payables | 22 | 25 |

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9. Financial liabilities – interest bearing loans and borrowings

| | 2017 £m | 2016 £m |
|---|--------------------------|------------|
| Department for Business, Energy & Industrial Strategy | 561 | 465 |

The loan under the facility is short dated on a programme of liquidity management and matures 1 day after the year end (2016: 1 day). The fair value of borrowings approximate their carrying value due to the short term maturities of the loan. On maturity it is expected that further loans will be drawn down under this facility, which expires in 2018. The undrawn committed facility, in respect of which all conditions precedent had been met at the balance sheet date, is £389 million (2016: £485 million). The average interest rate on the drawn down loans is 1.0% (2016: 1.0%).

The facility is currently restricted to funding the cash and near cash items held within the Post Office Limited network.

The facility (including drawn down loans) is secured by a floating charge over all assets of Post Office Limited and a negative pledge over cash and near cash items. The negative pledge is an agreement not to grant security over the assets or to set up a vehicle that has the same effect. The Network Transformation provision relates to payments due to postmasters in relation to the major transformation programme, see the accounting policies note on page [x] for further details of this provision.

10. Provisions

| | Network Transformation £m | Onerous Leases £m | Severance £m | Other £m | Total £m |
|---|---------------------------------|-------------------------|-----------------|-------------|-------------|
| At 27 March 2016 | 134 | 19 | 3 | 10 | 166 |
| Charged to capital and investment | 10 | 20 | 50 | 3 | 83 |
| Charged to revenue trading | - | - | - | 5 | 5 |
| Charged for discontinued operation | - | - | - | 44 | 44 |
| Utilisation | (68) | (7) | (43) | (39) | (157) |
| Unused amounts in the year – capital and investment | (34) | (11) | (1) | (7) | (53) |
| Unused amounts in the year – revenue trading | - | - | - | (1) | (1) |
| At 26 March 2017 | 42 | 21 | 9 | 15 | 87 |

| | Network Transformation £m | Onerous Leases £m | Severance £m | Other £m | Total £m |
|-------------------------|---------------------------------|-------------------------|-----------------|-------------|-------------|
| Disclosed as: | | | | | |
| At 26 March 2017 | | | | | |
| Current | 28 | 7 | 9 | 13 | 57 |
| Non – current | 14 | 14 | - | 2 | 30 |
| | 42 | 21 | 9 | 15 | 87 |

| | | | | | |
|------------------|-----|----|---|----|-----|
| At 27 March 2016 | | | | | |
| Current | 132 | 6 | 3 | 9 | 150 |
| Non-current | 2 | 13 | - | 1 | 16 |
| | 134 | 19 | 3 | 10 | 166 |

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The Network Transformation provision relates to payments due to postmasters in relation to the major transformation programme, see the accounting policies note on page [x] for further details of this provision. The reduction in the provision from prior year reflects a change in the accounting estimate as the programme nears completion and the expected number of branches to convert decreases.

Other provisions of £45 million (2016: £32 million) include £37 million for continuing operations, this includes £21 million onerous lease obligations, £9 million severance and £7 million of smaller provisions including £1 million for personal injury claims. It also includes £8 million in relation to the discontinued operation as disclosed in note 20 to the Group financial statements.

11. Pensions

The disclosures in this note reflect the two defined benefit schemes: the Post Office section of the Royal Mail Pension Plan (RMPP) which is independent from the Royal Mail section of the RMPP, and a 7% share of the Royal Mail Senior Executive Pension Plan (RMSEPP). Royal Mail Group Ltd is the principle employer of RMSEPP and Post Office Ltd became a participating employer with effect from 1 April 2012. This disclosure also includes the Post Office Pension Plan (POPP), which is a defined contribution scheme.

The disclosures in this note show the value of the assets and liabilities that have been calculated at the balance sheet date.

Post Office participates in pension schemes as detailed below.

| Name | Eligibility | Type |
|---|----------------------|----------------------|
| Royal Mail Pension Plan (RMPP)* | UK employees | Defined benefit |
| Royal Mail Senior Executive Pension Plan (RMSEPP) | UK senior executives | Defined benefit |
| Post Office Pension Plan | UK employees | Defined contribution |

*The RMPP closed to future accrual on 31 March 2017.

Defined Contribution

The charge in the income statement for the defined contribution scheme and the Company contributions to this scheme were £3 million (2016: £3 million) during the year. New employees joining the Company are able to pay contributions to POPP after they have worked for the Company for a year.

Under the Pensions Act 2008, from 1 May 2017 the Company will auto-enrol all eligible employees into POPP regardless of their length of service.

Defined Benefit

Both RMPP and RMSEPP are funded by the payment of contributions to separate Trust administered funds. It should be noted that the assumptions used for these pension disclosures are not the same as the assumptions used for funding the plans. The latest full actuarial funding valuation of the RMPP was carried out as of 31 March 2015 using the projected unit method. For RMPP, this valuation was concluded at £62.7 million surplus (2012: £135 million surplus) on a Technical Provisions basis. Valuations are carried out triennially and the next one for the RMPP is due to be carried out as at 31 March 2018. RMPP includes sections A, B and C each with different terms and conditions:

- Section A is for members (or beneficiaries of members) who joined before 1 December 1971;
- Section B is for members (or beneficiaries of members) who joined after 1 December 1971 and before 1 April 1987 or to Section A members who chose to receive Section B benefits;
- Section C is for members (or beneficiaries of members) who joined after 1 April 1987 and before 1 April 2008.

The latest full actuarial funding valuation for RMSEPP was carried out as at 31 March 2015 using the projected unit method. For 100% of RMSEPP, the valuation concluded at £17 million surplus on a Technical Provisions basis. The next full valuation for RMSEPP is expected to be carried out as at 31 March 2018.

A series of changes to RMPP and RMSEPP have taken effect since 1 April 2008.

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The changes encompassed are:

- The Plans closed to new members from 31 March 2008;
- All pensions and benefits earned before 1 April 2008 retained a link to final pensionable salary, benefits accrued from 1 April 2008 were earned on a "career average pensionable salary" basis;
- RMPP employees can continue to take their pension on reaching age 60 but the normal retirement age increased to age 65 for benefits earned from 1 April 2010;
- From 1 April 2010 it was possible to draw pension earned before the change to normal retirement age at age 55 (subject to an actuarial reduction in the pension benefit), and continue working while still contributing to the RMPP until the maximum level of benefits was reached;
- RMSEPP was closed to future accrual on 31 December 2012;
- In relation to RMPP only, from 1 April 2014 pensionable salary was amended to the amount in force as at 31 March 2014, increasing each 1 April thereafter in line with RPI (up to 5% each year), with allowance for certain promotional increases; and
- The Post Office section of the RMPP closed to future accrual on 31 March 2017 and so no further defined benefits accrue in respect of Post Office employment after that date; however for as long as a member remains in employment with the Company or has not taken pension, pre-1 April 2012 pension benefits are linked to pensionable salary and post-31 March 2012 benefits receive in-deferment increases (linked to CPI).

Payment to the RMPP of £14 million (2016: £17 million) was made by the Company during the year in respect of regular future service contributions. The regular future service contributions for RMPP expressed as a percentage of pensionable pay, has remained at 17.1% (2016: 17.1%) effective from April 2010. Following formal consultation with employees in 2016, the Trustee agreed to Post Office's request for the closure of the Post Office section of the RMPP to future accrual. Closure to future accrual means that no contributions in respect of normal service accrual will be made after 31 March 2017. However it is expected that there will be redundancy payments to be made to the RMPP during 2017/18.

Even though RMSEPP had a funding surplus on a Technical Provisions basis at 31 March 2015, under the Schedule of Contributions agreed for the 2015 valuation, payments of £11 million per annum will be made. Post Office's share of these payments will be 7% which is £1m per annum. A payment of £1 million was made by the Company during the year. The payments will continue to the later of 30 September 2018 and the date the 31 March 2018 valuation is completed.

A current liability of £1 million (2016: £nil) has been recognised for payments to the RMPP and RMSEPP schemes relating to redundancy. During the year payments of £3 million (2016: £3 million) relating to redundancy were made.

The weighted average duration of the Post Office section of the RMPP is around 26 years, and for RMSEPP is around 20 years.

On 21 March 2017 Post Office executed a Memorandum of Understanding with the Trustee of the RMPP. This clarified the Trustee's powers to distribute surplus without Post Office's agreement and Post Office has concluded that as a result of the Memorandum of Understanding, Post Office no longer has an unconditional right to refund from the Plan. In light of this, in accordance with IFRIC 14 the RMPP pension surplus was derecognised as at 26 March 2017, and the resulting loss has been recognised in Other Comprehensive Income.

The following disclosures relate to the gains/losses and surplus/deficit in respect of Post Office's obligations to RMPP and RMSEPP:

a) Major long-term assumptions

The size of the defined benefit obligation shown in the accounts is materially sensitive to the assumptions adopted. Small changes in these assumptions could have a significant impact on this value. The overall income statement charge and past service adjustment in the income statement are also sensitive to the assumptions adopted.

The major long-term assumptions in relation to both RMPP and RMSEPP were:

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| | At 26 March 2017 % pa | At 27 March 2016 % pa |
|---|--------------------------|--------------------------|
| Increases to benefits that retain a link to pensionable pay | 3.4 | 2.8 |
| Rate of pension increases – RMPP sections A/B | 2.3 | 1.8 |
| Rate of pension increases – RMPP section C | 3.4 | 2.8 |
| Rate of pensions increases – RMSEPP members transferred from Section A or B of RMPP | 2.3 | 1.8 |
| Rate of pension increases – RMSEPP all other members | 3.4 | 2.8 |
| Rate of increase for deferred pensions | 2.3 | 1.8 |
| Discount rate | 2.3 | 3.5 |
| Inflation assumption (RPI) – RMPP & RMSEPP | 3.4 | 2.9 |
| Inflation assumption (CPI) – RMPP & RMSEPP | 2.3 | 1.8 |

The ultimate cost of the RMPP plan to the Company will depend upon future events rather than the assumptions made. The assumptions made may not be borne out in practice and as such the cost of the plan may be higher (or lower) than disclosed.

In common with other defined benefit schemes, the main risk in relation to the arrangements is the value of the assets does not keep pace with the increase in the value of the liabilities. This can arise for many reasons, but the most significant risks are as follows:

Investment risk: If the assets of the arrangements fall short of expectations, this will lead to a decrease in the funded status.

Asset volatility: The arrangements hold return seeking assets (including equities and property) which are expected to outperform corporate bonds in the long term but give exposure to volatility and risk in the short term. RMPP does, however, invest in liability driven investment (LDI) assets, for example bonds and swaps, which mitigate the impact of interest rate and inflation volatility on the funded status.

Inflation risk: Higher inflation rates than expected will act to increase the plan liabilities as benefits will increase to a higher level than assumed. The arrangements have a maximum pension increase (generally 5% per annum) written into the rules which limits the increase for many benefits, so limiting the impact of high inflation. This includes benefits retaining a link to pensionable pay in RMPP. In addition, the arrangement holds assets that increase in value as price inflation expectations rise, so mitigating the impact of rising inflation expectations. These assets include LDI assets in respect of RMPP.

Changes in bond yields: A decrease in corporate bond yields will increase the plan liabilities, although this can be expected to be partially offset by an increase in the value of any corporate bond holdings and, potentially, the LDI assets.

Pensioner longevity: If members live longer than expected, the liabilities would be greater than currently anticipated because pensions would be paid for over a longer time than assumed.

Liabilities accrued in the Royal Mail Pension Plan to 31 March 2012 were largely transferred to the Royal Mail Statutory Pension Scheme. These liabilities are substantially no longer an obligation of the Company and consequently the transfer resulted in a significant removal of pension risk from the Company.

The following table shows the potential impact on the value of Post Office's defined benefit obligation in respect of RMPP and RMSEPP of changes in key assumptions:

| | 2017 £m | 2016 £m |
|--|------------|------------|
| Changes in RPI and CPI inflation of +0.1% pa | (9) | (5) |
| Changes in discount rate of +0.1% pa | 9 | 5 |
| Changes in real salary growth of +0.1% pa | - | (2) |
| Changes in CPI assumptions of +0.1% pa | (4) | (1) |
| An additional 1 year life expectancy | (10) | (6) |

The sensitivity analysis has been prepared using projected benefit cashflows as at the latest full actuarial valuation of the plan. The same method was applied as at the previous reporting date. The accuracy of this method is limited by the extent to which the profiles of the plan cashflows have changed since those valuations although any change is not expected to be material in the context of the above sensitivity analysis.

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Mortality: The mortality assumptions used to calculate the value of Post Office's defined benefit obligation in respect of RMPP and RMSEPP are based on the latest self-administered pension scheme (SAPS "S2" series) mortality tables as shown in the following table:

| Base mortality tables | 2017 | 2016 |
|-----------------------|---|--|
| Males | 100% x S2PMA | 106% x S1PMA |
| Female members | 100% x S2PFA | 101% x S1DFA |
| Female dependants | 100% x S2DFA | 101% x S1DFA |
| Future improvements | CMI 2015 Core Projections with a 1.5% pa long-term trend | Medium Cohort Projections with a 1.25% pa floor |

| Average expected life expectancy from age 60: | 2017 | 2016 |
|---|-----------------|----------|
| For a current 60 year old male RMPP member | 28 years | 27 years |
| For a current 60 year old female RMPP member | 30 years | 30 years |
| For a current 40 year old male RMPP member | 30 years | 29 years |
| For a current 40 year old female RMPP member | 32 years | 32 years |

b) Plans' assets

The assets in the plans for the Company were:

| | Market value 2017 £m | Market value 2016 £m |
|---|-------------------------|-------------------------|
| Sectionalised RMPP | | |
| Corporate bonds* | 394 | 233 |
| Property | 13 | 11 |
| Private Equity | 7 | 10 |
| Cash and cash equivalents | 68 | 41 |
| Bond/fixed interest funds | 25 | 41 |
| Other loan/debt funds | 17 | 28 |
| Alternative asset funds | 8 | 43 |
| Fair value of RMPP assets | 532 | 407 |
| Present value of RMPP liabilities | (322) | (184) |
| Surplus in plan before asset ceiling adjustment | 210 | 223 |
| Less effect of asset ceiling | (210) | (29) |
| Surplus in plan after asset ceiling adjustment | - | 194 |

*£4 million relates to UK Government Bonds, £365 million to an LDI investment containing UK Government Bonds (a liability driven investment) and £25 million relates to infrastructure debt holdings and collateralised liability obligations holding which are a combination of GBP, AUD, EUR and USD denominated and are fixed interest.

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| Share of RMSEPP | Market value 2017 £m | Market value 2016 £m |
|---|-------------------------|-------------------------|
| UK equities | 1 | 1 |
| Overseas equities | 12 | 10 |
| Government bonds | 2 | 15 |
| Alternative asset funds | 2 | 2 |
| Property | 2 | 2 |
| Bulk annuity policy* | 13 | - |
| Fair value of share in plan assets for RMSEPP | 32 | 30 |
| Present value of share in plan liabilities for RMSEPP | (31) | (27) |
| Surplus in plan for the share of RMSEPP before asset ceiling adjustment | 1 | 3 |
| Less effect of asset ceiling | - | (1) |
| Surplus in plan for share of RMSEPP after asset ceiling adjustment | 1 | 2 |

*RMSEPP holds a bulk annuity policy with Scottish Widows. The value ascribed to this policy has been calculated using the same assumptions as used to calculate the present value of the defined benefit obligation.

A retirement benefit surplus of £1 million is disclosed on the balance sheet, representing the surplus in the RMSEPP Plan only. As described above, no surplus is recognised for RMPP because the Company has concluded that as a result of the Memorandum of Understanding signed on 21 March 2017, the Company no longer has an unconditional right to refund from the Plan.

There is no element of the above present value of liabilities that arises from plans that are wholly unfunded. With the exception of the bulk annuity policy described above, all RMPP and RMSEPP assets are securities with a quoted price in an active market.

c) Movement in plans' assets and liabilities

Changes in the fair value of the plans' assets are analysed as follows:

| Assets | Sectionalised RMPP 2017 £m | Sectionalised RMPP 2016 £m |
|--|--|-------------------------------|
| Assets in sectionalised RMPP at beginning of period | 407 | 379 |
| Contributions paid | 17 | 19 |
| Employee contributions paid | 5 | 6 |
| Finance income | 15 | 14 |
| Actuarial gains/(losses) | 92 | (8) |
| Benefits paid to members | (4) | (3) |
| Assets in sectionalised RMPP at end of period | 532 | 407 |
| | Share of RMSEPP 2017 £m | Share of RMSEPP 2016 £m |
| Assets | | |
| Share of assets in RMSEPP at beginning of period | 30 | 31 |
| Contributions paid | 1 | 1 |
| Finance income | 1 | 1 |
| Actuarial gains/(losses) | 1 | (2) |
| Benefits paid to members | (1) | (1) |
| Share of assets in RMSEPP at end of period | 32 | 30 |

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Changes in the present value of the defined benefit pension obligations are analysed as follows:

| Liabilities | Sectionalised RMPP 2017 £m | Sectionalised RMPP 2016 £m |
|---|---|----------------------------------|
| Liabilities in sectionalised RMPP at beginning of period | (184) | (150) |
| Current service cost | (23) | (27) |
| Curtailment costs* | 2 | (1) |
| Finance cost | (7) | (6) |
| Employee contributions | (5) | (6) |
| Experience adjustments on liabilities | 6 | 3 |
| Financial assumption changes | (129) | - |
| Demographic assumption changes | (5) | - |
| Benefits paid | 4 | 3 |
| Effect of closure of RMPP* | 19 | - |
| Liabilities in sectionalised RMPP at end of period | (322) | (184) |

| Liabilities | Share of RMSEPP 2017 £m | Share of RMSEPP 2016 £m |
|---|--|-------------------------------|
| Share of liabilities in RMSEPP plans at beginning of period | (27) | (26) |
| Finance cost | (1) | (1) |
| Experience adjustments on liabilities | 7 | (1) |
| Financial assumption changes | (11) | - |
| Benefits paid | 1 | 1 |
| Share of liabilities in RMSEPP at end of period | (31) | (27) |

*The gain on curtailment of £2 million is due to redundancies in the year. It is equal to a cost of £3 million in respect of enhanced retirement benefits granted to certain members, offset by a saving of £5 million due to RPI-linked in-service revaluation being replaced by CPI-linked deferred pension revaluation. The effect of the closure of RMPP of £19 million is a past service adjustment as a result of the closure of the Plan and is a one-off adjustment. Both of these adjustments have been allocated between revenue trading (net credit of £2 million relating to adjustments linked to current year service) and closure of activities (net credit of £19 million relating to adjustments linked to prior years' service).

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d) Recognised charges

An analysis of the separate components of the amounts recognised in the performance statements of the Company is as follows:

| | Sectionalised RMPP 2017 £m | Sectionalised RMPP 2016 £m |
|---|---|-------------------------------|
| Analysis of amounts recognised in the income statement | | |
| Analysis of amounts charged to operating profit from revenue trading: | | |
| Current service cost | 23 | 27 |
| Loss due to curtailments | 2 | - |
| Effect of the closure of the RMPP | (4) | - |
| Total charge to revenue trading | 21 | 27 |
| Analysis of amounts charged to closure of activities: | | |
| (Gain) / loss due to curtailments | (4) | 1 |
| Effect of the closure of the RMPP | (15) | - |
| Total charge to operating profit | 2 | 28 |
| Analysis of amounts charged/(credited) to net pensions interest: | | |
| Interest on plan liabilities | 7 | 6 |
| Interest income on plan assets | (15) | (14) |
| Net pensions credit to financing | (8) | (8) |
| Net (credit) / charge to the income statement before deduction for tax | (6) | 20 |
| Analysis of amounts recognised in the statement of comprehensive income | | |
| Actual return on plan assets | 107 | 6 |
| Less: expected interest income on plan assets | (15) | (14) |
| Less: taxation on surplus recoverable through plan refunds | - | (2) |
| Actuarial gains/(losses) on assets (all experience adjustments) | 92 | (10) |
| Actuarial gains arising from changes in demographic assumptions | 6 | 3 |
| Actuarial losses arising from changes in financial assumptions | (129) | - |
| Actuarial losses arising from experience adjustment | (5) | - |
| Actuarial (losses)/gains on liabilities | (128) | 3 |
| Effect of the asset ceiling | (210) | - |
| Total actuarial losses recognised in the statement of comprehensive income | (246) | (7) |

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| | Share of RMSEPP 2017 £m | Share of RMSEPP 2016 £m |
|---|-------------------------------|-------------------------------|
| Analysis of amounts recognised in the income statement | | |
| Analysis of amounts charged to net pensions interest: | | |
| Interest on plan liabilities | 1 | 1 |
| Interest income on plan assets | (1) | (1) |
| Net pensions credit to financing | - | - |
| Net charge to the income statement before deduction for tax | - | - |
| Analysis of amounts recognised in the statement of comprehensive income | | |
| Actual return on plan assets | 2 | (1) |
| Less: expected interest income on plan assets | (1) | (1) |
| Less: taxation on surplus recoverable through plan refunds | - | 1 |
| Actuarial gains/(losses) on assets (all experience adjustments) | 1 | (1) |
| Actuarial gains arising from changes in demographic assumptions | 7 | - |
| Actuarial losses arising from changes in financial assumptions | (11) | (1) |
| Actuarial losses on liabilities | (4) | (1) |
| Total actuarial losses recognised in the statement of comprehensive income | (3) | (2) |

12. Equity**Called up share capital:**

| | 2017 £ | 2016 £ |
|----------------------------|---------------|-----------|
| Authorised | | |
| Ordinary shares of £1 each | 51,000 | 51,000 |
| Total | 51,000 | 51,000 |
| Allotted and issued | | |
| Ordinary shares of £1 each | 50,003 | 50,003 |
| Total | 50,003 | 50,003 |

Share premium:

On 7 August 2007 1,000 ordinary shares of £1 each were issued in return for £313 million cash paid by the Secretary of State for Business, Energy and Industrial Strategy. A share premium of £312,999,999 resulted from this subscription. In April 2008 two ordinary £1 shares were issued in return for £152 million cash paid by the Secretary of State for Business, Energy and Industrial Strategy. A share premium of £151,999,998 resulted from this subscription.

13. Commitments

Capital commitments contracted for but not provided in the financial statements amount to £64 million (2016: £51 million).

Details of the Company commitments under non-cancellable operating leases are disclosed in the Group financial statements (note 19).

14. Related party disclosures

Details of transactions with related parties are disclosed in the Group financial statements (note 21).

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15. Capital and investment expenditure

Details of operating capital and investment expenditure is disclosed in the Group financial statements (note 4).

16. Taxation

Details of the taxation gains recognised in the year are disclosed in the Group financial statements (note 7a).

17. Discontinued operations

Details of the discontinued operation are included in note 20 in the Group financial statements.

18. Post balance sheet events

On 20 July 2017, Post Office Limited and Trustees of the Royal Mail Pension Plan (POL fund) ("Trustees") entered into an agreement with Rothersey Life PLC in which a pension buy-in was effected for the Royal Mail Pension Plan defined benefit pension scheme.

Under the bulk annuity purchase agreement, the Trustees of the pension plan have effectively bought an asset that provides income which matches closely the benefit payments from the pension plan. It achieves a material risk reduction as changes in income mirror changes in benefits due to, for example, inflation.

The accounting surplus will reduce by the difference between the insurance premium and the value of the insured liabilities. This loss will be recognised in Other Comprehensive Income in 2017-18. As described in note 17, Post Office no longer has an unconditional right to refund from the Plan and, in accordance with IFRIC 14, the RMPP pension surplus is no longer recognised on the balance sheet, with an asset ceiling applied which reduces the balance to nil. As a result of the reduction of the surplus through the pension buy-in, there will an equal and opposite adjustment to the asset ceiling also through Other Comprehensive Income. As a result, there is no effect on Other Comprehensive Income or the net assets position of the Company.

In addition, a data risk premium of £2.1 million has been paid by the Trustees in relation to the buy-in. As these premiums are not directly attributable to insuring the pension liability, these amounts will be taken to profit and loss under Capital and Investment in 2017-18. The corresponding entry is through Other Comprehensive Income and, as a result, there is no effect on the net assets position of the Company.

On 12 June 2017, Post Office's parent company, Postal Services Holding Company Limited, was placed into liquidation. It is expected that the process will be complete and the company will be dissolved by the end of March 2018. On 12 June 2017, all of the ordinary shares that Postal Services Holding Company Limited held in Post Office were transferred to direct ownership of the Secretary of State for Business, Energy and Industrial Strategy.

On 30 March 2017 the Company acquired the residential broadband and home phone customer base, along with certain other assets, of New Call Telecom Limited, for cash consideration of £2 million. Further consideration estimated to be £6 million is contingent on the number of New Call customers that successfully migrate to the Company's systems by a particular date. The acquisition will be accounted for under IFRS 3 Business Combinations.

The provisional fair value of the net assets acquired is £6 million. The only major class of assets acquired are the intangible assets associated with residential and home phone customer base acquired from New Call Telecom Limited. Fair values are described as provisional due to the proximity of the acquisition to the 2016-17 year end.

The goodwill arising from the acquisition, provisionally valued at £2 million, represents the opportunity to grow the New Call customer base by exploiting the Post Office branch network. The goodwill arising on acquisition is not deductible for income tax purposes. Associated acquisition expenses have been charged to the income statement in FY2017-18.

In accordance with the funding agreement with Government announced on 27 November 2013, for which State Aid approval was received on 19 March 2015, Post Office Limited received £140 million of funding on 3 April 2017.

19. Immediate and ultimate parent company

At 26 March 2017, the Directors regarded Postal Services Holding Company Limited as the immediate and ultimate parent company. The largest group to consolidate the results of the Company is Postal Services Holding Company Limited, a company registered in the United Kingdom. Postal Services Holding Company Limited financial statements can be obtained from Finsbury Dials, 20 Finsbury Street, EC2Y 9AQ.

Post Office Limited

Corporate information

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EC2Y 9AQ

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SE1 2AF

Solicitor

Linklaters LLP
One Silk Street
LONDON
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Actuary

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Consumer Body

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London
SW1P 1RT

Financial and Business Review

Summary results

Our revenue from continuing operations was largely flat at £957m (2016: £964m) in spite of our exit from third party cash logistics. As planned, the Network Subsidy (NSP) from Government decreased by £50 million. Cost reductions of £38m meant that trading operating profit decreased by just £19m to £93 million.

Stripping out the subsidy to arrive at our critical measure of EBITDAS (earnings from continuing operations before interest, taxation, depreciation, amortisation, and subsidy), we moved from a loss of £17 million in 2015/16 to a profit of £13 million in 2016/17. A profitable EBITDAS position is a crucial milestone in our path to commercial sustainability.

Significant accounting judgements and change in presentation

Going concern

The group has net assets of £186 million at 26 March 2017 (2016: £137 million).

A funding agreement with Government was announced on 27 November 2013 which provided for NSP, investment funding and an extension of the working capital facility of £950m with the Department for Business, Energy & Industrial Strategy (BEIS) to 31 March 2018.

In accordance with the funding agreement with Government announced on 27 November 2013, for which State Aid approval was received on 19 March 2015, Post Office Limited received £140 million of funding on 3 April 2017.

On 30 March 2017, Post Office and the Secretary of State for BEIS signed a Funding Agreement and an Amendment to the Working Capital Facility extending the working capital facility of £950 million with BEIS to 31 March 2021 and confirming NSP for 2018/2019 and 2019/2020 of £60 million and £50 million respectively.

On 25 July 2017, the Secretary of State for BEIS confirmed that NSP of £50m will be made available for 2020/21 and investment funding of up to £210 million will be available as required for the period from April 2018 to March 2021.

The network subsidy payment and investment funding will be received in the form of grants and will be non-refundable.

State aid approval for the funding for 2018/19 to 2020/21 has not yet been received. The working capital facility is not classified as state aid and requires no further approval.

After careful consideration of the plans for the coming years, we continue to believe that Post Office will be able to meet its liabilities as they fall due for the next 12 months. Accordingly, on that basis, the Directors consider that it is appropriate that these financial statements have been prepared on a going concern basis.

Impairment reversal

In previous financial years, due to ongoing EBITDAS losses, the carrying value of intangible assets and all property, plant and equipment other than freehold and long leasehold property was impaired to nil.

The agreement of funding to 2021 combined with the shift to profitability has led the Board to conclude that the previous indicators of impairment no longer exist and has therefore changed its accounting estimate. Impairment losses of £272 million, being the net book value of assets in use but previously impaired were credited to the income statement as at 26th March 2017. The change in

accounting estimate will be applied in future years subject to a continuous review of trading and funding.

Discontinued Operations and restatement of prior year comparatives

During the year we discontinued the third party cash logistics operation which was losing some £11-12m per annum before considering capital costs. Net of a provision release in relation to mobile, the loss on discontinued operations in 2016/17, including redundancies, was £47m.

In preparing the financial statements for the current year, the comparative figures for the year ended 27 March 2016 have been restated. The effect is to reduce 2015/16 revenue by £17m to £964 million and reduce costs by £24 million to £1,016 million, increasing EBITDAS from a loss of £24 million to a loss of £17 million. Loss on discontinued operations increases to £17 million in the prior year.

Closure of the defined benefit pension scheme and pension buy-in

On 21 March 2017, Post Office executed a Memorandum of Understanding (MoU) with the Trustee of the Post Office Section of the Royal Mail Pension Plan (RMPP). This clarified the Trustee's powers to distribute surplus without Post Office's agreement and Post Office has concluded that as a result of the MoU, Post Office no longer has an unconditional right to refund from the Plan. In light of this, the RMPP pension surplus was derecognised as at 26 March 2017, and the resulting loss of £210m has been recognised in Other Comprehensive Income. As a result, the pension asset has reduced from £196 million at March 2016 to an asset of £1 million at March 2017.

On 20th July 2017, the Trustees of the pension scheme entered into an agreement with Rothesay Life PLC in which a pension buy-in was effected.

Under the bulk annuity purchase agreements, the Trustees of the pension plan have bought an asset that provides income which matches closely the benefit payments from the pension plan. It achieves a material risk reduction as changes in income mirror changes in benefits due to e.g. inflation and longevity.

The accounting surplus will reduce by the difference between the insurance premium and the value of the insured liabilities. This loss will be recognised in Other Comprehensive Income in 2017/18. As POL has no right to a future surplus in the scheme, there will be an equal and opposite adjustment to the asset ceiling through Other Comprehensive Income. As a result, there will be no effect on the net assets position of the Group.

Presentation of the Consolidated Income Statement

In recent years, Post Office has showed exceptional items, being impaired capital expenditure and major strategic project spend net of investment funding.

In 2016/17, we have transitioned to an alternative presentation. We are showing four columns in the consolidated income statement in the current year and preceding financial year. These are: revenue trading; closure of activities; capital and investments; and (adding them together) the reported results. This presentation clearly shows the underlying trading of the business and our key measure of EBITDAS, calculated consistently, can be easily extracted from the revenue trading column.

Key Financial Performance Indicators

| | 2017 | 2016 (restated) | Change |
|---|-------|--------------------|--------|
| Turnover | £957m | £964m | (£7m) |
| Operating profit from continuing operations before closure of activities and capital and investments | £93m | £112m | (£19m) |
| Operating profit from continuing operations before depreciation, amortisation, closure of activities, capital and investments and Network Subsidy Payment (EBITDAS) | £13m | (£17m) | £30m |

Profit and Loss Summary

| | 2017 | 2016 (restated) | Variance | Variance |
|---|--------------|--------------------|-------------|---------------|
| | £m | £m | £m | % |
| Turnover | 957 | 964 | (7) | (0.7) |
| Network Subsidy Payment | 80 | 130 | (50) | (38.5) |
| Revenue | 1,037 | 1,094 | (57) | (5.2) |
| People costs | (202) | (213) | 11 | 5.2 |
| Other operating costs | (776) | (803) | 27 | 3.4 |
| Total costs | (978) | (1,016) | 38 | 3.7 |
| Depreciation | - | (1) | 1 | 100.0 |
| Share of profit from joint ventures | 34 | 35 | (1) | (2.9) |
| Operating profit from continuing operations before closure of activities and capital and investments | 93 | 112 | (19) | (17.0) |
| Add: Depreciation | - | 1 | (1) | (100.0) |
| Less: Network Subsidy Payment | (80) | (130) | 50 | 38.5 |
| EBITDAS | 13 | (17) | 30 | 176.5 |

Revenue

The Post Office's total revenue decreased by £57 million (5.2%) to £1,037 million driven by a planned decrease of £50 million in the NSP and the exit from the third party cash logistics market during the year. The Post Office business is organised into two strategic business units, Retail and Financial Services & Telecoms. The divisions and their performance are detailed on the next pages:

| | 2017 | 2016 | Variance | Variance |
|--|--------------|--------------|-------------|---------------|
| | £m | £m | £m | % |
| Retail | | | | |
| Mails | 337 | 334 | 3 | 0.9 |
| Retail & Lottery | 40 | 46 | (6) | (13.0) |
| Government Services | 114 | 128 | (14) | (10.9) |
| Payment Services | 68 | 70 | (2) | (2.9) |
| Financial Services & Telecoms | | | | |
| Financial Services | 248 | 234 | 14 | 6.0 |
| Telecoms | 133 | 130 | 3 | 2.3 |
| Other Income | 17 | 22 | (5) | (22.7) |
| Turnover | 957 | 964 | (7) | (0.7) |
| Network Subsidy Payment | 80 | 130 | (50) | (38.5) |
| Revenue | 1,037 | 1,094 | (57) | (5.2) |

Retail

The Retail business encompasses our position as the United Kingdom's number one mails provider, as well as our government services and payments propositions:

Mails

Mails includes the sale of parcels and other Mails products provided by Royal Mail and Parcelforce. Revenue increased in the year by £3 million (0.9%), driven by growth in Home shopping returns and priority services. There was a planned reduction in the fixed fee part of the contract with the Royal Mail Group of £2 million.

Retail & Lottery

Retail turnover, which includes sales of collectibles as well as packaging and stationary, is consistent with prior year. A £6 million reduction in turnover from Lottery was driven by increased competition in the market and a trend towards mobile applications.

Government Services

This comprises services provided under contract to Government departments, including for the Department for Work and Pensions (DWP), the Driver and Vehicle Licensing Agency (DVLA) and the Home Office, including Her Majesty's Passport Office (HMPO) and UK Visas and Immigration (UKVI).

| | 2017 | 2016 | Variance |
|----------------------------|------------|------------|---------------|
| | £m | £m | % |
| DWP | 61 | 75 | (18.7) |
| Home Office | 34 | 34 | 0.0 |
| DVLA | 8 | 10 | (20.0) |
| Other Government Services | 11 | 9 | 22.2 |
| Government Services | 114 | 128 | (10.9) |

Government Services turnover of £114 million decreased by £14 million (2016: £128 million). DWP turnover decreased by £14 million to £61 million due to a decline in the number of active Post Office Card Accounts and lower interest rates. The reduction in DVLA turnover reflects customers increasingly using the online channel for motor vehicle licence payments.

Home Office revenue was maintained at £34 million: small declines in passport revenues were offset by increases in UKVI. Other Government Services turnover has increased by £2 million largely due to identity related services, including Cabinet Office's Verify online identity service where Post Office has grown its market share.

Payment Services

Payment Services includes bill payment and ATM transactions. Revenue has fallen by £2 million to £68 million (2016: £70 million) due to the ongoing shift away from paper based payment methods.

Financial Services & Telecoms

This business offers Post Office products to consumers across our banking, insurance and telecoms businesses:

Financial Services

Our Financial Services products include mortgages, credit cards, insurance, savings, travel and banking. Turnover increased by £14 million to £248 million (2016: £234 million), a 6.0% rise.

Banking has shown strong growth, with an increase of £10 million driven by the launch of the Banking Framework, securing Post Office's position as the provider of a national infrastructure which meets community banking needs across the United Kingdom.

Insurance turnover has also grown, the £7 million increase driven by a full financial year of insurance intermediation activities undertaken by Post Office Management Services Limited.

Turnover from mortgages and savings declined due to market pressures and the discontinuance of NS&I premium bonds.

Telecoms

The Telecoms pillar includes Post Office HomePhone and Broadband services as well as e-top ups and phonecards.

Telecoms turnover of £133 million increased by £3 million. This was driven by a strong performance in our Homephone and Broadband services with a £4 million (3%) increase in annual revenue to £130 million. E top ups and phonecard revenue fell by £1 million in a generally declining market.

On 30 March 2017, we acquired the residential broadband and home phone customer base of New Call Telecom Limited. This acquisition further supports our position in the telecoms market. The base and assets were acquired for cash consideration of £2m. Further consideration of £6m is contingent on the number of New Call customers that successfully migrate to Post Office systems.

Costs

Total costs decreased by £38 million to £978 million (2016: £1,016 million).

People costs of £202 million (2016: £213 million) decreased by £11 million reflecting efficiency savings and the exit from the external supply chain business.

Average headcount reduced from 6,605 in 2015/16 to 6,054 in 2016/17 reflecting discontinued supply chain operations and efficiency savings across Directly Managed Branches and the effect of the Network and DMB transformation programmes.

Other operating costs decreased by £27 million to £776 million largely due to a reduction in postmaster remuneration costs resulting from Network Transformation programme, with fixed pay falling by £26m.

Joint venture

Post Office Limited has a joint venture with the Bank of Ireland with each holding 50% of First Rate Exchange Services Holdings Limited, whose principal activity is the supply of foreign exchange in the UK to the Post Office and others. The share of operating profit from the joint venture was £34 million (£1 million lower than in 2015/16).

Closure of activities

| | 2017 | 2016 (restated) |
|---|-------------|--------------------|
| | £m | £m |
| Discontinuance of external supply chain | (48) | (7) |
| Mobile | 1 | (10) |
| Pension credit | 19 | - |
| Reversal of deferred tax asset | (25) | - |
| Total closure of activities | (47) | (17) |

Closure of activities is made up of the £48 million net loss of the third party cash logistics operation, including provisions for redundancies, which was discontinued on 1 November, less the £1 million provision release from the Mobile operation that was discontinued 2015-16.

In addition, as a result of the closure of the defined benefit pension plan, we have recognised a £19 million one-off pension gain. The closure of the pension scheme also resulted in the reversal of £25 million of tax losses. Prior year results have been restated to show the Retail Cash in Transit net loss as discontinued.

Capital and investment costs

Capital and investment costs are shown below:

| | 2017 | 2016 |
|--|------------|--------------|
| | £m | £m |
| Investment funding | 140 | 150 |
| Restructuring: | | |
| Business transformation | (6) | (13) |
| Network transformation including Postmasters' compensation | (36) | (177) |
| IT Transformation | (9) | (30) |
| Directly managed branch transformation | (18) | (23) |
| Restructuring – severance | (46) | (29) |
| Restructuring – other | (1) | (11) |
| Total restructuring costs | (116) | (283) |
| Impairment: | | |
| Impairment of intangible assets | (78) | (93) |
| Impairment of property, plant and equipment | (26) | (43) |
| Reversal of impairment on intangible assets | 137 | - |
| Reversal of impairment on property, plant and equipment | 135 | - |
| Total impairment reversal/(charge) | 168 | (136) |
| Total capital investment income/(loss) | 192 | (269) |

Capital and investments include the costs of delivery of major change and the impairment of non-current assets together with the impairment reversal of £272 million as at 26 March 2017.

These are offset by Government grant funding, recognised to match the associated costs. The Government grant funding for 2016/17 of £140 million (2016: £150 million) was received on 1 April 2016 and has been fully recognised in the year.

The level of investment grants will continue to reduce as set out in the current funding agreement with the Government.

BEIS has confirmed that funding of up to £210 million will be made available for the period from April 2018 to March 2021. State Aid approval is being sought for the period 2018/19 to 2020/21.

Cash Flow and Net Debt

Cash and cash equivalents amounted to £680 million (2016: £712 million) at the year end. There was a net cash outflow during the year of £32 million (2016: £109 million). A summary cash flow is shown below.

| | 2017 | 2016 |
|---|--------------|--------------|
| | £m | £m |
| Net cash outflow from operating activities | (42) | (123) |
| Taxation recovered | 9 | 9 |
| Net cash outflow from investing activities | (80) | (145) |
| Net cash outflow before financing activities | (113) | (259) |
| Finance costs paid | (7) | (5) |
| Payments to finance lease creditors | (8) | - |
| Proceeds of borrowing from BEIS | 96 | 155 |
| Net decrease in cash and cash equivalents | (32) | (109) |

Net debt (excluding cash in the Post Office network) increased by £141 million year on year as shown in the table below. As planned Government Grants, which are not expected to cover all of the costs of Transformation, were received ahead of the associated spend. As a result we are in a period of net expenditure.

| | 2017 | 2016 |
|--|--------------|--------------|
| | £m | £m |
| Net decrease in cash and cash equivalents | (32) | (109) |
| (Deduct)/add in movement in network cash | (13) | 55 |
| Deduct net proceeds of borrowing from BEIS | (96) | (155) |
| Net increase in net debt | (141) | (209) |
| Net debt brought forward at the beginning of the year | (406) | (197) |
| Total net debt carried forward at the end of the year | (547) | (406) |
| Net debt consist of: | | |
| BEIS loan | (561) | (465) |
| Cash (excluding cash in the Post Office Network) | 14 | 59 |
| Total net debt carried forward at the end of the year | (547) | (406) |

Post Office Limited's treasury policy is to minimise the amount drawn down on the loan in order to reduce its interest cost. The facility is limited to a maximum of £950 million, the unused but available facility at the end of the year was £389 million. The maximum drawn down under the facility during the year was £856 million on 6 October 2016. The facility is available at two days' notice and has an end date of 31 March 2021.

Post Office Limited's borrowing facility from the Government and the associated Framework Agreement imposes constraints on the availability of external borrowing and limits the purposes for which the facility can be used.

Pensions

Post Office Limited is the principal employer of the Post Office Section of the Royal Mail Pension Plan (RMPP), which is independent of the Royal Mail section of the RMPP, and until 31 March 2015 was a participating employer within the Royal Mail Defined Contribution Plan (RMDCP).

Royal Mail Group Limited 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. The Post Office operates a defined contribution scheme – the Post Office Pension Plan.

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 Limited and Post Office Limited each responsible for their own sections from that point. This pensions transfer left the RMPP fully funded on an actuarial basis in respect of historic liabilities at this date.

The balance sheet pension position moved from an asset of £196 million at March 2016 to an asset of £1 million at March 2017. The movement in the surplus is principally the result of the Memorandum of Understanding executed by Post Office with the Trustee of RMPP. This concluded that Post Office no longer had the right to refund from the Plan; in light of this, in accordance with IFRIC 14 the RMPP pension surplus can no longer be recognised on Post Office's balance sheet at 26 March 2017, and the resulting loss has been recognised in Other Comprehensive Income.

Both defined benefit plans closed to new members in March 2008, and RMSEPP closed to future accrual on 31 December 2012. The RMPP closed to future accrual on 31 March 2017. New employees were offered membership of the RMDCP following these dates. With effect from 1 April 2015 new employees were offered membership of the Post Office Pension Plan, prior to this they were offered membership of the RMDCP.

The future funding of ongoing pension contributions into RMPP and deficit payments into RMSEPP was agreed with the respective pension trustees during the year and payments were made in accordance with the agreements. The net cash payments made are detailed below:

| | 2017 | 2016 |
|---|-------------|-------------|
| | £m | £m |
| Regular pension contributions | (18) | (20) |
| Funding of the pension deficit - RMSEPP | (1) | (1) |
| Payments relating to redundancy | (3) | (3) |
| Net cash payments | (22) | (24) |

The income statement charge to revenue trading for the year was £3 million (2016: £3 million) in relation to the defined contribution scheme and £21 million (2016: £27 million) in relation to the defined benefit scheme.

A one-off pension gain of £19 million resulting from the closure of the RMPP has been included in the income statement under closure of activities.

The regular future service contributions cash rate for RMPP expressed as a percentage of pensionable pay remained at 17.1% (2016: 17.1%). The regular rate of employee contributions for the RMPP remains unchanged at 6%.

Corporate Governance

Strong corporate governance supports the delivery of Post Office's strategy

Legal Ownership and Structure

During the 2016/17 financial year Post Office was a wholly owned subsidiary of Postal Services Holding Company Limited. In addition, the Secretary of State for Business, Energy and Industrial Strategy (BEIS) holds a special share in Post Office and the rights attached to that special share are enshrined within Post Office Articles of Association. In June 2017, Postal Services Holding Company Limited entered voluntary liquidation and the shares in Post Office Limited were distributed to the Secretary of State.

Neither Postal Services Holding Company nor BEIS, through UK Government Investments Limited (UKGI), have any day to day involvement in the operations of Post Office or in the management of its branch network and staff. However, Richard Callard has been appointed by the UKGI as its representative to sit on the Post Office Board as a Non-Executive Director.

Insert
Corporate
Structure chart

Corporate Governance Overview 2016/17

At Post Office we maintain standards of corporate governance appropriate for our ownership structure, our commitment to social purpose and our strategy to achieve commercial profitability. We are mindful of the changing landscape of corporate governance reform and regularly review these standards to ensure they remain appropriate for our developing business needs and relevant legal and regulatory advances. As a Government-owned entity we are committed to acting in accordance with the Nolan Principles of Public Life, namely: selflessness; integrity; objectivity; accountability; openness; honesty; and leadership. The Board adopts these principles both in its decision making and in its responsibility for organisational culture.

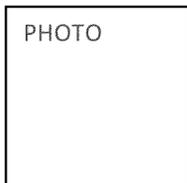
Board of Directors

The Board is responsible for setting the business' strategic aims, putting in place the leadership to deliver them, maintaining appropriate oversight of the management of the business, reporting to the Shareholder and determining the Post Office vision, values and organisational culture.

There were no changes in membership of the Board during 2016/17. Gender diversity was maintained with 37.5 per cent women.

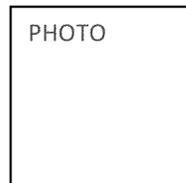
The Board comprises an independent Non-Executive Chairman, the Group Chief Executive, the Chief Finance and Operations Officer and five Non-Executive Directors (one of whom is designated the Senior Independent Director). Non-Executive Directors are not employees of Post Office but provide services under the terms of an individual letter or appointment, signed at the commencement of their directorship.

Directors' statutory duties are set out in the Companies Act 2006. The primary duty of the directors is to promote the success of Post Office Limited as a Company for the benefit of its Government shareholder and the wider stakeholder community.



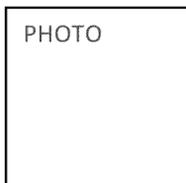
Tim Parker, Independent Chairman, Chairman of the Nominations Committee and Member of the Remuneration Committee

Joined the Board 1 October 2015



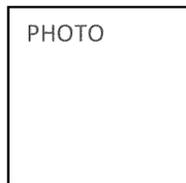
Tim Franklin, Non-Executive Director and Member of the Audit, Risk and Compliance Committee

Joined the Board 19 September 2012



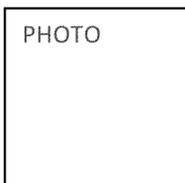
Ken McCall, Senior Independent Director, Chairman of the Remuneration Committee and Member of the Audit, Risk and Compliance and Nominations Committees

Joined the Board 21 January 2016



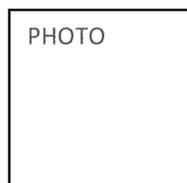
Virginia Holmes, Non-Executive Director and Member of the Nominations and Remuneration Committees

Joined the Board 4 April 2012



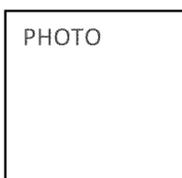
Paula Vennells, Group Chief Executive

Joined the Board 18 October 2010



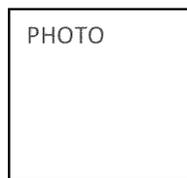
Carla Stent, Non-Executive Director and Chairman of the Audit, Risk and Compliance Committee

Joined the Board 21 January 2016

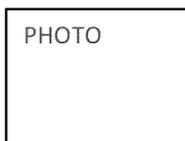


Richard Callard, Non-Executive Director and Member of the Audit, Risk and Compliance Committee

Joined the Board 26 March 2014



Jane MacLeod, Company Secretary *Appointed as Company Secretary 31 August 2017*



Alisdair Cameron, Chief Finance and Operations Officer

Joined the Board 28 January 2015

Alwen Lyons served as Company Secretary from her appointment on 4 July 2011 until 30 August 2017.

Biographies of all members of the Board can be found on the Post Office website: *insert link*

Board

Role and responsibilities

The Board is accountable to the Secretary of State for BEIS for the performance of Post Office and is required to seek consent for certain matters, as set out in the Articles of Association. The shareholder is briefed regularly on the performance of the business and the progress to deliver the strategy.

The Board is also responsible for oversight of compliance with all legal and regulatory requirements and delivery of the strategy as well as providing constructive challenge to the Group Executive and communicating with the Shareholder. It has a schedule of matters reserved for its decision and has approved terms of reference for its committees which are provided on the Post Office website.

The Board reviews the strategy annually and each year approves the annual budget and business plan required to deliver the strategic objectives for that year; the last approval was in March 2017. The Board regularly reviews reports on performance against that plan and receives periodic business reports from senior management. Directors are briefed on matters to be discussed at Board and Committee meetings by papers distributed in advance, as well as by management presentations.

In setting the risk appetite for Post Office and establishing a framework to manage and mitigate risk, the Board takes guidance from its Audit, Risk and Compliance Committee, to which it delegates oversight of risk management. This committee receives reports from the Group's Director of Legal, Risk and Governance and from the internal and external audit teams. Further detailed information on the management of risk within Post Office, together with identification of principal risks, their impacts and mitigation can be found in the Management of risk section on pages XX to YY.

Key focus and achievements in 2016/17

During the year to 26 March 2017, the Board oversaw the Post Office's move towards commercial sustainability and operating profitability. This journey included transition to a new business model with the creation of two business units: Retail; and Financial Services & Telecoms, supported by a single operations team and a leaner set of corporate functions.

The Board monitored the continued delivery of the IT strategy and development in the digital space, enhancing the customer experience and promoting engagement with Post Office into the future. The Board also approved the acquisition of a telecoms business to enhance the Post Office's telecoms offering, providing a better service for customers.

Following a rigorous and meaningful consultation the Board agreed to the closure of the Royal Mail Pension Plan to future accrual with effect from 1 April 2017. This decision was made to minimise the future risk of increasing contributions relating to the Defined Benefit pension scheme. Further information on the closure can be found in the financial statements on pages XX.

Conflicts of Interest and Independence

The Board may, in the furtherance of its duties, seek independent professional advice at the expense of Post Office. During the period, no director sought independent professional advice. The Articles give the directors power to authorise conflicts of interest. Pursuant to this, during the year a new Group Conflict of Interests Policy was adopted which includes clarification of the procedure by which situations giving rise to potential conflicts of interest are identified to the Board and considered for authorisation.

During the period, none of the directors had a material interest in any contract of significance with Post Office or any of its subsidiaries. At all times during the periods of their appointments in 2016/17, the independent directors met the criteria for independence set by the Board.

Post Office has arranged appropriate insurance cover in respect of legal action against directors of Post Office and its subsidiaries.

Non-Executive Directors' Terms of Office as at 26 March 2017

| Non-Executive Director | Date of appointment | Term of office | Unexpired term at 26 March 2017 | Committee memberships |
|---------------------------|---------------------|----------------------|---------------------------------|--|
| Tim Parker | 1 October 2015 | 3 years | 1 year, 6 months, 4 days | Nominations (Chairman) Remuneration |
| Richard Callard | 26 March 2014 | Until removal | N/A | Audit, Risk and Compliance |
| Tim Franklin ¹ | 19 September 2012 | 3 years ² | 2 years, 5 months, 23 days | Audit, Risk and Compliance |
| Virginia Holmes | 4 April 2012 | 3 years ³ | 1 year, 6 days | Nominations Remuneration |
| Ken McCall ⁴ | 21 January 2016 | 3 years | 1 year, 9 months, 25 days | Remuneration (Chairman) Audit, Risk and Compliance Nominations |
| Carla Stent | 21 January 2016 | 3 years | 1 year, 9 months, 25 days | Audit, Risk and Compliance (Chairman) |

Board Meetings

During 2016/17 the Board met 10 times (including extraordinary meetings held either in person or by telephone). A record of Directors' attendance (attended/eligible to attend) at the Board and its committees is set out in the table below:

| Director | Board | Board (extraordinary) | Audit, Risk and Compliance Committee | Nominations Committee | Remuneration Committee |
|------------------|-------|-----------------------|--------------------------------------|-----------------------|------------------------|
| Tim Parker | 7/7 | 3/3 | - | 4/4 | 5/5 |
| Richard Callard | 7/7 | 3/3 | 7/7 | - | - |
| Alisdair Cameron | 7/7 | 3/3 | - | - | - |
| Tim Franklin | 7/7 | 2/3 | 6/7 | - | - |
| Virginia Holmes | 7/7 | 3/3 | - | 4/4 | 5/5 |
| Ken McCall | 6/7 | 3/3 | 7/7 | 4/4 | 5/5 |
| Carla Stent | 7/7 | 3/3 | 6/7 | - | - |
| Paula Vennells | 7/7 | 3/3 | - | - | - |

Board Effectiveness Review

During 2016/17 an externally facilitated Board Effectiveness Review was undertaken, with the results reported to the Board in January 2017. The overall results from the review were positive, with some areas identified for further work. The Board agreed to the implementation of the resulting recommendations, which included the Board receiving greater support when making decisions on IT strategy and the Audit, Risk and Compliance Committee having a greater focus on the review of internal audit work.

¹ Tim Franklin is also Chairman of the Post Office Advisory Council.

² Tim Franklin began a second three year term on 19 September 2016 following conclusion of an initial four year term of office.

³ Virginia Holmes began a second three year term on 2 April 2015.

⁴ Ken McCall is the Senior Independent Director.

Committees

To assist in the execution of its corporate governance responsibilities, the Board has established three committees which deal with specific topics requiring independent oversight, specifically: Audit, Risk and Compliance; Nominations; and Remuneration. Each committee is chaired by a Non-Executive Director.

The Board delegates certain authorities to these committees which operate within their own agreed, documented Terms of Reference. The Terms of Reference for the Audit, Risk and Compliance Committee were last reviewed by the Committee and approved by the Board in September 2015. The Terms of Reference for the Nominations and Remuneration Committees were last approved by the Board in March 2015 and reviewed in November 2015. The annual review carried out in March 2017 confirmed that each committee had delivered against its Terms of Reference during 2016/17.

Terms of Reference for the committees are available on the Post Office website [add link].

Nominations Committee

Role and Membership

The Committee is chaired by Tim Parker, Chairman and the other members are Virginia Holmes and Ken McCall, the Senior Independent Director.

Work carried out by the Committee in 2016/17

During the period the Committee reappointed Tim Franklin to the Board as a Non-Executive Director for a further three years. The Committee oversaw both the Board Effectiveness Review and the organisational design for the new business model. It also reviewed the Group Executive succession plan and received updates on senior appointments.

The Committee used the services of Russell Reynolds Associates to undertake market searches for executive and non-executive appointments and to advise on succession planning. This firm did not have any other connection with Post Office.

Forward focus for 2017/18

During 2017/18 the Committee will continue to identify potential leaders, keep the Group Executive succession plan under review and look much further ahead to ensure we have the necessary resources to implement our longer term strategies.

Remuneration Committee

Role and Membership

The Committee is chaired by Ken McCall, Senior Independent Director and the other members are Tim Parker, Chairman, and Virginia Holmes.

The Group Chief Executive may attend meetings, at the invitation of the Chairman, to discuss matters relating to the remuneration of the Chief Finance and Operations Officer and members of the Group Executive. However, the Committee is careful to recognise and manage any potential conflicts of interest when receiving views from the Group Executive and upholds the principle that no individual may be involved in discussions concerning their own remuneration.

Work carried out by the Committee in 2016/17

During the year the Committee reviewed and made recommendations for the 2015/16 payments against incentive plans, together with the targets and measures for 2016/17. The Committee also approved senior level salaries, reviewed the remuneration framework, undertook a pay review of the Group Executive and considered benchmarking data for the salaries of senior employees.

The Committee is permitted to engage external consultants and during the year under review appointed PwC

as its new adviser, after consultation with the Chairman of the Audit, Risk and Compliance Committee to ensure no conflict with other work undertaken by PwC. Prior to the appointment of PwC, advice continued to be sought from New Bridge Street Consultants. New Bridge Street Consultants is part of the Aon Consulting Group which, under its Aon Hewitt brand, acts as investment adviser to the Post Office section on the Royal Mail Pension Plan. Post Office is satisfied that these two provisions of advice, from different parts of the Aon Consulting Group are managed separately and therefore present no compromise of independence.

2017/18 Forward Focus

[During 2017/18 the Committee will consider the impact of the Government's December 2016 response to the consultation on draft regulations for mandatory gender pay gap reporting and its August 2017 response to the green paper consultation on corporate governance reform. Of particular consideration will be the impacts relating to gender pay, executive pay and greater engagement with employees on wider pay policy.]

Audit, Risk and Compliance Committee

Role and Membership

The Committee is chaired by Carla Stent, and the other members are Ken McCall (Senior Independent Director), Richard Callard (Non-Executive Director) and Tim Franklin (Non-Executive Director). The Board considers that the Committee's members have broad commercial knowledge, extensive business leadership experience and that this constitutes an appropriate mix of business and financial experience and expertise.

The Head of Risk and Assurance or the Senior Internal Audit Manager attended all but one of the meetings of the Committee and also met the Committee Chairman, independently and regularly, throughout the year. The external auditor was invited to, and attended, meetings of the Committee.

Further detailed information on the management of risk within Post Office, together with identification of principal risks, their impacts and mitigation, can be found in the Management of Risk section on **pages XX**.

Work carried out by the Committee in 2016/17

During the year, the Committee reviewed the annual report and financial statements for 2015/16, including consideration of principal and strategic risks, and recommended Board approval. The Committee oversaw the further implementation of the Group-wide Risk Management Framework, including self-assessment of the control framework and an increased consideration of financial services risk to support the development of the financial services strategy. The Committee approved the annual audit plans for the internal and external auditors.

The Committee also reviewed the work carried out by risk management, internal and external audit, further details of which can be found below. It received regular reports on particular risk areas, including financial, branch network and IT controls, business transformation, operational risks, financial conduct, money laundering, cyber & information security (including data protection) and pension risks. The Committee has, together with the Board, also monitored the potential impact on the business of Brexit. These considerations enabled it to complete its year-end annual assessment of the effectiveness of risk management and internal controls, on behalf of the Board.

2017/18 Forward Focus

During 2017/18 the Committee's planned focus will include the continued oversight of the progress in branchy network, Financial and IT controls, enhancements in general controls aligned to the increased digitisation of the business and in supporting delivery of the strategy for expansion in financial services. The Committee will also continue to ensure that the Post Office complies with current and future legislation, as well as receiving regular updates on developments affecting its products and operations.

Annual Assessment

To complete its annual assessment of the effectiveness of risk management and internal controls, the Committee considers the risk management framework, systems of internal control and preparation of the annual and interim financial statements and reviews of the nature and scope of the external audit.

In consequence, the Board, through the Committee, confirmed that there is a regularly reviewed and continuous process of identifying, evaluating and managing the principal risks and their related controls. The process has been in place for the year under review and up to the date of approval of the annual report and financial statements. The Board has reviewed its effectiveness and conclude that they provide reasonable, but not absolute, assurance, against material misstatement or loss.

Internal Audit

Internal Audit provides the Committee with assurance over Post Office's key risk areas. To maintain independence, the Head of Internal Audit reports functionally to the Chairman of the Committee and operationally to the General Counsel. Assurance is achieved through a mixture of in-house auditors,

supplemented by a co-sourcing arrangement for more specialist, one-off expertise and assurance over significant change programmes.

The annual plan is developed by Internal Audit across the risk universe with input from management. It is approved by the Committee and may be updated, with the Committee's consent. Updates and findings are provided by the Head of Internal Audit at each meeting. Any significant findings or identified risks are closely examined to confirm that appropriate action is being taken. During the year, Internal Audit conducted reviews across a range of business areas including financial services and business transformation.

A self-assessment of compliance with the Internal Audit Charter was conducted at the end of the year and reviewed by the Committee.

External Audit

The external auditors discuss with management the reporting of operational results and the financial condition of the Post Office. They present their findings to the Committee.

During the year the external auditors met once with the Committee in the absence of the executive. The Committee agreed the external audit fee and considered the external auditors to have an appropriate level of independence. Prior to the end of year the external audit partner provided enhanced levels of internal independent review and challenge.

During the year 15% of the total fees paid to Ernst & Young were for non-audit services, a decrease from the 19% paid in 2015/16.

Management of Risk

Our Approach to Risk

We define risk as anything that can adversely affect our ability to meet the Post Office’s objectives, maintain its reputation and comply with regulatory standards. We seek to understand and harness risk in the pursuit of our aims and business plan objectives. As we progress, our aim is to operate within an acceptable level of risk taking.

Risk Management Governance

The Board is accountable for the risk management and internal controls in the Post Office, for reviewing their effectiveness and for determining the nature and extent of the principal risks. Responsibility for day-to-day operations rests with members of the Group Executive. The Risk and Compliance Committee reviews the effectiveness of the risk management framework and management of the principal risks. The committee is chaired by the General Counsel, membership includes all of the Group Executive and the output is reported to the Audit, Risk & Compliance Committee (ARC).

Assurance for the Board is provided by the Audit, Risk and Compliance Committee, through review of reports from Management, Risk, Internal Audit, external advisers and External Audit.

Our Risk Management Framework

The PO risk management framework includes risk governance, risk identification, measurement and management, and risk reporting and set out the ‘top-down’ and ‘bottom-up’ approach to risk identification for the PO. Material and emerging risks are identified through a process of regular structured dialogue with subject-matter experts across the business.

The PO approach to risk management is based on the underlying principle of line management accountability for effective implementation of internal controls to manage risk. Details of our Principal Risks are included on page ZZZ.

Internal Control Framework

We have an internal control framework in place in relation to our financial reporting processes, which falls under our self assessment regime. Further work is currently underway to develop a similar framework for our IT controls. Our risk management efforts are also underpinned by our General Control Framework and Executives’ Declaration.

The Board has put in place an organisational structure with formally defined lines of responsibility and delegation of authority. Executive Management have established procedures for setting our direction, planning and controlling the operation of our business, and reviewing and monitoring our performance and conduct.

Progress during the year and plans for next year

During the year, we have continued to develop our risk management capability. Highlights of what has been achieved and what is planned for next year include:

Risk assessment: during 2016/ 17, we improved the risk management framework, its use in the business areas and oversight by the Risk and Compliance Committee. We also developed incident reporting processes and formalised risk exceptions process.

Risk assessment: for 2017/ 18 we aim to improve our understanding of the nature of risks that POL faces and continue to improve oversight of the level of risk actually being taken across PO and the effectiveness of the mitigating actions.

Control environment: during 2016/17, we have embedded a Control Self-Assessment across fifteen of our key processes, rolling out a reporting tool to monitor the risk and control environment.

Control environment: for 2017/18, we are extending our self-assessment regime over the risk and control environment across our key processes more widely e.g. IT.

Our Principal Risks and Mitigations

These are our principal risks, detailed with their potential consequences if they were to crystallise and how the Post Office manages them. Any of these risks could have a material impact on our results, condition and prospects. However, these risks should not be regarded as a complete and comprehensive statement of all potential risks; some risks are not yet known and some that are not considered material could later turn out to be material.

| Potential risks | Consequences | Key Mitigations |
|--|--|--|
| STRATEGIC RISKS | | |
| <p>Competitive threat</p> <p>Post Office faces both opportunities for and threats to income from our competitive market place.</p> <ul style="list-style-type: none"> - The Mails and parcels market remains intensely competitive. - Financial Services is a challenging market with new entrants such as challenger banks and Fintechs. Responding quickly to different strategies, business models, and products is therefore essential to growth. - Fulfilling customer expectations through digital channels new products and improved back office functions. | <p>Crystallisation of these risks could result in not achieving our growth objectives, losing market share and revenues.</p> | <ul style="list-style-type: none"> • Customer perceptions and competitor behaviour are key inputs to decision making. • Our strategy focuses on customer requirements, market trends and competitor behaviour, working with partners where appropriate, to offer customer centric propositions, supported by a clear distribution strategy. • Each product proposition developed in the context of a customer strategy which describes target market, channel of distribution and completing attributes. |
| <p>Dependency on strategic relationships</p> <p>Post Office has strategic relationships which are key to its product offering and growth, for instance with IRRELEVANT</p> <p>Misalignment of the strategic direction or focus with the strategic partner could result in products that do not support our growth strategy or meet our customer or market requirements.</p> | <p>This could result in not achieving our growth objectives, losing revenue and market share.</p> | <ul style="list-style-type: none"> • Close working relationships established with our strategic relationships. • Interactions scheduled with our strategic partners to improve the product offering and service to drive growth and profitability for both parties. • Contractual arrangements monitored and managed to ensure that they are aligned with commercial objectives and that relationships deliver to expectations. |
| OPERATIONAL AND FINANCIAL RISKS | | |
| <p>Unattractive network proposition</p> <p>There is a risk that the Post Office may not be able to retain, or attract sufficient new, retail partners because of the complexity of our network proposition and relative value to the retail partner particularly compared to other categories.</p> | <p>As well as loss of revenue, this could result in shrinkage to our network and breach our public purpose commitment.</p> | <ul style="list-style-type: none"> • New branch model being developed to provide retailers with an attractive proposition relative to other categories. • New branch model also ensures that we use modern technology to drive simplicity of operations, efficiency and cost reduction for the retailer, as well as a better customer experience. We are also reviewing, and where possible simplifying, products and processes to improve the sales experience and process for both retailer and customer. • Branch model continually reviewed and updated to respond to ongoing competitive threat and market conditions. |
| <p>Business interruption and cyber threat</p> <p>Post Office is dependent on the continued availability of its information systems and associated infrastructure. These could be threatened, either due to internal issues, external events or cyber attack.</p> | <p>This could result in disruption of service leading to negative customer experience, breach of contractual obligations and brand damage.</p> | <ul style="list-style-type: none"> • Business continuity plans updated through review, testing and enhancements. • New contracts have provisions covering the security, resilience and availability of our IT systems and infrastructure. • Information Security policies in place. • Penetration testing schedule to assess and improve the security of our systems. |

| | | |
|--|--|---|
| <p>IT and change complexity</p> <p>The next phase of Transformation will have increased dependencies and interconnectivities leading to more complexity.</p> | <p>This could significantly impact PO strategic objectives and execution and implementation of PO business strategy.</p> | <ul style="list-style-type: none"> • Appropriate Governance structure for Change Delivery. • Integrated Master Plan to manage and monitor progress across the portfolio including dependencies. • A single view of all Change to avoid complexity across the Change portfolio. • Early identification and engagement of stakeholders to ensure appropriate planning. |
| <p>Stakeholder funding</p> <p>The cost of delivering the public purpose of the Post Office and meet the expectations of stakeholders may exceed current forecasts.</p> | <p>This could result in not achieving our growth objectives, failing to meet our public purpose commitment and damaging our reputation with stakeholders.</p> | <ul style="list-style-type: none"> • Proactive engagement with stakeholders to ensure there is full understanding of, and alignment with, the strategic goals and the investment case required to deliver them. • Annual and three-year operating and capital plans developed and risk assessed. • Scheduled feedback to stakeholders and review. |
| <p>Industrial Action</p> <p>There are a number of commercial process dependencies supplied by and to Royal Mail Group (RMG). The risk of industrial action affecting such a key partner could lead to material disruption to Post Office.</p> | <p>This could result in loss of service to customers, Postmasters, and business partners.</p> | <ul style="list-style-type: none"> • We are developing contingency plans to mitigate, to the extent possible, the impact of any industrial action affecting Royal Mail. |
| <p>LEGAL & REGULATORY RISKS</p> | | |
| <p>Regulatory breach</p> <p>The Post Office operates under an extensive regulatory environment, covering areas such as financial and postal services, telecoms, procurement, competition law and data security. This environment continues to evolve, particularly in the financial services arena, and we need to ensure that the changing requirements continue to be identified and met.</p> | <p>This could result in regulatory censure, fines, litigation or curtailment of trading, which could impact income and/ or damage our reputation with customers and suppliers.</p> | <ul style="list-style-type: none"> • New regulatory obligations monitored by relevant business owners, with support from Legal, Risk & Governance. • On-going training to our staff on legal and regulatory matters. • Regular compliance tests and monitoring are conducted. • Internal and external assurance programmes are in place (including by our regulatory principals) to ensure that we meet financial services regulatory requirements, including sales practices and conduct, customer experience and product experience and delivery. |

Group Executive

The Group Executive is the most senior management body and is comprised of the Group Chief Executive, each of her direct reports and the Company Secretary.

Membership

The Group Executive is chaired by Paula Vennells, Group Chief Executive and the other members are:

| | |
|------------------|---|
| Alisdair Cameron | Chief Finance and Operations Officer |
| Kevin Gilliland | CEO - Retail |
| Rob Houghton | Chief Information Officer (joined the Group Executive from 1 January 2017) |
| Martin Kirke | Group People Director (from 7 November 2016) |
| Nick Kennett | CEO – Financial Services and Telecoms |
| Alwen Lyons | Company Secretary (until 30 August 2017) |
| Jane MacLeod | General Counsel, Director of Legal, Risk and Governance and, from 31 August 2017, Company Secretary |
| Mark Davies | Group Communications, Brand and Corporate Affairs Director (joined the Group Executive from 1 April 2017) |
| Martin Edwards | Group Strategy Director (joined the Group Executive from 1 April 2017) |

Other members of the Group Executive during 2016/17 were:

| | |
|---------------|--|
| Martin George | Commercial Director (left the Post Office on 31 December 2016) |
| Neil Hayward | Group People Director (left the Post Office on 4 November 2016) |
| David Hussey | Business Transformation Director (left the Post Office on 31 January 2017) |

Role of the Group Executive

The Group Executive implements the strategy agreed by the Board and monitors business performance and development at a day to day level. It meets regularly to discuss latest developments, to discuss proposals for new business development, to receive financial and other performance reports and to monitor business transformation and commercial development. It will also address any urgent issues that have arisen within the business and which require senior level resolution. Twice yearly, it reviews the results of personal performance assessments undertaken throughout the organisation.

The Group Chief Executive and Chief Finance and Operations Officer, as members of the Board, and the Company Secretary, attend meetings of the Board which facilitates and strengthens the communication channels between the senior leadership, the Board and its Committees.

Directors' Report

The Directors present the Group Annual Report and Financial Statements for the year ended 26 March 2017.

Expected future developments

Expected future developments are detailed in the Chief Executive's statement.

Results and dividends

The profit after taxation for the year was £243m (2016: loss £167m). The directors do not recommend the payment of a dividend (2016: £nil dividend).

Political contributions

No political contributions were made in the year (2016: £nil).

Research and development

There was no research and development expenditure during the year (2016: £nil).

Directors and their interests

The following served as Directors during the year:

R J Callard

A C J Cameron

T A Franklin

V A Holmes

K S McCall

T C Parker

C R Stent

P A Vennells

No director has a beneficial interest in the share capital of Post Office. The emoluments of Directors are set out in the Directors' Remuneration Report which appears on pages **XX** to **XX**.

People

People are the driving force behind the business, either in branch or in supporting roles within our offices. It is key that everyone associated with Post Office – employees and postmasters – is engaged, involved and equipped to meet our shared objectives.

We are committed to ensuring that everyone's voices are heard and to that end we conduct regular employee surveys. Engagement is vital and in recognition of this a network of engagement champions represents the voices of colleagues from each part of the business. Our various communication channels ensure that everyone is kept informed on matters which impact them and the wider business.

We are committed to ensuring the health, safety and wellbeing of employees and work hard to promote a safe working environment and a positive wellbeing culture. A range of services is provided to help all employees stay mentally and physically healthy.

Our Learning Academy provides high quality learning for all employees and postmasters and aims to ensure that everyone is supported to reach their full potential. There is a commitment to continuing to invest in developing the best talent to support our business, including graduate recruitment and active participation in the apprenticeship programme, available for new and existing colleagues.

Post Office promotes diversity and inclusion and celebrates the diversity of its workforce and communities served. There are active networking groups such as the Women in Leadership Programme, to support and

nurture female talent, and Post Office Prism, which supports and celebrates Post Office's LGBT+ community.

Corporate responsibility

Details of Post Office corporate responsibility activities are contained within a separate report on page XX.

Disabled employees

The Post Office has been recognised as a disability confident leader and has a Disability Confidence networking group called 'Be You'. This group provides support and advice and helps the business to do the best it can for employees with disabilities. Employees who become disabled while employed receive full support through the provision of training and special equipment to facilitate continued employment where practicable.

Post balance sheet events

In accordance with the funding agreement with Government announced on 27 November 2013, for which State Aid approval was received on 19 March 2015, Post Office Limited received £140 million of funding on 3 April 2017.

On 30 March 2017 the Group acquired the residential broadband and home phone customer base, along with certain other assets, of New Call Telecom Limited, for cash consideration of £2 million and contingent consideration currently estimated to be £6 million. The provisional fair value of the net assets acquired is £6 million. The acquisition will be accounted for under IFRS 3 Business Combinations.

On 12 June 2017, Post Office's parent company, Postal Services Holding Company Limited, was placed into liquidation. It is expected that the process will be complete and the company will be dissolved by the end of March 2018.

On 20th July 2017, the Trustees of the pension scheme entered into an agreement with Rothesay Life PLC in which a pension buy-in was effected.

Under the bulk annuity purchase agreements, the Trustees of the pension plan have bought an asset that provides income which matches closely the benefit payments from the pension plan. It achieves a material risk reduction as changes in income mirror changes in benefits due to e.g. inflation and longevity.

Going concern

After analysis of the financial resources available and cash flow projections for Post Office, 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 X to the financial statements.

Financial instrument risk

The exposure of the Group to market risk, credit risk and liquidity risk has been disclosed in note X of the annual report on pages XX-XX.

Audit information

The Directors confirm that, so far as they are aware, there is no relevant audit information of which the auditor is unaware, 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.

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

Jane MacLeod

Secretary, Post Office Limited
(Company Number 2154540)

Finsbury Dials

20 Finsbury Street

London EC2Y 9AQ

X September 2017

Audit Results Update Report to the Audit, Risk and Compliance Committee

for the 52 week period ended 26 March 2017

Post Office Limited

19 September 2017



The better the question. The better the answer.
The better the world works.



Building a better
working world



The contents of this report are subject to the terms and conditions of our appointment as set out in our engagement letter dated 22 January 2016. This report is made solely to the ARC Committee, Board of Directors and Management of Post Office Limited in accordance with our engagement letter. Our work has been undertaken so that we might state to the ARC Committee, Board of Directors and Management of Post Office Limited those matters we are required to state to them in this report and for no other purpose.

To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the ARC Committee, Board of Directors and Management of Post Office Limited for this report or for the opinions we have formed. It should not be provided to any third party without our prior written consent.



Ernst & Young LLP
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London SE1 2AF

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GRO
GRO

The Audit, Risk and Compliance Committee
Post Office Limited
20 Finsbury Street
London
EC2Y 9AQ

19 September 2017

Members of the Audit, Risk and Compliance Committee,
2016/17 Audit Results Update Report

We are pleased to present our Audit Results Update Report for the forthcoming meeting of the Audit, Risk and Compliance (“ARC”) Committee. This report summarises our updated conclusions in relation to our audit of Post Office Limited’s (the “Group”) financial position and the results of its operations for the 52 week period ended 26 March 2017 (“the year”).

This report provides an update to the report issued on 12 May 2017 (the “Audit Results Report”) and should be read in conjunction with that report. This report also contains our final summary of audit differences and communications regarding our independence.

This report is intended solely for the information and use of the ARC Committee, Board of Directors and management. It is not intended to be and should not be used by anyone other than these specified parties without or specific written consent.

We welcome the opportunity to discuss this report with you at the ARC Committee meeting on 25 September 2017.

Yours faithfully,

GRO

Peter McIver
Partner

For and on behalf of Ernst & Young LLP

Appendices Contents

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1 | Executive summary

At the date of this report our audit work is substantially complete. Subject to the finalisation of the outstanding matters outlined in Appendix A, we anticipate issuing an unqualified audit opinion on the financial statements. This report provides an update since the issuance of our Audit Results Report on 12 May 2017, on the four key risks in our audit, as identified in our planning report– improper revenue recognition, classification and completeness of capital and investment items, improper valuation and completeness of Postmasters' compensation provision and going concern – and other areas important to our audit.

Our opinion and status of our audit

Our audit work in respect of the group and parent company is substantially complete. The significant open items required to finalise our audit procedures are:

- ▶ Finalisation of our audit procedures in a limited number of areas, including fixed assets impairment reversal assessment and review of documentation in respect of provision for legal claims;
- ▶ Finalisation of our audit procedures in respect of the going concern assessment;
- ▶ Finalisation of our procedures relating to the group's annual report and accounts;
- ▶ Finalisation of pension plan assets testing in respect of BlackRock investment fund with the total value of £365m;
- ▶ Receipt of the signed management representation letter (draft in Appendix B); and
- ▶ Completion of subsequent events review.

We have included an update on the status of matters which were included in Audit Results Report (dated 12 May 2017) and we have set out below the main updates since our previous report:

- ▶ Post Office Limited agreed a total network payment subsidy of £110m for 2018/19 and 2019/20 and extended the £950m working capital facility to 31 March 2021. In addition, Post Office Limited has agreed in principle a network subsidy payment of £50m for 2020/21 and investment funding up to £210m for the period to 2020/21.
- ▶ Post Office Limited finalised its assessment of tangible and intangible assets impairment as at 26 March 2017. Following the improved performance, management recognised a reversal of £272m impairment of tangible and intangible assets.

We also included the status of matters that are still open (Appendix A). We will provide an update on the status of our work at the ARC Committee meeting.

On the basis of our work performed to date, we anticipate issuing an unqualified audit opinion in the form that was included in Appendix B of our Audit Results Report. There has been no change to format or content of the report.

Our audit of the group's financial statements for the year ended 26 March 2017 has been performed in accordance with International Standards on Auditing (UK and Ireland) in order to provide reasonable assurance that your financial statements are free of material misstatements.

Audit scope and audit approach for the year ended 26 March 2017

There has been no change to our audit scope and audit approach from that reported in our Audit Results Report.

Accounting matters and judgements

There has been no change to the significant risks or other accounting matters or judgements from those identified in the Audit Results Report.

In Sections 2 and 3 of this report we have included an update on the status of matters which were open at the time that our Audit Results Report was issued including more extensive discussion on going concern and the impairment of tangible and intangible assets given the majority of the work on these two risks had not been performed at that stage.

Summary of audit differences

We have identified some audit differences which were greater than our threshold for reporting audit differences of £472,000. Further detail, including the turnaround effect of a prior year adjustment, can be found in Section 4 of this report.

Control environment

We finalised our substantive leavers testing and the final conclusion on our evaluation of IT general controls was that we are able to rely on the IT process for the relevant applications for our 2016/17 audit. Further details can be found in Section 5 of this report.

Independence, non-audit services and fees

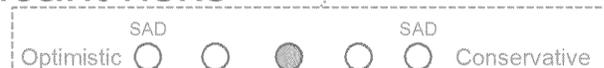
There has been no change to our independence, non-audit services and fees from that presented in the Audit Results Report.



For each of the judgements in this report, this graphic represents our view of the degree of optimism or conservatism in management's judgement. The extreme ends of this scale correspond with an adjustment on our summary of audit differences ('SAD').

2 | Accounting matters and judgements: significant risks

Going concern



Going concern was identified as a significant risk due to historical losses generated by Post Office Limited, uncertainty around the Government funding for the period 2018/19 to 2020/21 and beyond and uncertainty around the working capital facility with the Department for Business, Energy and Industrial Strategy (BEIS). Post Office Limited agreed a total network payment subsidy of £110m for 2018/19 and 2019/20 and has extended the £950m working capital facility to 31 March 2021. In addition, Post Office Limited has agreed in principle a network subsidy payment of £50m for 2020/21 and investment funding up to £210m for the period to 2020/21. Management performed a detailed analysis of the cash position and business performance and concluded that the group is a going concern. Subject to finalisation of our audit procedures we are satisfied with management's conclusion.

What is the risk?

Going concern was identified as a significant risk for the FY2016/17 audit due to the following reasons:

- ▶ Uncertainty regarding Government funding;
- ▶ Significant judgement involved in future cash flow projections;
- ▶ Ongoing Network Transformation project;
- ▶ History of losses.

What judgements are we most focused on?

- ▶ Significant judgements around future cash flow projections

What did we do?

We received supporting legal documentation for the further Government funding package (FY2018/19 and onwards) which the Post Office has obtained. This included the extension of the existing working capital facility of £950m with Department for Business, Energy & Industrial Strategy (BEIS) to 31 March 2021 and the network subsidy payments of £60m for 2018/19 and £50m for 2019/20.

We have received the signed letter from BEIS (dated 25 July 2017) confirming in principle that future funding will be made available which will consist of subsidy funding of £50m in 2020/21 (which supplements the subsidy already agreed in the two preceding years) and investment funding of up to £210m for the period to 2020/21. We are currently awaiting receipt of a letter from Richard Callard which provides further clarification on the terms under which the investment funding will be made available

We received the going concern assessment model prepared by management. We checked the assumptions used in the model, i.e. average draw down of working capital facility on a monthly basis and the maximum available balance.

We understood that in determining the working capital facility headroom the model assumes a flat usage of the Note Recirculation Facility (NRF). The NRF is used to manage network cash and in particular can be used in peak times of network cash to reduce reliance on the RCF, for example during bank holidays, particularly Christmas and Easter, Post Office Limited pre-funds the network which, together with reduced cash collections, leads to an increase in required funding.

We also checked the cash flow model prepared by management for the 4 year period up to 2020/21 and noted significant available headroom of c. £100m average during the period.

We also note that the EBITDAS forecasts used for the purposes of the going concern assessment do not take account of some further initiatives which are expected to be cash flow positive such as the improvements in cash management and the expected securing of a £50m revolving credit facility.

As the network subsidy payment and investment funding are conditional on European Commission approval we have requested that Note 1 of the financial statements includes appropriate disclosure of this fact.

Subject to finalisation of our audit procedures and the receipt of the letter from Richard Callard referred to above, we are satisfied with management's assessment that the Post Office will be able to meet its liabilities as they fall due for at least 12 months from the date of signing of the financial statements and that it is therefore appropriate to prepare the financial statements on a going concern basis.

For each of the judgements in this report, this graphic represents our view of the degree of optimism or conservatism in management's judgement. The extreme ends of this scale correspond with an adjustment on our summary of audit differences ('SAD').



2 | Accounting matters and judgements: significant risks (continued)

Impairment of tangible and intangible assets



Management revised its accounting estimate in respect of the impairment of tangible assets and intangible assets following their review of the Group's 2016/17 performance, timeline of transformation program and the Group's forecast performance going forward. Based on the analysis performed, management reversed £135m impairment in respect of tangible assets and £137m in respect of intangible assets. This was recorded as a credit to "capital and investment" items. At the date of this report we are yet to finalise our documentation procedures and remaining testing in respect of the impairment model prepared by management.

What is the risk?

Impairment of tangible and intangible assets was identified as a significant risk for the FY2016/17 audit due to the following reasons:

- ▶ Significant judgement is involved in management's assumptions regarding the discount rate and long-term growth rate;
- ▶ Risk of inappropriate valuation methodology applied;
- ▶ Significant judgment involved in future cash flow projections;
- ▶ History of losses and previous accounting estimate whereby POL impaired their fixed assets in full..

What judgements are we most focused on?

- ▶ Judgement involved in re-instatement fixed assets register and existence verification;
- ▶ Judgement involved in future cash flow projections
- ▶ Judgement involved in management's assumptions regarding the discount rate and long-term growth rate.

What did we do?

We focused our work in respect of impairment of tangible and intangible assets on the two main areas:

- ▶ Assessment of impairment analysis performed by management;
- ▶ Assessment and check of impairment reversal of £272m, recorded in FY2016/17.

During 2016/17 management reassessed Post Office Limited group business performance going forward, following their review of Post Office Limited's transformation program and the actual results for the year ended 26 March 2017. Management expects the transformation program to be finalised by the end of Q1 2018. During 2016/17 Post Office Limited generated EBITDAS of £13m (2015/16: loss £17m).

Management prepared an impairment test of tangible and intangible assets as at 26 March 2017. We checked the impairment test in conjunction with a summary memo outlining the main assumptions applied.

We concurred with management's approach to the identification of Cash Generating Units (CGUs). There are two CGUs, namely Post Office Limited and Post Office Management Services Limited (POMS). We audited the POMS impairment model as part of our statutory audit and were satisfied with management's conclusion. We noted that there is a significant headroom of £77m, compared to POMS assets of £51m, which includes goodwill of £44m. Therefore we focused on Post Office Limited CGU with a headroom of £213m and assets value of £275m, including tangible and intangible assets of £272m.

We challenged the cash flows forecast by checking the 5 months ended 27 August 2017 actual results annualised with the estimated 2017/18 results, and checked the changes in forecast in comparison with 2015/16 5 year plan, particularly focusing on significant or unexpected changes.

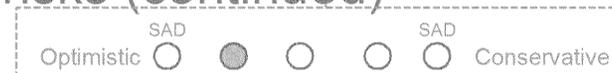
EBITDA was forecast to decline at a 47% CAGR over 4 years, mainly as a result of a reduction of network subsidy from £70m budgeted for 2017/18 to £50m in 2020/21.

We challenged the short term growth rates applied against the group's strategy, supporting documents and our understanding of the business and performance gained as part of our audit of other areas.

For each of the judgements in this report, this graphic represents our view of the degree of optimism or conservatism in management's judgement. The extreme ends of this scale correspond with an adjustment on our summary of audit differences ('SAD').



2 | Accounting matters and judgements: significant risks (continued)



Impairment of tangible and intangible assets (continued)

We engaged our valuations experts to assist us with the assessment of the discount rate (9%) and long term growth rate (0%) applied to the impairment model. We concluded that both rates are within an acceptable range. However we noted that the same discount rate was applied to different Post Office Limited's revenue streams, particularly financial services, which has different dynamics and features compared to other revenue streams. Given significant headroom for FY2016/17 impairment test, this will not have a material impact, however we recommend management monitors the discount rate going forward

We noted that the EBITDA in perpetuity (£56m) is in line with 2020/21 EBITDA and is based on the assumption that the £50m network subsidy will be available going forward and the savings going forward will be in line with the savings in 2020/21 (£45m net). We challenged management's assumptions and received the following explanations:

1) Network subsidy

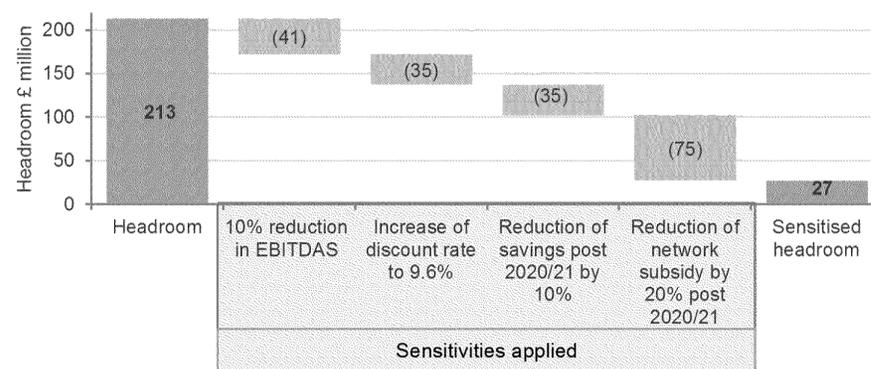
Post Office Limited continues to receive a network subsidy payment from the Government to maintain the network. Post Office Limited does not believe, and Government has not indicated, that the network subsidy will be removed.

2) Savings post 2020/21

The cost savings identified over the course of the four year plan which are delivered by projects to replace or maintain capital expenditure will become embedded within the cost base and therefore management expects the cost savings implemented in 2020/21 will continue going forward.

We were satisfied with management's position in respect of Network subsidy and cost savings assumptions applied for the EBITDA in perpetuity calculation.

Having considered each of the individual inputs above, we sensitised the cash flows of the valuation to a reduction in EBITDAS, an increase in the discount rate, a reduction of savings post 2020/21 and a reduction of network subsidy post 2020/21:



At the date of our report we are yet to finalise our audit procedures and will provide a verbal update to the Audit Committee at the meeting.

For each of the judgements in this report, this graphic represents our view of the degree of optimism or conservatism in management's judgement. The extreme ends of this scale correspond with an adjustment on our summary of audit differences ('SAD').



2 | Accounting matters and judgements: significant risks (continued)



Impairment of tangible and intangible assets (continued)

Review of amount of reversal of impairment recognised in FY2016/17

Given the significant judgment, the level of uncertainty and the material amount of tangible and intangible assets impairment reversal, we re-assessed the level of risk in relation to tangible and intangible assets existence and revised it to significant.

Following the re-assessment of the risk, we concluded that we would perform additional audit procedures in respect of the existence of reinstated tangible and intangible assets as at 26 March 2017.

We performed the following procedures:

- 1) We received management's summary memo of reversal of impairment (£272m) recognised as at 26 March 2017 with the detailed analysis of reinstated tangible [£931m] and intangible assets [£433m] gross book value and accumulated depreciation [£787m] and amortisation [£389m] as at 26 March 2017.
- 2) We checked the basis and timing for the change in accounting estimate. During 2016/17 Post Office Limited generated positive EBITDAS of £13m. Following careful considerations of future business performance, the status of transformation program and agreement on the network subsidy up to 2020/21 of £160m, management revised its estimate in respect of intangible and intangible assets impairment. We checked management's analysis to the evidence we obtained as part of our audit procedures in respect of network transformation provision and going concern analysis.
- 3) We checked management's assessment of existence of tangible and intangible assets as at 26 March 2017. We tested a sample of assets from each group on a random basis by vouching to supporting documents, e.g. properties and vehicles registration documents and pictures of furniture and fittings obtained from Post Office branches.
- 4) We challenged management's benchmark analysis of useful life for all groups of tangible and intangible assets.

As a result of audit procedures we identified two adjustments which were corrected by management; these are summarised in Section 4 of our report.

We are satisfied with the net book value of tangible and intangible assets of £272m re-instated as at 26 March 2017. We are yet to finalise our audit procedures in respect of the gross book values of tangible and intangible assets, therefore these numbers are preliminary. This will not impact the Group Balance Sheet and Income statement, but could result in an amendment to the disclosure notes in the Annual Report and Accounts.



2 | Accounting matters and judgements: significant risks (continued)

| Matter | Summary of the risk and work performed | Conclusion in our Audit Results Report dated 12 May 2017 | Updated conclusion as at 19 September 2017 |
|--|--|--|--|
| <p>Postmasters' compensation provision (valuation and completeness)</p> | <p>Please refer to the Audit Results Report for details of the risk and the work performed on this risk as at 12 May 2017.</p> <p>We also completed the following procedures which were outstanding as of date of the last report:</p> <p>“Change in journey” release</p> <ul style="list-style-type: none"> We have agreed the consistency of the listing provided by management with the full list of branches. No issues were identified. We received a breakdown of the total branches in the Termination provision where management had categorised the branches into six categories based upon the probability of the provision being utilised. We have reviewed the probability assigned to each of these branches to ensure these are a reasonable basis for management's estimate; We have recalculated the weighted value of the provision for each category, referring to the total branches and total provision values (the values of which have been verified in our testing of the Termination provision). We have then recalculated the provision to check mathematical accuracy with no differences noted. <p>Closing balance as at 26 March 2017</p> <ul style="list-style-type: none"> We have sampled five payments from the full breakdown of cash payments made during P1 and P2 of 2017/18. We matched selected payments by vouching to the bank statements and payslips. No issues were noted through this testing. | <p>We challenged management's assumptions with respect to the release in provision relating to “hard to place” branches. As part of our audit procedures performed we did not identify any differences above our SAD posting threshold.</p> <p>Our audit work in respect of the release of the £12m provision related to “changes in journey”, including the branches reconciliation, and our audit procedures in respect of subsequent cash payments testing are in progress.</p> | <p>As part of our audit procedures performed we did not identify any differences above our SAD posting threshold.</p> <p>We have concluded that the provision utilised during the year, and the provision releases of the “Hard to place” branches and “changes in journey” during the year are all appropriate.</p> <p>Accordingly, we concluded that the closing balance in respect of the Postmasters' compensation provision is fairly stated as at 26 March 2017.</p> |



2 | Accounting matters and judgements: significant risks (continued)

| Matter | Summary of the risk and work performed | Conclusion in our Audit Results Report dated 12 May 2017 | Updated conclusion as at 19 September 2017 |
|---|--|--|---|
| <p>Revenue recognition</p> | <p>We refer to the Audit Results Report dated 12 May 2017 for the details of the revenue recognition risk and the audit procedures we performed.</p> <p>We received a paper supporting the change in estimate for Bill Payments deferred revenue as at 26 March 2017. We reviewed the paper and provided our comments to management. At the date of this report we are awaiting responses from management.</p> | <p>We have not identified any differences above our summary of audit differences threshold.</p> <p>At the date of this report the Group is yet to provide to us a paper supporting the change in estimate for Bill Payments deferred revenue as at 26 March 2017. Subject to finalisation of our audit procedures in respect of the change in estimate of Bill Payments deferred revenue, we conclude that revenue, accrued income and deferred income balances for the 2016/17 financial year are appropriately stated.</p> | <p>We identified one judgemental difference of £1.04m in relation to inappropriate accrual rate used for Gift Vouchers accrued income. Please see Section 4 for further details. We have requested this adjustment be corrected by management, as required by auditing standards. It has not been adjusted as management believes that it is immaterial to the financial statements as a whole.</p> <p>Subject to finalisation of our work on Bill Payments deferred revenue, we are satisfied with the revenue recognised during 2016/17.</p> |
| <p>Classification and completeness of “capital and investment” items</p> | <p>We refer to the Audit Results Report dated 12 May 2017 for the details of the risk and the audit procedures performed.</p> <p>We finalised our extended subsequent events procedures through review of cash payments for the period subsequent to 26 March 2017 in respect of “capital and investments” items.</p> | <p>As a result of our audit procedures performed we have identified one difference above our SAD posting threshold related to overstatement of Royal Mail separation provision by £1.1m. This was adjusted by management. We included this difference in our Summary of Audit differences in section 4.</p> <p>We have not yet completed our work in respect of the impairment of intangible and tangible assets, including the change in management’s estimate and resultant reversal of £255m impairment recognised in previous periods.</p> | <p>As a result of our audit procedures performed we have identified one difference above our SAD posting threshold related to overstatement of Royal Mail separation provision by £1.1m. This was adjusted by management. We included this difference in our Summary of Audit differences in section 4.</p> <p>We are satisfied with the classification and completeness of capital and investment items, subject to finalisation of our audit procedures in respect of tangible and intangible assets impairment reversal of £272m. For further details please refer to slide 6 above.</p> |



3 | Other accounting matters and judgements

| Matter | Summary of the risk and work performed | Conclusion in our Audit Results Report dated 12 May 2017 | Updated conclusion as at 19 September 2017 |
|--|--|---|---|
| <p>Impairment of goodwill</p> | <p>Please refer to the Audit Results Report dated 12 May 2017 for the details of the risk and the work performed.</p> | <p>Based on our audit procedures we concurred with management that there is no goodwill impairment as at 26 March 2017.</p> | <p>No change to our conclusion from that included in our Audit Results Report</p> |
| <p>Pensions valuation and accounting</p> | <p>Please refer to the Audit Results Report dated 12 May 2017 for the details of the risk and the work performed.</p> <p>As at the date of this report we have not received pension plan assets confirmations in respect of the RPMSEPP scheme. We are also finalising the pension plan assets testing in respect of BlackRock investment fund valuation with the total value of £365m due to the fact this valuation is not publicly available</p> <p>We are yet to conclude our audit procedures of the pension disclosure note in the Annual Report and Accounts.</p> | <p>We consider that the de-recognition of the pension surplus as at the date on which the MoU was signed on 21 March 2017 is in line with applicable accounting standards (IFRIC 14) given that, as a result of the terms included in the legally binding MoU, the Post Office no longer has an unconditional right of refund of any surplus.</p> <p>Based upon the audit procedures performed we are satisfied with management's accounting position in respect of pensions.</p> | <p>No change to our conclusion from that included in our Audit Results Report dated 12 May 2017.</p> |
| <p>Provision for legal claims, including Horizon Subpostmasters' litigation</p> | <p>We met with Post Office management and Group Legal, Risk and Governance Director in March 2017 and had a follow up meeting with her on 18 September 2017. We understood that there was a hearing of the claim at the end of January 2017 and the order was signed at the end of March 2017.</p> <p>No quantification of potential exposure can be estimated reliably.</p> | <p>We are yet to receive the supporting documentation and the most recent update in order to conclude on this matter and finalise our audit procedures.</p> | <p>We have received requested supporting documentation, including the most recent update on Postmasters' litigation on 18 September 2017. We will review the information provided and will provide a verbal update during the ARC meeting on 25 September 2017.</p> |



3 | Other accounting matters and judgements (continued)

| Matter | Summary of the risk and work performed | Conclusion in our Audit Results Report dated 12 May 2017 | Updated conclusion as at 19 September 2017 |
|--|---|--|---|
| <p>Accounting for Supply chain restructuring (“Discontinued operation”)</p> | <p>Please refer to the Audit Results Report dated 12 May 2017 for the details of the risk and the work performed.</p> | <p>As a result of our audit procedures performed we are satisfied with the management’s position that the Retail Cash in Transit operation represents a separate and major operation and, accordingly, that it is appropriate to recognise Supply chain restructuring as discontinued operation.</p> | <p>No change to our conclusion from that included in our Audit Results Report</p> |
| <p>Accounting for Joint venture (“FRES”) investment in Post Office Company financial statements</p> | <p>Please refer to the Audit Results Report dated 12 May 2017 for the details of the risk and the work performed.</p> | <p>We concur with management’s rationale that this revised accounting policy provides more relevant and reliable information to the users of the financial statements as nearly all of the group’s activities occur within the parent, so equity accounting in the parent closely aligns the parent and group financial statements.</p> <p>Accordingly, in our view this change in accounting policy is appropriate and permissible under accounting standards and UK company law. We are satisfied with the £66m investments balance value as restated.</p> | <p>No change to our conclusion from that included in our Audit Results Report</p> |



4 | Summary of audit differences

We identified seven audit differences impacting profit that were individually greater than £472,000, including three differences which were not corrected. We also identified three reclassification differences individually greater than £472,000, including two differences not corrected. As required by auditing standards, we requested these items be corrected by management. They have not been adjusted as management believes that they are immaterial, individually and in aggregate, to the financial statements as a whole, as confirmed in the management representation letter. We agree that users' views of the financial statements would not be affected by the non-adjustment of these amounts. Our audit planning materiality was £4.7m.

| Account 26 March 2017 (£'m) | Income statement Debit/(Credit) | Assets current Debit/ (Credit) | Assets non- current Debit/(Credit) | Liabilities current/Debit/ (Credit) | Liabilities non-current Debit/(Credit) |
|--|------------------------------------|---|--|---|--|
| Unrecorded audit differences | | | | | |
| Known differences | 0.66 | | | | (0.66) |
| <ul style="list-style-type: none"> Adjustment to Onerous and Vacant Lease Provision (factual element) due to incorrect discount rate used (5.25% used vs POL rate of 3.5%), less overprovision of £194k for two leases which have ended (Dr Admin Expenses (Capital & Investment) Cr Lease provision) | | | | | |
| Judgemental differences | | | | | |
| <ul style="list-style-type: none"> Adjustment to account for inappropriate accrual rate for Gift Voucher accrued income of 3% when average billings since 2012 have been 3.91% (and more recent billings have been closer to 6% (3.91% rate applied by EY)) (Dr Accrued income Cr Revenue (Revenue Trading)). | (1.04) | | 1.04 | | |
| <ul style="list-style-type: none"> Adjustment to Onerous and Vacant Lease Provision for judgemental element of discount rate used (POL should have used a rate of 3.5% per internal rates v EY rate of 2.2%) (Dr Admin expenses (Capital & Investment) Cr Lease provision). | 0.71 | | | | (0.71) |
| Total effect of uncorrected misstatements, before turnaround effect | 0.33 | - | 1.04 | - | (1.37) |
| <i>Less tax effect</i> | <i>(0.07)</i> | | | | |
| ➤ Turnaround effect of an audit difference which was unrecorded in the prior year | (1.53) | | | | |
| Cumulative effect of uncorrected misstatements, after turnaround effect | (1.2) | | | | |



4 | Summary of audit differences (continued)

Unrecorded audit differences (cont'd)

Reclassification differences

- ▶ Reclassification between provision balance and payables for Mails Separation Agreement (MSA) (£2.18m).

Disclosure differences

- ▶ At the date of our report we have not identified any disclosure differences. We are yet to finalise our audit procedures in respect of the audit of disclosures in the Annual Report and Accounts.

Parent company differences

- ▶ We did not identify any additional adjusted or unadjusted audit differences in the parent company.

Corrected differences

Judgmental and factual differences:

- ▶ MSA Payment provision release through capital and investment costs (£1.09m).
- ▶ Reduction of impairment reversal of intangible assets (£15.2m).
- ▶ Reduction of impairment reversal of tangible assets (£23.7m).

Reclassification differences:

- ▶ Reclassification of seven months of accrued income for Gift vouchers from current assets to noncurrent due to timing of the billing which takes place 19 months after the sale (£1.5m).



5 | Control environment

We have been able to rely on the group's IT general controls over the principal systems impacting the financial statements for our 2016/17 audit. As part of our audit work, we identified a number of control deficiencies and recommendation which were summarized in our Audit Results Report. We understand management is working on a plan to address these recommendations for 2017/18.

Scope

The scope of our work on the internal control environment was explained in our Audit Results Report.

We tested the change management, user access and IT operations controls over the applications listed in the table below. We performed additional procedures to mitigate the impact on our audit of the deficiencies identified which were communicated in our Audit Results Report.

Our conclusion is that we are able to rely on the IT process for the relevant applications for our 2016/17 audit

| System | Overall | Manage access | Manage change | Manage IT operations | ITCAs/ ITDMs |
|--------|---------|---------------|---------------|----------------------|--------------|
| HNGX | ● | Effective | Effective | Effective | Effective |
| CFS | ● | Reliable* | Reliable | Effective | Effective |
| SAP HR | ● | Reliable* | Reliable | Effective | Effective |
| POLSAP | ● | Reliable* | Effective | Effective | Effective |

* Conclusion was finalized after the completion of additional substantive leavers testing

- - no recommendations were noted.
- - control deficiencies/recommendations were identified.



Appendix A | Detailed list of open items

We summarised below the list of open items as of the date of this report. We expect the majority of these items to be closed by 25 September 2017. We will provide a verbal update at the ARC Committee meeting on 25 September 2017.

| Item | Action to resolve | Responsibility |
|--|---|-------------------|
| 1. Going concern | <ul style="list-style-type: none"> ▶ EY to finalise audit procedures in respect of review of management's going concern analysis and forecast ▶ Management to provide letter from Richard Callard in respect of £210m investment funding | Management and EY |
| 2. Tangible and intangible assets impairment assessment and reversal of impairment of £272m | <ul style="list-style-type: none"> ▶ EY to finalise the audit procedures in relation to testing of gross book value of tangible and intangible assets adjustments recorded as at 26 March 2017. ▶ Finalisation of detailed testing of cash flow forecast. | Management and EY |
| 3. Finalisation of audit testing of pension plan assets | <ul style="list-style-type: none"> ▶ Management to assist with receiving outstanding supporting information related to pension assets. ▶ EY to finalise the audit procedures once the documentation has been provided. | Management and EY |
| 4. Finalisation of audit of legal claims | <ul style="list-style-type: none"> ▶ Management to provide remaining supporting documentation for Postmasters litigation and assessment of potential exposure and some additional queries made by EY. ▶ EY to finalise the audit procedures once the documentation and assessment have been provided. | Management and EY |
| 5. Annual Report and Financial Statements | <ul style="list-style-type: none"> ▶ Management to provide Front half of the Annual Report. EY to review and tie to financial statements and other supporting documentation. ▶ Tie out and review of the financial statements to be finalised by EY. | Management and EY |
| 6. Subsequent events procedures | <ul style="list-style-type: none"> ▶ EY to finalise subsequent events procedures up to date of signing | Management and EY |
| 7. Directors' emoluments certificates | <ul style="list-style-type: none"> ▶ Provision of signed certificates by management | Management |
| 8. Corporation Tax | <ul style="list-style-type: none"> ▶ EY to update their audit procedures in respect of corporation tax to reflect agreed fixed asset reversal amount | EY |
| 9. Letter of representation | <ul style="list-style-type: none"> ▶ Management and EY to table the wording of the draft letter included in Appendix B of this report | Management and EY |
| 10. Client receivables | <ul style="list-style-type: none"> ▶ Management to provide supporting documents for additional sample. EY to finalise the audit procedures once required information will be provided. | Management and EY |
| 11. FRES | <ul style="list-style-type: none"> ▶ Management to provide responses on questions from EY. EY to finalise the audit procedures once answers have been received. | Management and EY |
| 12. Merlin Cash Centre Paper | <ul style="list-style-type: none"> ▶ EY to finalise the audit procedures. | EY |
| 13. Network Cash | <ul style="list-style-type: none"> ▶ Management to provide EY with support for cash declaration required for finalisation of tests of controls. | Management and EY |
| 14. Paper to support the change in estimate for Bill Payments deferred revenue as at 26 March 2017 | <ul style="list-style-type: none"> ▶ Management to provide the updated paper and calculations to support the change in estimate. ▶ EY to review the paper and supporting documentation once it is prepared by management. | Management and EY |



Appendix B | Draft management representation letter

We include below our updated* draft management representation letter for the Group and Company's 2016/17 audits based on the current status of our audit work. (* - all updated are added in bold italic)

[●] 2017

Dear Sirs

This letter of representations is provided in connection with your audit of the consolidated and parent company financial statements of Post Office Limited ("the Group and Company") for the 52 week period ended 26 March 2017. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and parent company financial statements give a true and fair view of (or 'present fairly, in all material respects,') the Group and Company financial position of Post Office Limited as of 26 March 2017 and of its financial performance and its cash flows for the 52 week period then ended in accordance with, for the Group, International Financial Reporting Standards as adopted by EU ("IFRS"), and for the Company, Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

We understand that the purpose of your audit of our Group and Company financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify – nor necessarily be expected to disclose – all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial statements and financial records

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated 22 January 2016, for the preparation of the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for the Company, FRS 101.
2. We acknowledge, as members of management of the Group and Company, our responsibility for the fair presentation of the Group and Company financial statements. We believe the Group and Company financial statements referred to above give a true and fair view of (or 'present fairly, in all material respects') the financial position, financial performance (or results of operations) and cash flows of the Group in accordance with International Financial Reporting Standards as adopted by the European Union and the Company in accordance with FRS 101 and are free of material misstatements, including omissions. We have approved the Group and Company financial statements.
3. The significant accounting policies adopted in the preparation of the Group and Company financial statements are appropriately described in the Group and Company financial statements.
4. As members of management of the Group and Company, we believe that the Group and Company has a system of internal controls adequate to enable the preparation of accurate financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the European Union and the Company in accordance with FRS 101 that are free from material misstatement, whether due to fraud or error.

5. ***We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor on this basis.***

Fraud

6. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
7. We have disclosed to you the results of our assessment of the risk that the Group and Company financial statements may be materially misstated as a result of fraud.
8. ***We have disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Group or Company (regardless of the source or form and including, without limitation, allegations by "whistle-blowers"), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the consolidated or parent company financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the consolidated or parent company financial statements.***

Compliance with laws and regulations

9. We have disclosed to you all known actual or suspected non-compliance with laws and regulations whose effects should be considered when preparing the Group and Company financial statements.

Information provided and completeness of information and transactions

10. We have provided you with:
 - a. Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b. Additional information that you have requested from us for the purpose of the audit; and
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
11. All material transactions have been recorded in the accounting records and are reflected in the financial statements.



13. We have made available to you all minutes of the meetings of shareholders, directors and committees of directors (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on [●] 2017.
14. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Company's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the Group and Company financial statements.
15. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
16. We have disclosed to you, and the Group and Company has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and parent company financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

Liabilities and contingencies

16. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the Group and Company financial statements.
17. We have informed you of all outstanding and possible litigation and claims, as well as litigation and claims we consider likely to arise, whether or not they have been discussed with legal counsel.
18. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed the Group and Company financial statements all guarantees that we have given to third parties.

Subsequent events

19. Other than described in the Group and Company financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the Group and Company financial statements or notes thereto.

Other information

20. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Strategic Report and the Directors' Report of the Annual Report and Accounts.
21. We confirm that the content contained within the other information is consistent with the financial statements.

Accounting estimates

22. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
23. Accounting estimates recognised or disclosed in the financial statements :
 - a. We believe the measurement processes, including related assumptions and models, we used to determine the accounting estimates have been consistently applied are appropriate in the context of International Financial Reporting Standards as adopted by the European Union.
 - b. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with International Financial Reporting Standards as adopted by the European Union for the Group and FRS 101 for the Company.
 - c. The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
 - d. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and parent company financial statements due to subsequent events.

Income and indirect taxes

24. We acknowledge our responsibility for the tax accounting methods adopted by the Group and Company, which have been consistently applied in the current period, and for the current year income tax provision calculation.

Group audits

25. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the accounts.
26. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst parent, subsidiary undertakings and associated undertakings.

Retirement benefits

27. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Use of the work of the specialist

28. We agree with the findings of the specialists that we engaged to evaluate the corporate taxation and pension valuations and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and parent company financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

**Tangible and Intangible assets**

28. *We are satisfied with the basis of accounting for tangible and intangible assets impairment reversal of £272m as a change in accounting estimate recognised as at 26 March 2017.*
29. *We believe that the assumptions used in the tangible and intangible assets impairment assessment model are reasonable and represent management's best estimate as at 26 March 2017.*
30. *We confirm that it is our expectation that the network subsidy of £50m will be available to the Company after 2020/21 if the performance of the business means that it is still required.*

Going Concern

31. Note 1 to the consolidated and parent company financial statements discloses all of the matters of which we are aware that are relevant to the Group and Company's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

Comparative information – comparative financial statements

32. In connection with your audit of the comparative consolidated and parent company financial statements for the year ended 27 March 2016, we represent, to the best of our knowledge and belief, the following:
- ▶ In preparing the Group financial statements for the current year, the comparative figures for the year ended 27 March 2016 have been restated. The Retail Cash in Transit operation has been discontinued during the current year and has been presented as part of discontinued operations. The comparatives in the Income Statement for the year ended 27 March 2016 have been restated and allocated to discontinued operations. The restatement affects revenue, people costs, and other operating costs. Within this report, the comparative income statement and statement of comprehensive income for the year ended 27 March 2016 have been restated. The operating profit from revenue trading on the cash flow statement has also been restated. There has been no effect on the balance sheet or statement of changes in equity.
 - ▶ The comparative amounts have been correctly restated to reflect the above matter and appropriate note disclosure of this restatement has also been included in the current year's consolidated and parent company financial statements.
 - ▶ In preparing the Parent Company's financial statement the comparative figures for the years ended 27 March 2016 and 29 March 2015 have been restated for a change in the accounting policy with respect to investment in joint ventures. The restatement is in the Parent Company Financial Statements only. The change in accounting policy is described in more detail in the accounting policies.
 - ▶ The Group also voluntarily changed the presentation format of consolidated income statement to columnar format for 2016/17 and related comparative financial information.

Ownership of Assets

33. Except for assets capitalised under finance leases, the Group and Company has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Group and Company's assets, nor has any asset been pledged as collateral. All assets to which the Group and Company has satisfactory title appear in the balance sheet.
34. We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
35. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. Except as disclosed in Note 14 to the consolidated and parent company financial statements, we have no other line of credit arrangements.

Yours faithfully,

Alisdair Cameron, Chief Financial Officer

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Annual Report and Accounts 2016/17

Executive Declaration, Top Risks and Risk Section for ARA

Author: Richard Williams/Deana Herley

Sponsor: Jane MacLeod

Meeting date: 25 September 2017

Executive Summary

Context

The purpose of this paper is to share the updates to the top risks and Executive Declaration results since the ARC in May, and to review the updated Executive Declaration and risk statements in the Annual Report and Accounts (ARA).

The Top Risks (where red means a rating greater than 3:4 / 4:3) is a summary based on feedback from all GE members and is a consolidated view across the POL business. In a number of cases, the scoring is based on factual incidents which have occurred.

The Executive Declaration process enables Group Executive (GE) members to consider (and attest twice yearly) as a part of year-end procedures, if any additional disclosures are required to the principal risks to be included in our ARA. The approach to disclosure as set out in appendices 2 and 3.

Our principal risks form a part of the Governance statement in the ARA (see Appendix 5). These are drafted based on the position of top risks agreed by Group Executive members and are supported by the Executive Declaration process.

Questions this paper addresses

1. What is the current profile of our top risks?
2. Why have we re-run the Executive Declaration?
3. What are the results of the re-run?
4. Are the Principal Risks as mapped in Appendix 5 the correct risks for inclusion in the ARA, with descriptions of those risks appropriate?

Conclusion

1. Since May 17, changes to the Top Risks (see Appendix 1) have included the following;
 - We have 15 'Top Risks' (up from 11 in May). Overall our red risk profile has remained stable due to the aggregated score parity in overall risk movement.
 - There are 4 new risks (defined as red rated risks having a score >12) which have been identified through the Placemat "top down" exercise, 3 being impacting ability to trade covering a) POLSAP replacement (5/3), b) Agents Pay IT (4/3) and c) Replacement of SAP HR (4/3) and an additional risk covering cash risk (3/4).
 - 3 increasing risks relating to impacting ability to trade (5/4 from 4/4), retail proposition (4/4 from 4/3) and industrial action (4/4 from 4/3).

- 1 risk, government funding, is no longer deemed a top risk due to agreement with government to a Network Subsidy Payment to 2020/21 and continued investment over the period.
 - 1 risk, IT delivery capability has reduced from a 4/4 to a 3/3 due to recent hires, including CTO and approved IT People Strategy. IT Demand Management will be insourced from Atos as of 4 September, enabling POL to better control the demand pipeline.
 - The people capability and capacity risk has been considered and its rating deemed acceptable by management, following the challenge from May ARC, regarding impact of cost reductions with an outcome. We had c.90 reported vacancies as a result of OSOP and there are now 7 remaining, with steps being taken to reduce these gaps.
 - All other risks have remained unchanged.
 - Top risks will be disclosed generically in the risk section of the ARA, as summarised in Appendix 5.
2. In May, we completed the Executive Declaration exercise to support GE members in considering (and attesting), if any additional disclosures were required in our Annual Report, as part of our year-end procedures (Appendices 2 and 3). This exercise has been rerun in August / September to consider changes, due to delays in ARA sign off. By doing this now, albeit slightly earlier than usual, we propose to use the results to replace the half year exercise in September / October, which would be the usual timeframe.
3. The results from May have been reviewed and updated with GE to give an updated position (Appendix 4). Since May, changes to the Executive Declaration are as follows:
- 4 items have been removed due to no longer being of material significance:
 1. Card payment rules are evolving and the cost of processing is rising. Lower than forecasted impact due fewer card sales.
 2. £950m Working Capital Facility. Initiatives in place to ensure efficient use of our working capital.
 3. Net liabilities provision. Various reviews have been completed considering how we increase net asset provision.
 4. Uncertainty over future investment from HMG. Agreement with government to a Network Subsidy Payment to 2020/21 and continued investment over the period.
 - 4 new items (3, 7, 8 and 9), 3 relating to fraud losses and 1 relating to IT Disaster Recovery.
 - 1 item (11) New Money Laundering Regulations have increased in potential materiality, with the outcome dependent on consultation with HMRC over agent scope.
 - 4 items (5, 10, 12 and 16) have decreased in materiality, due to actions taken to reduce exposure.
 - 7 items have (1, 2, 4, 6, 13, 14 and 15) have remained unchanged.
 - There are no items of material significance that require specific disclosure in the ARA. 11 items will be disclosed generically in the risk section of the ARA, as summarised in Appendix 5.

4. The draft principal risks set out in appendix 5 are those which will appear in the ARA and have been drafted based on the position of top risks (Appendix 1) and are supported by the Executive Declaration results (refer to Appendix 4).

Input Sought

The Committee is asked to review the information provided and:

- a. Consider the proposed changes to our top risks;
- b. Note the Executive Declaration results;
- c. Agree draft principal risks as set out in Appendix 5, for inclusion in the ARA 2016/17; and
- d. Consider whether there are any other matters that should be included and reported against.

| Principal Risks | GE Owner | Risk No | Top Risks Description & Comments | Score (I/L) | | Rank | | Change |
|--------------------|--------------------------------------|-----------|--|-------------|--------|--------|--------|--------|
| | | | | May-17 | Sep-17 | May-17 | Sep-17 | |
| OPERATIONAL | Managing change | AC | 1 Replacement of POLSAP We have to replace POLSAP or shore it up, creating existential risks. Comments The Back Office programme will migrate POL SAP to CFS. The scope covers a number of processes which drive our financials e.g. client settlements. A controls contractor is now embedded within the Programme to oversee migration. POL SAP balances, access profiles (baseline and process) and financial reporting controls will be formally signed off by the Financial Controller and the Financial Accounting and Governance Manager before migration. If POL SAP is not replaced it will be out of support. The existential risks could result in a misstatement of the numbers. | | 5 - 3 | | 2 | |
| | | | 2 Agents Pay IT We have to deliver agents pay via CFS. Comments The ART project will be live by Feb 2018. Pre-prod dual running Nov and Dec. Prod dual run in Jan. Full calculation in the new model only by Feb 2018. | | 4 - 3 | | J4 | |
| | | | 3 Replacement of SAP HR We have to deliver payroll via SF, building on a fragile HRSC. Comments Success Factors Programme is replacing a number of services currently provided through HR POLSAP and the Back Office Transformation programme is working on the POLSAP Process Migration, with a current view that this will be live by June 2018. This will allow us to de-commission POLSAP by September 2018. Data archiving and residency of POLSAP is being investigated. | | 4 - 3 | | J4 | |
| TECH | Technology Ops | RH | 4 IT Delivery Capability Unable to deliver in line with our Transformation cost, benefit and delivery plans due to lack of strength in POL technical leadership capability, lack of continuity of key people in key roles, and/ or IT Change Programmes designed and configured around high risk single event implementations. Resulting in change either not being delivered at all or taking longer, costing more, delivering less with eroded benefits. Comments Permanent CTO starts on 4th September. CEO & CFO approved IT People Strategy recruitment at QBR on 23rd August. This strategy will deliver permanent technical leadership, change and engineering capability to POL. IT Demand Management will be insourced from Atos as of 4th September, enabling POL to control the Demand Pipeline. Major new change programmes are being set up as Agile to reduce elapsed time from concept to production. Recommend Risk score adjusted to 3-3. | 4 - 4 | 3 - 3 | J2 | n/a | |
| | | | 5 Cyber Threat / Information Protection We have critical IT Security exposures highlighted by a third party (Deloitte) review across our security infrastructure. These relate to firewalls, pen testing and out of date infrastructure. We have mobilised a Security Transformation programme to mitigate this risk. Failure to adequately deploy and effectively manage data protection policies, standards and controls within the business and our partners/ suppliers, results in a breach of company data (colleague/ customer) Comments Security Operations Centre will be established in the over the next 6 to 9 months, providing oversight of all security controls from each provider, centralise and aggregate events and incidents to enable POL to react against security issues efficiently and effectively, thereby reducing our risk exposure. | 4 - 3 | 4 - 3 | J3 | J4 | |
| | | | 6 IT Impacting Ability to Trade There are a number of our 3rd party suppliers which are supporting critical components in our IT Estate. The components have either reached the end of life or there is no back-up capability and could cause significant impact to the business if it fails. This risk is heightened against some of the Fujitsu infrastructure components due to the recent contract extension that only supports the restoration of service to some out of support components by "best endeavours". Work is underway to remediate where possible until platforms are modernised. Comments We have infrastructure programmes underway to mitigate this risk (HDCR, Back Office Transformation and Branch/Network rollout). In addition we are delivering the POL DR Framework, which will ensure service recovery schedules and recovery points that meet business need, that regular DR tests are carried out, and any actions arising are completed. Recommend status changes to 5-4. | 4 - 4 | 5 - 4 | J2 | 1 | |
| LEGAL & REGULATORY | Compliance with laws and regulations | JMaC | 7 Conduct risk There is a risk of non-compliance including conduct requirements for mis-selling, non-compliant marketing, sales product or distribution. | 4 - 3 | 4 - 3 | J3 | J4 | |
| | | | 8 Increase in Regulation There is a risk that the on-going increase in regulation, for example, AML (Enhanced Fit & Proper requirements for AML, SMR etc), FS, (Insurance Distribution Directive Requirements) and Telecoms businesses, increases the risk of non-compliance and/or making various business activities unprofitable. | 4 - 3 | 4 - 3 | J3 | J4 | |
| FINANCIAL | Sufficient cash / headroom | AC | 9 Government Funding and Headroom Delays in agreeing the remainder of the requested funding results in deferral of investment plans and consequential delays in implementation of strategy. | 5 - 3 | n/a | 1 | n/a | |
| | | | 10 Cash risk We are using too much cash, risking loss, funding costs and change funding Comments A project team is reviewing cash management in its entirety focusing on forecast completeness and inaccuracies. The 'cash declaration' element of the project is critical as without it being right the team will not know what should be in branch. Additional resource in post will look to improve the customer experience of getting cash out and will also be tackling excess cash to reduce fraud / losses. Separately the Forex experience is being reviewed. Projects are scheduled to complete by year end. | | 3 - 4 | | J4 | |
| STRATEGY | Competitiveness | ME/NK /KG | 11 Market Developments/ Competition (Retail: Mails & Govt Services) Unable to respond quickly enough to new entrants with different strategies/ business models, current competitors with new products/ technologies, who take market share and/ or profitability. As a result our customer experience, propositions and channel strategy fail to deliver what customers want. | 4 - 4 | 4 - 4 | J2 | J3 | |
| | | | 12 Market Developments/ Competition (Financial Services & Telecoms) The existing business model is sub optimal. We are unable to respond quickly enough to new entrants with different strategies/ business models, and/ or current competitors with new products/ technologies, who take market share and/ or profitability. We do not resolve business dependencies on third parties particularly with aligning our strategy with BoI. As a result our customer experience, propositions and channel strategy fail to deliver what customers want. | 4 - 3 | 4 - 3 | J3 | J4 | |
| | Market | AC/KG | 13 Retail Proposition Unable to retain and/or find sufficient new retail partners because of the complexity and controls of the current proposition and value to the retailer, which leads to a decline in network numbers below 11,500 Comments Projects to mitigate include: simplification, extension of automation to agency branches, white space branches and new retain value proposition to multiple partners. | 4 - 3 | 4 - 4 | J3 | J3 | |
| | Customer Relevance | KG | 14 Royal Mail Industrial Action Because there are a number of Post Office commercial processes dependent on services supplied by and to RM there is a risk that a major crisis or industrial action affecting Royal Mail could disrupt or terminate those services resulting in loss of service to Post Office customers and Postmasters. Comments The risk of action is high and will remain high over the next 12 weeks as the whole process of negotiation is worked through. It is very unlikely that the CWU will withdraw from balloting their members and RMG have a poor track record of winning. So the likelihood is a successful ballot for action which provides a mandate for the CWU to get the best deal they can or strike. RM will use casual staff and managers to make collections from Post Offices. | 4 - 3 | 4 - 4 | J3 | J3 | |
| | | ME/NK /KG | 15 Digital Competency Lack of digital competency to spot and implement quickly enough (e.g. new products, customer journey, back office). | 3 - 4 | 3 - 4 | J4 | J4 | |

Appendix 2 – Materiality

- The items listed in the table below are possible “material” issues or concerns which have been raised by Executive members for consideration for disclosure.
- Materiality has been defined for the purpose of this exercise as, “*qualitatively and/ or quantitatively, as a cut-off point above which something takes on a greater significance and may require a different course of action*”.
- In deciding how to recognise an item as material, Group Executive members are asked to assess whether it is something that is of a size or impact that would make a difference to the Post Office or our stakeholders, e.g. influence our decision making, cause us significant cost or reputational and/ or regulatory damage.
- Defined tipping points of materiality used to assess significance where defined, are listed below:

| Items | Tipping Point |
|---|--|
| Risks | See Harm Table |
| Frauds, irregularities or losses | £50k or above, which could attract media attention, are systemic/ multiples or have a Network wide impact. |
| Material contracts | Contracts over £5m or cause significant impact/ harm to the business if they were to go wrong. |
| Events | Size or impact would make a difference to Post Office or stakeholders. |

POST OFFICE

HARM TABLE - MEASUREMENT CRITERIA

Version: 18th Feb 2016, post RCC & ARC

Use EBITDAS target of £100m

| Risk Scoring | Impact on* | | | Likelihood of* | | |
|--------------|-------------|---|--|---|-------------|-------------|
| | Label | Financial** (EDITDAS) | Operational Continuity (Operations, IT, Colleagues) | Reputational (Stakeholder, Customer, Colleagues, Third Party, Media, Regulator) | Label | Probability |
| 5 | Critical | >20% of financial target or significant impact on all objectives | National service disruption/ significant location/s or business function/s for >3 days | - withdrawal of stakeholder/ customers/ colleague/ 3rd party support, or - extensive national media coverage, or - formal regulatory intervention | Very Likely | >80% |
| 4 | Significant | >10-20% of financial target or significant impact on all objectives | National service disruption/ significant location/s or business function/s for <3 days | - significant challenge from stakeholder/ customers/ colleagues/ 3rd party support, or - some national media coverage, or - formal regulatory investigation | Likely | >50-80% |
| 3 | Major | >5-10% of financial target or significant impact on all objectives | Regional service disruption/ major location/s or major business function/s for <3 days | - major questioning from stakeholder/ customers/ colleagues/ 3rd party support, or - extensive local media coverage, or - informal regulatory enquiry | Possible | >25-50% |
| 2 | Moderate | >1-5% of financial target or significant impact on all objectives | Local service disruption at several locations or business functions for >3 days | - moderate concern from stakeholder/ customers/ colleagues/ 3rd party support, or - some local media coverage, or - informal regulatory conversations | Unlikely | >10-25% |
| 1 | Minor | 0-1% of financial target or significant impact on all objectives | Local service disruption at several locations or business functions for <3 days | - negligible interest from stakeholder/ customers/ colleagues/ 3rd party support, or - no media coverage, or - no regulatory interest | Remote | 0-10% |

Appendix 3: Executive Declaration

| |
|--|
| EXECUTIVES' DECLARATION STATEMENT 2016/17 |
| Twice annually for governance and reporting purposes each Executive is required to attest to the ARC the items listed below |

| |
|---|
| Declaration: |
| <p>Based on my knowledge of the business, and particularly the areas that report to me, and following due enquiries, I declare that for the period 1 April to 31 March 2017, I have disclosed any known material items (if not already disclosed at the half-year) and where I have not disclosed already, I have included details under the items below:</p> |
| 1) material risks to Post Office that are not captured in the Group Risk Profile |
| |
| 2) material breakdowns of internal control, breaches or significant non-compliance with internal and external guidelines, including of the General Control Framework and policies that I am accountable for |
| |
| 3) material frauds, irregularities or losses that have come to light, whether carried out by our staff, agents, contractors, suppliers or partners |
| |
| 4) complex or subjective accounting judgements, estimates and revenue transactions* |
| |
| 5) changes to accounting policy* |
| |
| 6) provisions or exceptional items * |
| |
| 7) liabilities and contingencies , including those associated with guarantees* |
| |
| 8) legal action being taken by or against Post Office* |
| |
| 9) any legislative, regulatory (including any non-conformances with Money Laundering Regulations) or contractual compliance issues that have come to light* |
| |

| |
|---|
| 10) material new contracts or extensions entered into, direct awards and where I have not followed the contract process |
| |
| 11) obligation breaches on contracts that I am sponsor for* |
| |
| 12) direct or indirect personal interest in any transaction, arrangement or related agreements with parties entered into* |
| |
| 13) gifts and hospitality which have not been approved and registered in accordance with policy* |
| |
| 14) material events that could crystallise before the end of the reporting period above |
| |
| 15) any other information that could have a material impact on the period (indicated above). |
| |
| <i>*a requirement to disclose all not just material</i> |

| | |
|---|--|
| <i>The information I have given above is true, complete and accurate to the best of my knowledge, information and belief.</i> | |
| Name: | |
| Role: | |
| Signature: | |
| Date: | |

| Principal Risks | Statement | Item No | Item | Identified by GE Member | Change | |
|--------------------|---|---|---|--|---|---------------------------------|
| OPERATIONAL | Procure and contracts | 1 | Non-compliance with PCR. Over the past year and prior to this, POL has entered into a number of contracts and/or contract extensions that have been direct awards and not compliant with PCR these incidents are generally low risk and with a commercial imperative. New controls have been introduced to record incidents or exceptions going forward. This will bring greater clarity over level of non-compliance with PCR. | Jane MacLeod / Mark Davies / Nicholas Kennett | ◀▶ | |
| | TECH | Business Interruption (ITDR) | 2 | National Stock Centre Swindon. We have one national stock centre in Swindon which is the only location from which we serve the branch network with stamps and other stock items. The IT is considerably aged and back up requires manual transportation of tapes to an off-site location. There is currently activity under the Back Office Transformation to scope an IT solution for Swindon however a significant failure in the meantime would require manual contingencies to be implemented; these are more labour intensive, increasing cost and potentially slowing service. | Alisdair Cameron | ◀▶ |
| IT Security | | Material risks to Post Office that are not captured in the Group Risk Profile. | 3 | IT Disaster Recovery. POL IT have identified that a number of systems haven't fully completed DR tests for a period of time. We have reviewed the current DR position to understand gaps and mitigation plans; reviewed DR plans with business and process owners to ensure they are aligned with Business Continuity planning; and strengthened the governance around DR. | Rob Houghton | ▲ |
| | 4 | | Cyber Threat. There are a number of Cyber Threat risks which are now managed by IT. We have several risks on the IT Register that relate to firewalls, pen testing, applications not supported effectively (i.e. Firefox and Chrome) within the EUC. As the team develops the risks will be mitigated and managed to an acceptable level, one of the key actions for the team is to set up the Security Operations Centre which is expected to be live by the end of 2017. | Rob Houghton | ◀▶ | |
| | Any legislative, regulatory or contractual compliance issues that have come to light. | 5 | Telecoms cyber-attack. Post Office Broadband business and c.108 thousand customers suffered a cyber-attack (DDOS or "BOT" attack) at the end of November 2016. This was part of a global attack. This led to customer either being denied service or having service speeds significantly reduced for a period of 3-6 days. A fix was quickly implemented but additional contact centre costs for extended hours were incurred (c.£100,000). Minimal customer claims were made (338 for £1,500 in total). The attack was reported to the Post Office RCC & ARC. | Nicholas Kennett | ▼ | |
| LEGAL & REGULATORY | Managing losses and Fraud | 6 | Reconciliation issues due to timeouts occurring between POL and IRRELEVANT IRRELEVANT . These could lead to write-offs as there will be differences between IRRELEVANT and POL figures. There are meetings scheduled in September to finalise the position, the worst case scenario is that POL will have to write off c£600k. | Nicholas Kennett | ◀▶ | |
| | | 7 | We believe 3 branches have been fraudulently claiming for P739s. This is likely to have been going on since 2012 (separation), but because the volume and values are low it has escaped detection. We know there is an issue because even our largest P739 branches do not often process more than 100 items a week (a very small number of the total 600 odd branches have this volume). Last week one of the offending branches posted volumes of 4000. Security are involved. The issue is that Horizon requires manual entry of the quantity and the limit is set at 99999. We are changing the limit on the field in Horizon to a much lower number and am speaking with RM about other longer term potential solutions. We are not sure yet of the fraud value as we are still looking into old data sets but the product volumes and values are relatively low although the frequency and duration still need to be confirmed. Last year we did volumes of 2.1m @ an income of 54.4p per item = £1.164m (no RM revenue associated with the product) and pay agents Mains 35p and locals 25p per item. | Kevin Gilliland | ▲ | |
| | | 8 | Parcelforce Reversals. We have identified branches (2 with significant instances and 3 with suspicious activity) potentially reversing more Parcelforce transactions, and at higher value, than they are transacting. This difference is essentially being funded through our settlement process by Parcelforce however, if we cannot recover it from the agent POL may be liable. The issue is owing to the reversal system not "talking" to the postal services sales system within Horizon. The reversal creates a separate, unconnected transaction and does not confirm with postal services that the postage has been cancelled. The product team will conduct ongoing monitoring of the reversals across the network to identify any branches which have a higher average or have a negative refund to sale ratio. In the longer term transaction simplification will close this risk down. The new system removes the existing sales process and will allow FFW labels to be printed via Horizon printers, removing the prepopulated labels from circulation. The new system will work like other postage services processed via Horizon and will force reversals via the spoiled label route instead. This will deliver in April 2018 at the earliest as it is tied into other transaction simplification processes: Royal Mail and Parcelforce agreement, and is dependant new printer kit to be rolled out to the network. | Alisdair Cameron | ▲ | |
| | 9 | Losses. c3 million YTD, with 465k in period 4. | Alisdair Cameron | ▲ | | |
| | Financial Crime | Liabilities and contingencies, including those associated with guarantees. | 10 | AML regulatory duties. HMRC has informed Post Office, through the Post Office GC and MLRO that there are instances where we consider that we may not have met our AML regulatory duties in the relevant period for Travel Money (and possibly Bill Payment depending on whether Bill payments are properly within HMRC's regulatory scope), foreign exchange and MoneyGram and gift cards. This may result in Post Office incurring penalties and remedial costs; details have not yet been determined by HMRC. A remediation action plan for Bureau de Change has been shared with HMRC, and which they have verbally approved in principle. An AML Steering Group has been established to oversee delivery of all remedial activity around policies, risk assessments, training, etc. All of these elements are now on track with suitable BAU controls in place. We have been advised by HMRC that they may levy a penalty in the region of £400k in relation to breaches of Regulation 19 (Record Keeping) and Regulation 20 (Policies & Procedures) for Bureau de Change. | Jane MacLeod / Nicholas Kennett | ▼ |
| | | Material events that could crystallise before the end of the reporting period. | 11 | New Money Laundering Regulations. The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 came into force on 26th June 2017. HMRC have published some interim guidance for Money Service Businesses in relation to the new legislation and the new 'fit & proper' test requirements, but further clarity is awaited from HMRC. HMRC Money Service Business Guidelines suggest that copies of paper primary and secondary ID documentation for customer due diligence need to be retained during the relationship (i.e. where customer due diligence has been performed) and for 5 years after a relationship has terminated. This regime also extends to agents, however, HMRC do not yet have an agreed approach. The impact for Post Office could be material depending on the outcome of the consultation and the interpretation of the requirements. For example, whether the regulations would apply to all existing agents or just new agents; what tests will need to be done; what the fees will be; and how the term 'agent' will be interpreted for Post Office and its agents (e.g. the extent to which we would need to verify the 'Fit & Proper' status of the staff, directors, beneficial owners, shareholders of multiples as well as individual agents, etc.). Post Office have until the date of our next annual registration (1st June 2018) to comply with these new requirements. | Jane MacLeod / Nicholas Kennett | ▲ |
| | Compliance with laws and regulations | Material risks to Post Office that are not captured in the Group Risk Profile. | 12 | Vetting. In April 2017, POL implemented a general vetting solution. A plan is being built across IT, Support Services and other areas to support the delivery of postmaster identification and vetting to support contractual obligations including the new review IRRELEVANT and regulatory obligations. Pre solution vetting and training procedures for employees, agents and/or agent employees may not have been consistently applied and/or applied in a way that fully complied with our obligations to other its . IRRELEVANT There are a number of regulatory changes that may change this standpoint. We are awaiting a consultation paper regarding the implementation of the Senior Manager and Certification Regime for ARs, this could require a retrospective check for individuals holding Senior Manager and/or Certified functions to evidence a Fitness & Propriety level outlined in the paper. We are also in consultation with HMRC with regard to Fitness and Propriety standards within Money Service Businesses (Bureau, MoneyGram), we have not yet been advised as to whether this will require retrospective vetting to meet these standards or which populations will be affected. | Martin Kirke / Nicholas Kennett | ▼ |
| | | | Liabilities and contingencies, including those associated with guarantees. | 13 | HMRC fine on registration of premises. We received the penalty notice for £796.5k in August 2017, in relation to the historic failure to file notifications of changes of premises at which regulated activities occurred, and this has now been paid. It is possible that MoneyGram, could seek to recover the amount of any fines or penalties from Post Office, should they be levied against MoneyGram by HMRC. We have not had any comment or approach by MoneyGram in relation to their premises registration, but we believe that the HMRC supervisor that was reviewing MoneyGram in 2016 has been on long term sick leave. | Alisdair Cameron / Jane MacLeod |
| | | Any legislative, regulatory or contractual compliance issues that have come to light. | 14 | Commercial risk from Ofcom intervention in standalone landline telephone service. Ofcom is consulting on a number of remedies to increase customer switching and reduce price paid by consumers in this market. The proposed remedies are only targeted at BT and are expected to be implemented early in 2018, but include a potential £5 per month reduction in Line rental charges, which if Post Office chooses to respond may impact the Post Office home phone only business. We looking to mitigate this risk by participating in the consultation process, and refining our customer propositions, however the potential impact in FY 16/17 could be a reduction of £45k - £3m depending on the exact remedies and POL strategic response. | Nicholas Kennett | ◀▶ |
| | FINANCIAL | Sufficient cash / headroom | 15 | IRRELEVANT IRRELEVANT We are mitigating this through engagement with the Banking Team. | Alisdair Cameron | ◀▶ |
| Control Activities | | 16 | IT Controls Framework. To effectively manage our key operational IT risks, we have worked in partnership with KPMG to implement the industry best practice control framework COBIT5. This Post Office IT Controls Framework (ITCF) is progressing to the final stages. There are 11 key processes for which we have identified 193 controls: 108 are implemented, 64 are partially in place (so they do not fully mitigate the risk) and 21 are currently missing. The target to close all remaining gaps is March 2018. Compared to other IT control framework projects, this level of control gap is not unusually large for this stage in the transformation. Remediation has been carried out against 4 of the 11 key processes, and we will complete remediation activities by mid-September. Test scripts will be developed during September and implemented on the Self-Assessment tool (Traction) in October. Training will be rolled out to control owners over a 3 month period. | Rob Houghton | ▼ | |

Appendix 5: Draft Principal Risks (Mapped)

| Draft Principal Risks | Top Risks | Executives Declaration |
|--|--|--|
| Strategic Risks | | |
| <p>Competitiveness Post Office faces both opportunities for and threats to income from our competitive market place.</p> <ul style="list-style-type: none"> The Mails and parcels market remains intensely competitive. Financial Services is a challenging market with new entrants such as challenger banks and Fintechs. Responding quickly to different strategies, business models, and products is therefore essential to growth. Fulfilling customer expectations through digital channels new products and improved back office functions. | <p>[11/12] Market Developments / Competition (Retail, Financial Services and Telecoms) [15] Digital Competency</p> | <p>[15] Banking Framework</p> |
| <p>Dependency on strategic relationships Post Office has strategic relationships which are key to its product offering and growth, for instance with IRRELEVANT Misalignment of the strategic direction or focus with the strategic partner could result in products that do not support our growth strategy or meet our customer or market requirements.</p> | <p>[14] IRRELEVANT Industrial Action</p> | |
| Operational and Financial Risks | | |
| <p>Unattractive retail proposition There is a risk that the Post Office may not be able to retain, or attract sufficient new, retail partners because of the complexity of our network proposition and relative value to the retail partner particularly compared to other categories.</p> | <p>[13] Retail Proposition</p> | |
| <p>Business interruption and cyber threat Post Office is dependent on the continued availability of its information systems and associated infrastructure. These could be threatened, either due to internal issues, external events or cyber-attack.</p> | <p>[5] Cyber Threat / Information Protection [1,2,3,6] IT Impacting Ability to Trade</p> | <p>[2] National Stock Centre Swindon [3] ITDR [4] Cyber Threat [5] Telecoms cyber attack</p> |
| <p>Industrial Action There are a number of commercial process dependencies supplied by and to Royal Mail Group. The risk of industrial action affecting such a key partner could lead to material disruption to Post Office.</p> | <p>[14] IRRELEVANT Industrial Action</p> | |
| Legal and Regulatory Risks | | |
| <p>Regulatory The Post Office operates under an extensive regulatory environment, covering areas such as financial and postal services, telecoms, procurement, competition law and data security. This environment continues to evolve, particularly in the financial services arena, and we need to ensure that the changing requirements continue to be identified and met.</p> | <p>[7] Conduct Risk [8] Increase in Regulation</p> | <p>[1] Non-compliance with PCR [10] AML regulatory duties for POL [11] Adherence to new AML regulations [12] Vetting [13] HMRC fine on registration of premises [14] Commercial risk from OFCOM intervention</p> |

* The following items are not reflected in the ARA Principal Risks for consideration;

Top Risks: [10] Cash Risk.

Exec Declaration: [6] Reconciliation issues between POL and **IRRELEVANT** [7] P739 Fraud, [8] Parcelforce reversals, [9] Losses, [16] IT Controls Framework.

5. Internal Audit Report

Author: Johann Appel

Sponsor: Jane MacLeod

Meeting date: 25 September 2017

Executive Summary

Context

The purpose of this paper is to update the Committee on the PO Internal Audit activity and key outcomes. This includes details of the work completed since the last Audit, Risk and Compliance Committee (ARC) in May and progress on the 2017/18 Internal Audit Plan.

Questions this paper addresses

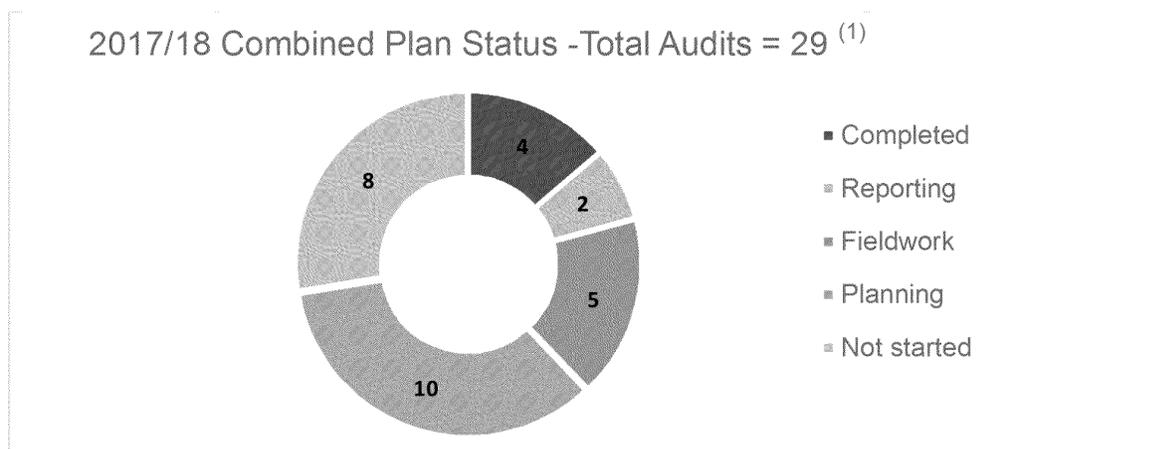
- Is the Internal Audit Plan on track? What progress has been made since the July RCC meeting?
- What progress is being made with completion of audit actions?
- Have any significant issues arisen that the committee should be aware of?

Conclusion

1. Progress against plan:

At the time of the May ARC meeting, five audits from the 2016/17 plan were still in reporting. All five reports have since been finalised and circulated to the Chair of the ARC. None of these reports had adverse ratings.

Delivery of the 2017/18 audit plan is well underway. We have finalised four reviews, with a further two currently in reporting and five audits in fieldwork. Particular emphasis is placed on timely audit planning and as a consequence 10 reviews are currently being scoped for delivery between September and January. Early engagement with the business in the planning phase is proving to result in a more effective audit process. Current progress against plan is as follows:



⁽¹⁾ARC approved baseline plan for 2017/18 (16 internal control reviews & 13 change assurance reviews)

A full summary of the 2017/18 audit plan status is included in **Appendix 1**.

2. Open and Overdue Audit Actions (as at 31 August 2017):

| Audit Action Status: | |
|-----------------------------|-----------|
| Open (not yet due) | 41 |
| Overdue (<30 days) | 4 |
| Overdue (>30 days) | 2 |
| Total | 47 |

More detailed information is provided in paragraphs 10 - 12, including commentary on progress made with remediation of adverse audit reports.

3. Significant Issues:

There are no significant issues we believe the committee should be made aware of.

Input Sought

The Committee is asked to note and provide comment as necessary.

The Report

Changes to Plan since May ARC meeting

4. We have made three changes to the audit schedule:
 - Following a request from management, a review of the Lottery Prize Pay-out Verification process was added to the plan.
 - The Cyber Security (Phase 1) review planned for August was replaced with a follow-up of the 2016 Information Security review. We have agreed with management that it would be premature to review the Cyber Security controls given that the Security Transformation project is still ongoing and there are still actions outstanding from the 2016 Information Security review. An audit of Cyber Security will be considered in Q4.
 - We have postponed the audit of Branch Cash Forecasting & Management to 2018/19 in light of the current project to improve branch cash management processes.
5. The remainder of the 2017/18 plan will be refreshed during October to ensure that it is still aligned with Post Office’s risk profile and that the remaining audits on the plan are still relevant. Information obtained from the ongoing work on the risk ‘placemat’ will be a key consideration during the refresh of the audit plan.

Internal Audit Reviews Completed

6. Since the May ARC meeting we have completed the following audits from the 2017/18 plan:
 - SuccessFactors – Employee Payroll Migration (Change Assurance)
 - VAT Process
 - IT Controls Framework (Advisory)
 - Mails Process

Our findings and observations are summarised below:

| Audit | Key Messages | | | | | | | | |
|---|--------------|---|----|---|----|---|-------|---|---|
| <p>SuccessFactors Employee Payroll – Data Migration (Ref. 2017/18-04)</p> <p>Appendix 2a</p> <div style="border: 1px solid gray; background-color: #cccccc; padding: 5px; text-align: center; margin: 10px 0;">Needs Improvement</div> <p>Audit actions:</p> <table border="1" style="margin-left: 20px;"> <tr><td>P1</td><td>2</td></tr> <tr><td>P2</td><td>3</td></tr> <tr><td>P3</td><td>1</td></tr> <tr><td>Total</td><td>6</td></tr> </table> | P1 | 2 | P2 | 3 | P3 | 1 | Total | 6 | <p>Overall the audit concluded that the project governance and management activities for the SuccessFactors Employee Payroll Data Migration were carried out in line with the ‘One Best Way’ framework.</p> <p>However, the audit identified some issues that may prevent the project from succeeding or from achieving the revised Gōve date. Specifically formal plans for the following project elements had not been formalised at the time of the review (June/July 2017):</p> <ul style="list-style-type: none"> • Internal and external Subject matter Expert (SME) resourcing and associated costs; • Contingency planning in case of further issues noted during the second phase of pre Gōlive testing; and • Retention and storage of legacy data. <p>ARC Update: As of 15 September 5 of the 6 audit actions have been completed, including developing a revised project plan and a second contingency plan in case additional issues emerge.</p> |
| P1 | 2 | | | | | | | | |
| P2 | 3 | | | | | | | | |
| P3 | 1 | | | | | | | | |
| Total | 6 | | | | | | | | |

| Audit | Key Messages | | | | | | | | |
|---|--|---|----|---|----|---|-------|---|---|
| <p>VAT Process & Controls (Ref. 2017/18-02)</p> <p>Appendix 2b</p> <div style="border: 1px solid gray; border-radius: 10px; padding: 5px; text-align: center; margin: 10px 0;">Needs Improvement</div> <p>Audit actions:</p> <table border="1" style="margin-left: 20px;"> <tr><td>P1</td><td>0</td></tr> <tr><td>P2</td><td>3</td></tr> <tr><td>P3</td><td>4</td></tr> <tr><td>Total</td><td>7</td></tr> </table> | P1 | 0 | P2 | 3 | P3 | 4 | Total | 7 | <p>This audit has found that generally POL manages its VAT affairs effectively. The tax team are consulted on a regular basis and are involved in the decision making process to ensure that VAT is applied and managed correctly. VAT risk is managed proactively and the controls in place operate effectively. POL has a good relationship with HMRCs evidenced through transparent communication and documentation.</p> <p>The following control weaknesses were reported:</p> <ul style="list-style-type: none"> • There was no documented tax strategy, governance and control framework. Incomplete documentation of tax processes was identified by HMRC prior to this internal audit - this was disclosed to the ARC and remedial actions are underway. ARC Update: The Tax Strategy is being drafted and will be submitted for approval at the November ARC. • VAT processes and controls are not well documented and is to a large extent reliant on the knowledge and experience of the two individuals in the VAT team, both who are leaving the business imminently. The delay in finding a suitable replacement may adversely impact the proper handover of the process and transfer of knowledge. ARC Update: A replacement VAT manager was appointed and handover has taken place • Some known system and process issues require ongoing manual intervention to ensure compliant VAT treatment. The manual adjustments are generally low in value, however, makes for an inefficient process. |
| P1 | 0 | | | | | | | | |
| P2 | 3 | | | | | | | | |
| P3 | 4 | | | | | | | | |
| Total | 7 | | | | | | | | |
| <p>IT Controls Framework (Advisory) (Ref. 2016/17-15)</p> <p>Appendix 2c</p> <div style="border: 1px solid gray; border-radius: 10px; padding: 5px; text-align: center; margin: 10px 0;">Advisory – Highlight Report</div> | <p>As agreed with the ARC and with management, Internal Audit participated in the ITCF project in an advisory role, contributing expertise of IT risk, IT controls and COBIT 5 knowledge to ensure the outcome of the programme is fit for purpose.</p> <p>Overall IA observed that for the 11 processes in scope progress has been made in benchmarking the processes against COBIT and identifying controls and process steps which need to be in place to ensure operational risks stay within the risk appetite. However, there is some risk to the project and further work to be done before the ITCF will be ready to be implemented and rolled out for self-assessment</p> <ul style="list-style-type: none"> • Based on the current status of the programme we believe the original timeline will not be met Phase 3 (remediation) is still ongoing, having slipped from its June deadline. Management need to revisit the overall project timeline. • Further improvements have been suggested to ensure control descriptions and remediation plans are clear and mitigate identified risks. | | | | | | | | |

| Audit | Key Messages | | | | | | | | |
|--|--------------|---|----|---|----|---|-------|---|--|
| <p>Mails Process (Ref. 2017/18-03)</p> <p>Appendix 2d</p> <div style="border: 1px solid black; background-color: #cccccc; padding: 5px; text-align: center; margin: 10px 0;">Satisfactory</div> <p>Audit actions:</p> <table border="1" style="margin-left: 20px;"> <tr><td>P1</td><td>0</td></tr> <tr><td>P2</td><td>2</td></tr> <tr><td>P3</td><td>3</td></tr> <tr><td>Total</td><td>5</td></tr> </table> | P1 | 0 | P2 | 2 | P3 | 3 | Total | 5 | <p>We employed data analytics to validate the integrity of the data that underpins the service credits levied by Royal Mail Group (RMG). Our audit provided reasonable assurance that the data provided by RMG as a result of their sampling is reliable. In addition the process to validate and challenge RMG service credits is robust.</p> <p>We raised two medium priority findings / actions:</p> <ul style="list-style-type: none"> • Engagement with RMG should be improved to reduce the effort to manually follow up inaccuracies in raw data received from RMG • Unavailability of mail bags impact the ability of branches to segregate mail consistently. This issue will be raised with RMG during the midpoint review of the agreement. |
| P1 | 0 | | | | | | | | |
| P2 | 2 | | | | | | | | |
| P3 | 3 | | | | | | | | |
| Total | 5 | | | | | | | | |

Reviews in Reporting

7. Reports for the following reviews are currently being drafted or cleared through management:

| | Review | Status / Remarks |
|---|---|--|
| 1 | Financial Spreadsheet Controls | Final Draft Report reviewed by management. |
| 2 | Integrated Change Plan and Dependencies (Change advisory) | Report being drafted by Deloitte. |

Reviews in Progress

8. The following reviews are currently in fieldwork:

| | Review | Status / Remarks |
|---|---|--|
| 1 | IT Security Transformation (Advisory) | Ongoing – providing challenge and input to the project. |
| 2 | Lottery Pay-out Verification | Management request to review design effectiveness of new validation controls over the Lottery Pay-out process. Fieldwork nearing completion. |
| 3 | Compliance with Banking Framework agreement | Fieldwork nearing completion. |
| 4 | Information Security (2016) Follow-up | Review has started. |
| 5 | MoneyGram: AML Compliance | Review has started. |

Reviews in Planning

9. We are currently scoping the following reviews scheduled for delivery in Q2 to Q4:

| | Review | Timing (start of fieldwork) |
|----|--|------------------------------------|
| 1 | Customer Complaints | November |
| 2 | FRES | October |
| 3 | Business Continuity | January |
| 4 | Pension Scheme(s) | November |
| 5 | Agile Methodology & Governance | December |
| 6 | Branch Technology - EUC Transition | September |
| 7 | IT Networks | October |
| 8 | EUM | September |
| 9 | Chameleon (Thin Client Solution) | September |
| 10 | Point to Point Encryption Implementation ("Pin Pad") | January |

Updates on Internal Audit Open and Overdue Actions

10. Audit actions are generally being completed on time. At 31 August there were 47 open actions, six of which were overdue.

| Audit Action Status: | BAU | Change | Total |
|-----------------------------|------------|---------------|--------------|
| Open (not yet due) | 27 | 14 | 41 |
| Overdue (<30 days) | 4 | 0 | 4 |
| Overdue (>30 days) | 2 | 0 | 2 |
| Total | 33 | 14 | 47 |

11. Following is a summary of the overdue actions, estimated revised completion dates and latest status update:

| Description of action | Priority & date | Revised Date & Comment |
|--|----------------------------|---|
| Branch Network Sales Training & Competence Review | | |
| Introduce a competency matrix for the T&D Framework, and subsequently develop a new framework/scheme for colleagues not currently captured by the existing scheme and framework. | P2 31/08/17 | 31 October Completion delayed because of Project Finch. The Training and Competence team has planned to include this element in the scheme by the end of September/beginning of October. |
| Update section A14 (sales process) to display appropriate information under the correct headings and focus on achieving fair customer outcomes. | P2 31/08/17 | 30 November The update of the document is in progress. Area Managers are reviewing changes to the 'What good looks like' statements. Expected to finalise it by end November. |

| | | |
|---|----------------|--|
| Update the T&D Framework to include a section on the training and oversight for Senior Support Managers. | P2 31/08/17 | 30 November The update of the framework is in progress. Completion delayed because of Project Finch. |
| Financial Services – Branch Network Sales Quality Assurance | | |
| Review training materials and provide updated training for Specialists. | P2 31/07/17 | 30 September Action complete, pending evidence to close action. |
| Formalise the approach to levelling VMS gradings and minute all levelling meetings going forward. | P2 31/07/17 | 30 September Process is being documented and will be completed in the next month. |
| VAT Process | | |
| Implement a tax strategy, tax risk and governance policy. Review existing tax risk management and controls framework. | P2 31/08/17 | 30 November The strategy has been drafted and benchmarking has been completed. The action will be closed when Board approval is received (expected to be November). |

Progress with remediation of adverse audit reports

12. Following is a summary of progress with remediation of adverse audit reports issued in the last 12 months (reports rated 'Unacceptable' or 'Needs Significant Improvement'):

| Audit title | Rating | Number of audit actions | | | |
|---|-------------------------------|-------------------------|--------|----------------|----------------|
| | | Total | Closed | Open (Not due) | Open (Overdue) |
| Identify and Access Management (IAM) ⁽¹⁾ (Apr17) | Needs Significant Improvement | 14 | 4 | 10 | 0 |
| Information Security ⁽²⁾ (Sept 2016) | Needs Significant Improvement | 17 | 9 | 8 | 0 |
| IT Disaster Recovery & Resilience (Dec 2016) ⁽³⁾ | Needs Significant Improvement | 8 | 8 | 0 | 0 |

⁽¹⁾ We are involved in assisting management to define remedial actions following our review of the IAM process. As more actions are agreed, these will be added to the database and tracked to completion.

⁽²⁾ We have begun a full review of the progress with the remediation plan for Information Security. Our review will consider whether the actions previously agreed are still appropriate, will evaluate evidence of closed actions and ensure related risks were mitigated, and will agree revised completion dates for the remaining actions.

⁽³⁾ A remediation plan is in progress to address the remaining IT DR gaps. IT now provides a progress update at each RCC meeting. IA to review remediation plan (and progress) as part of scheduled BC audit (January 2018).

END OF REPORT

Appendix 1

| 2017/18 Internal Audit Plan - Status as at 19 September 2017 | | | | | |
|--|--|----------------|----------------------------|---------------|------------------------|
| No. | Title/Subject | Sponsor | Original / Addition | Timing | Status / Rating |
| Internal Control Reviews | | | | | |
| 1 | VAT Process | A. Cameron | Addition | May | Needs Improvement |
| 2 | Lottery Payout Verification (Design Effectiveness) | K. Gilliland | Addition | August | Fieldwork |
| 3 | Financial Spreadsheet Controls | A. Cameron | Addition | August | Draft Report |
| 4 | IT Control Framework (Advisory) | R. Houghton | Original | March - Aug | Highlight Report |
| 5 | IT Security Transformation (Advisory) | R. Houghton | Original | March - Dec | Fieldwork |
| 6 | Customer Complaints | A. Cameron | Original | November | Planning |
| 7 | Branch Cash Forecasting & Management | A. Cameron | Postponed | September | Postponed to 2018/19 |
| 8 | Compliance with Banking Framework agreement | N. Kennett | Original | August | Fieldwork |
| 9 | MoneyGram: AML Compliance | J. MacLeod | Original | September | Fieldwork |
| 10 | FRES | N. Kennett | Original | October | Planning |
| 11 | Mails Process | K. Gilliland | Original | July | Satisfactory |
| 12 | Financial Control Framework | A. Cameron | Original | Q4 | Not started |
| 13 | Telecoms control framework | N. Kennett | Original | October | Not started |
| 14 | Business Continuity | J. MacLeod | Original | January | Planning |
| 15a | Cyber Security (Ph 1 - Follow-up of 2016 audit) | R. Houghton | Original | September | Fieldwork |
| 15b | Cyber Security (Ph 2) | R. Houghton | Original | Q4 | Not started |
| 16 | IT Governance and IT Risk management (Operations) | R. Houghton | Original | Q3/4 | Not started |
| 17 | Data Protection (follow up) | J. MacLeod | Original | Q4 | Not started |
| 18 | Client Settlements Process | A. Cameron | Original | Q4 | Not started |
| 19 | Pension Scheme(s) | A. Cameron | Original | November | Planning |
| Change Assurance | | | | | |
| 20 | Branch Technology - EUC Transition | K. Gilliland | Original | September | Planning |
| 21 | IT Networks | R. Houghton | Original | October | Planning |
| 22 | Back Office Transformation | A. Cameron | Original | Oct/Nov | Not started |
| 23 | SAP Success Factors - Payroll | M. Kirke | Original | June | Needs Improvement |
| 24 | EUM | N. Kennett | Original | September | Planning |
| 25 | Agile Methodology and Governance | J. MacLeod | Original | December | Planning |
| 26 | Chameleon (Thin Client Solution) | K. Gilliland | Original | September | Planning |
| 27 | Integrated Change Plan and Dependencies (Advisory) | A. vd Bogerd | Original | July | Draft Report |
| 28 | Gating Process - Effectiveness | A. vd Bogerd | Original | March | Not started |
| 29 | Point to Point Encryption Implementation ("Pin Pad") | J. MacLeod | Original | January | Planning |
| 30 | Network Development PIR | K. Gilliland | Original | Q4 | Not started |
| 31 | Placeholder (contingency) | | Original | | Not started |
| 32 | Placeholder (contingency) | | Original | | Not started |
| Note: Target audit delivery per original approved plan is for 29 audits (16 internal control reviews and 13 change assurance reviews). | | | | | |

Appendix 2a

POST OFFICE LIMITED – INTERNAL AUDIT REPORT

AUDIT TITLE: SuccessFactors Employee Payroll – Data Migration

REFERENCE: 2017/18-04

DATE ISSUED: 11 September 2017



Executive Summary

Background

SuccessFactors was introduced to Post Office Limited (POL) in order to modernise its current IT estate, and provide a comprehensive and cloud-based solution for HR processes. The system has the capability to host all HR systems, including payroll, learning, performance management, recruitment & on-boarding, as well as providing reporting and management information. Payroll data currently resides on POL's SAP system. This system is due to be replaced in April 2018 and therefore the data must be migrated to the new system. This migration is being carried out under the SuccessFactors programme, with phase 1 performing the migration of employee data only, no agent data will be migrated during this phase.

This review aimed to understand the processes followed for the migration of this data, and assess the effectiveness of the controls in place to ensure data integrity is maintained.

Scope & Approach

The objective of this audit was to evaluate POL's project governance and management controls in relation to the migration of data to the SuccessFactors system. Specifically, this review assessed the following areas: Project governance; Project resources; Pre Go-live testing; Back-up plan; Review scope of data being migrated; Treatment of historic data within the new system; and Non-migrated data.

Conclusion

The project governance and management activities for the SuccessFactors Employee Payroll Data Migration were carried out in line with the One Best Way framework. However, issues identified during the primary testing phase resulted in the delay of the project Go-live date to October 2017, which led to a two-month delay in the creation and approval of a revised project plan. Therefore, formal plans for the following project elements had not been formalised at the time of this review (June/July 2017):

- Internal and external Subject matter Expert (SME) resourcing and associated costs;
- Contingency planning in case of further issues noted during the second phase of pre Go-live testing; and
- Retention and storage of legacy data.

Since the completion of the audit fieldwork, we have confirmed that a revised project plan has been developed and was progressing through the relevant internal governance processes for approval. A second, contingency plan has also been developed with a proposed Go-live of November 2017, in case additional issues emerge. Further contingency requirements beyond November 2017, taking account of the Christmas period, have not been considered by management. The project resources required to deliver the project have been reset against the revised business case model, clearly identifying the resources expected to work on the project and at what point in the project life cycle, with the associated costs.

Some residual risks remain that may prevent the project from succeeding or from achieving the revised Go-live date, therefore the report has been rated as "Needs Improvement".

Management Comment

The review conducted by the Deloitte team has been a thorough assessment of the payroll migration plan. The findings have been helpful and have validated our approach and the plan. It will also help inform any further re-plans. I accept the key recommendations relating to a further contingency plan beyond November and an archiving solution. The team have put some thought and initial planning

Change Assurance Report: SuccessFactors Employee Payroll – Data Migration August / September 2017

into further contingency, however this has not yet been documented. Also, we are working with the Post Office project team responsible for providing an archiving solution and we have provided our requirements and timescales. Once the archiving solution and plan for implementation is finalised, we will include this in our project documentation for completeness.

Martyn Lewis, Head of Change Delivery

Report rating:



Summary of Findings & Status of Actions at 31/8/17

The table below provides a summary of the findings and their ratings.

| Finding | | Rating* | Action Owner | Date |
|--|--|---------|--|---------------|
| Scope Area: Project Governance | | | | |
| 1 | Lack of updated and approved project plan | P1 | Martyn Lewis (Head of Change Delivery) | Complete |
| 2 | Discussions from governance meetings has not been retained | P3 | Lara Oguntola (PMO) | Complete |
| Scope Area: Project Resources | | | | |
| 3 | Insufficient funding of the payroll test specialist and lack of available SME expertise over the life of the project | P2 | Mark Dyer (Auto-Enrolment Project Manager) | Complete |
| Scope Area: Pre Go- Live Testing | | | | |
| 4 | Further delays, and associated costs, have not been considered if the planned Go-live date is missed | P2 | Martyn Lewis (Head of Change Delivery) | Complete |
| 5 | A formal plan for the second phase of testing has not been defined | P2 | Mark Dyer (Auto-Enrolment Project Manager) | Complete |
| Scope Areas: Scope of Migrated Data & Non-Migrated Data | | | | |
| 6 | A formal plan to cover the storage, management and retention of legacy data has not been defined | P1 | Martyn Lewis (Head of Change Delivery) | 30 April 2018 |

* P1 = High Priority, P2 = Medium Priority, P3 = Low Priority

Appendix 2b

POST OFFICE LIMITED – INTERNAL AUDIT REPORT

AUDIT TITLE: VAT Process & Control Review

REFERENCE: 2017-18/02

DATE ISSUED: 04 July 2017



Executive Summary

Background

Internal Audit have been engaged to review the VAT process and control framework at Post Office Ltd ("POL"). The framework has been in place for a number of years following the separation from the Royal Mail Group and has been designed to ensure that POL manages its VAT risk proactively. POL receives a number of special dispensations with respect to the VAT treatment of certain types of products. Our review specifically covered how POL applies the dispensations and whether the stipulated criteria set out by HMRC are followed.

Scope & Approach

The objective of this review was to provide independent assurance over the design, operating effectiveness and completeness of the VAT process and related controls at POL. An in-depth review of the product file and associated VAT liability of each product sold by POL has not been conducted.

Conclusion

This audit has found that by and large POL manages its VAT affairs effectively. The tax team are consulted on a regular basis and are involved in the decision making process to ensure that VAT is applied and managed correctly. VAT risk is managed proactively and the controls in place operate effectively. POL has a good relationship with HMRC and this is evidenced through the transparent communication and documentation seen during the review.

Notwithstanding, we have identified some control weaknesses that require mitigation and opportunities for improvement. The most notable of these are summarised below:

- There is no documented tax strategy, governance and control framework. Incomplete documentation of tax processes was identified by HMRC prior to this internal audit, a fact that was disclosed to the ARC, along with an undertaking to document and formalise the tax strategy for VAT and other taxes.
- POL's VAT processes and controls are not well documented and is currently to a large extent reliant on the knowledge and experience of the two individuals in the VAT team, both who are leaving the business imminently. Although two tax specialists have now been appointed on a secondment basis, the delay in finding a suitable replacement may adversely impact the proper handover of the process and transfer of knowledge.
- Some known system and process issues require ongoing manual intervention to ensure compliant VAT treatment. The manual adjustments are generally low in value, however, makes for an inefficient process. Examples are:
 - Incorrect tax codes at master data level or wrongly assigned to journal entries;
 - Incorrect processing of non-UK invoices could lead to both overpayments and under-declarations of VAT.

Management Comment

'This was a useful review confirming the direction of travel as we continue to professionalise our management of tax.'

Alisdair Cameron- Chief Financial & Operations Officer

Report rating:



VAT Process & Control Review

Summary of Findings & Status of Actions at 31/8/17

The table below provides a summary of the findings and their ratings.

| Finding | Rating* | Action Owner | Date | |
|----------------|---|---------------------|----------------------------------|----------------------|
| 1 | Lack of a documented tax strategy, governance and control framework | P2 | Mark Dixon / Amanda Radford | 31/08/17 |
| 2 | Knowledge may be lost when VAT employees leave the business | P2 | Mark Dixon | Complete |
| 3 | Incorrect application of tax code on journals for certain 'out of scope' items | P3 | Mark Dixon | Complete |
| 4 | Self-billing agreements not in place for small number of agents | P3 | Paul Inwood | Complete |
| 5 | Non-UK invoices not captured correctly | P3 | Mark Dixon | Complete |
| 6 | Incorrect tax code allocation at Master Data level requiring manual adjustments | P2 | Mark Dixon | Complete |
| 7 | Interim agreement for recovering VAT on expenses nearing expiry | P3 | a) Carl Nielsen b) Mark Dixon | Complete Complete |

* P1 = High Priority, P2 = Medium Priority, P3 = Low Priority

Appendix 2c

Post Office Internal Audit

IT Control Framework Programme – Advisory Review

Highlight Report no. 1 – Executive summary for ARC Sept 2017

1. Background

PO IT undertook significant changes in its technological and IT operations landscape in the last years, transitioning from an in-house managed IT model to an outsourced SIAM (Service Integrator and Management) model. Considering the amount of change and the increased operational risks, the need for an IT Control Framework (ITCF) was identified, to ensure operational risks are managed within the risk appetite. As agreed with the ARC and with management, Internal Audit (IA) participated in the ITCF project in an advisory role, contributing expertise of IT risk, IT controls and processes, and COBIT 5 knowledge to ensure the outcome of the programme is fit for purpose.

2. Executive summary

Overall IA observed that for the 11 processes in scope progress has been made in benchmarking the processes with COBIT and identifying controls and process steps which need to be in place to ensure operational risks stay within the risk appetite. However there is still work to be done before the ITCF can be considered completed and ready to be implemented and rolled out for self-assessment. Due to the current status of the programme (still in Phase 3- remediation plans) we believe the original defined timeline will not be met (please see Appendix B for initial timeline proposal). Phase 3, remediation plan was supposed to be concluded by end June and is still on-going end of August, which will definitely delay the start of phase 4, 'Ongoing self-assessment', currently the overall project timeframe was not reviewed to set a new final date.

IA suggested the following actions to be considered by the project team going forward:

- Review the project timeline and define a due date for phase 3 and timeframe for phase 4. Also perform an impact assessment of how the current delay in completing remediation plans and rolling out the self-assessment impacts the findings and risks raised by the internal and external audits which were supposed to be fixed by the ITCF.
- Review all RACMs and ensure control activities are clearly written and test scripts are completed to ensure control owners know what needs to be done. In doing this, take in consideration the remarks discussed during the review of the Manage Service and the Incident management RACMs
- Review remediation plans to ensure they are covering the risks for which the controls have been identified.
- We suggest that priority is given to finalise the RACM and test scripts for one process and roll it out as a pilot for self-assessment to understand what issues might be encountered. Lessons learned would be then used to improve the other RACMs and test scripts.
- Review all open audit findings and risks and ensure the ITCF contains adequate controls to fix the known issues and bring operational risks within the risk appetite.
- Up until now IA in our advisory role has enhanced the knowledge and expertise on IT risk, controls and COBIT. As our involvement in the programme comes to an end, we would like to emphasise that expertise of IT risks and controls, as well as a good understanding of IT governance is crucial to deliver an effective IT Control Framework. Management should consider whether this level of expertise is available internally to provide robust challenge and advice.

Appendix 2d

POST OFFICE LIMITED – INTERNAL AUDIT REPORT

AUDIT TITLE: Mails Process Phase 1 - Segregation

REFERENCE: 2017/18-03

DATE ISSUED: 19th Sept 2017

Executive Summary

Background

A review of the Mails Process is included in the 2017/18 approved audit plan. The CEO for Retail requested that this review be focussed on the management of mails segregation based upon Royal Mail (RMG) supplied data. This was to inform a proposal to consider adjusting the remuneration of agents to incentivise achieving the segregation targets. Service credits relating to PO's failure to fully comply with RMG segregation requirements cost PO on average £4.5m per year. To ensure this was demonstrably independent, PwC, our internal audit co-source provider, were engaged to conduct the work. They are formally reporting under separate cover. The Mails Distribution Agreement (MDA) is at its mid-point (5 years of 10) and re-negotiations of the agreement are due this year.

Mail segregation is the process by which branches sort mail upon receipt and seal and label the mail bags prior to collection by RMG. PO compliance to the segregation requirements (documented in the MDA) is sampled by RMG based upon branch size (by turnover). The RMG Revenue Protection function select bags for sampling (7,000 bags per month) and these are removed from the main mail processing on receipt at the Mail Centres. The bag contents are examined and recorded with a monthly data report being supplied to Branch Standards recording the results of the compliance checking.

Scope & Approach

The scope of this audit was to:

- Provide assurance over the accuracy and reliability of the segregation compliance data supplied by Royal Mail;
- Review the Mail Segregation processes as performed by PO and document accordingly;
- Understand how information is passed around the business and how this is used by the Branch Standards team;
- Review and analyse the sample data spreadsheets (mail segregation data files);
- Additionally to the PwC work, Internal Audit conducted visits to two mail centres (Leeds and Swindon), hosted by Royal Mail to observe and evaluate the checking activity and better understand the operation of a Mail Centre.

Conclusion

We employed data analytics to validate the integrity of the data that underpins the service credits levied by RMG. Our audit provided reasonable assurance that the data provided by RMG as a result of their sampling is reliable. In addition the process to validate and challenge RMG service credits is robust. The report rating of '**Satisfactory**' reflects the effective operation of the controls over the process, however, it does not refute the fact that there is still a degree of error in the mails segregation as a result of human error and employee behaviours.

Executive Comment

"This was a useful review that's given us comfort that we are heading in the right direction. The Mails Team have actions in place to address the gaps identified."

Kevin Gilliland, Chief Executive, Retail

Report rating: **Satisfactory**

A horizontal bar composed of four segments. The first segment is dark grey and contains the word "Satisfactory" in white. The remaining three segments are lighter grey.

Summary of Findings

| Finding | Rating* | Action Owner | Date | |
|--|--|---------------------|---------------------------|----------------------|
| Scope Area: From PwC work | | | | |
| 1 | Robustness of RMG supplied segregation performance data. | P2 | Kim Abbotts | 30/11/17 |
| 2 | Communication process around mails segregation and understanding of service credit payments can be improved. | P3 | Sam Conway Kim Abbotts | 30/11/17 30/11/17 |
| 3 | Some branches are not capable/suitable for mail segregation due to physical space limitations. | P3 | Nik Gill | 30/11/17 |
| Scope Area: From IA Mail Centre visits | | | | |
| 4 | Options for changes to the segregation processes and measures. | P3 | Sam Conway | 30/11/17 |
| 5 | Impact of the availability of RMG mail bags on POL segregation. | P2 | Sam Conway | 30/11/17 |

* P1 = High Priority, P2 = Medium Priority, P3 = Low Priority

Placemat

Author: Richard Williams/Deana Herley

Sponsor: Jane MacLeod

Meeting date: 25 September 2017

Executive Summary

Context

At the end of 2016 it was agreed that Post Office would pilot a self-assessment methodology to understand management's view of the effectiveness of the internal risk and control framework. Following the Supply Chain pilot in May, the methodology (referred to as the 'Placemat') has been rolled out, initially, in Finance and Operations (F&O) and then in Legal, Risk and Governance (LRG) as part of a wider roll out across PO which is expected to complete by the end of the 2017-18 financial year.

The purpose of this paper is to update the ARC on the status of the Placemat roll out to date, the results from the F&O and LRG business areas, as well as future plans for the roll out.

Questions this paper addresses

1. How are we driving value from implementing the Placemat?
2. How do you read the Placemat and what is it telling us?
3. What are the governance arrangements in "run state"?
4. What is the current status?
5. What are the next steps?

Conclusion

1. The implementation of the placemat process has allowed and encouraged a dialogue around the true operational risks for the functions and has prioritised remedial activity to mitigate the impact of the highest risk items.
2. The Placemat gives us a single point of reference on risk matters, and a more meaningful representation of our overall risk picture. The reporting is supported by both a "top down" and "bottom up" comprehensive identification and prioritisation of risk.
3. The Placemat approach helps to establish clearer accountabilities for risk management across the 3 lines of defence. As the roll out completes, operational management (1st line) will take the lead on reassessment, with Risk and Assurance (2nd line) moving from enabling, to check and challenge. Internal and External Audit (3rd line) will provide independent assurance over the results and will report as necessary.

Current Status

4. Following completion of the Supply Chain pilot in May, the Placemat approach was applied to the rest of F&O (15 teams). We have also completed with LRG (9 teams). We are joined up with the GDPR, Joiners Movers Leavers, and Legal and Regulatory Framework project teams and seeking to combine the ratings across all these areas.

The Placemat has been populated with the results from F&O and LRG business areas (Appendix 1). The overall RAG scores have been informed by a “top down” view of the 44 risks (net) of high importance, linked to the support of the execution of the Group strategic objectives. The detail supporting this is shown in Appendices 1, 2 and 3.

Next Steps

5. During September, we expect to complete the rollout to Government and Payments Services, the first area within Retail. In parallel, we are completing with Telecoms, which will also support their preparation for the ICO PECR audit planned for January 2018.

A wider roll out to FS is proposed in October.

We aim to fully populate the Placemat by the end of the 2017-18 financial year to inform and support annual reporting.

Input Sought

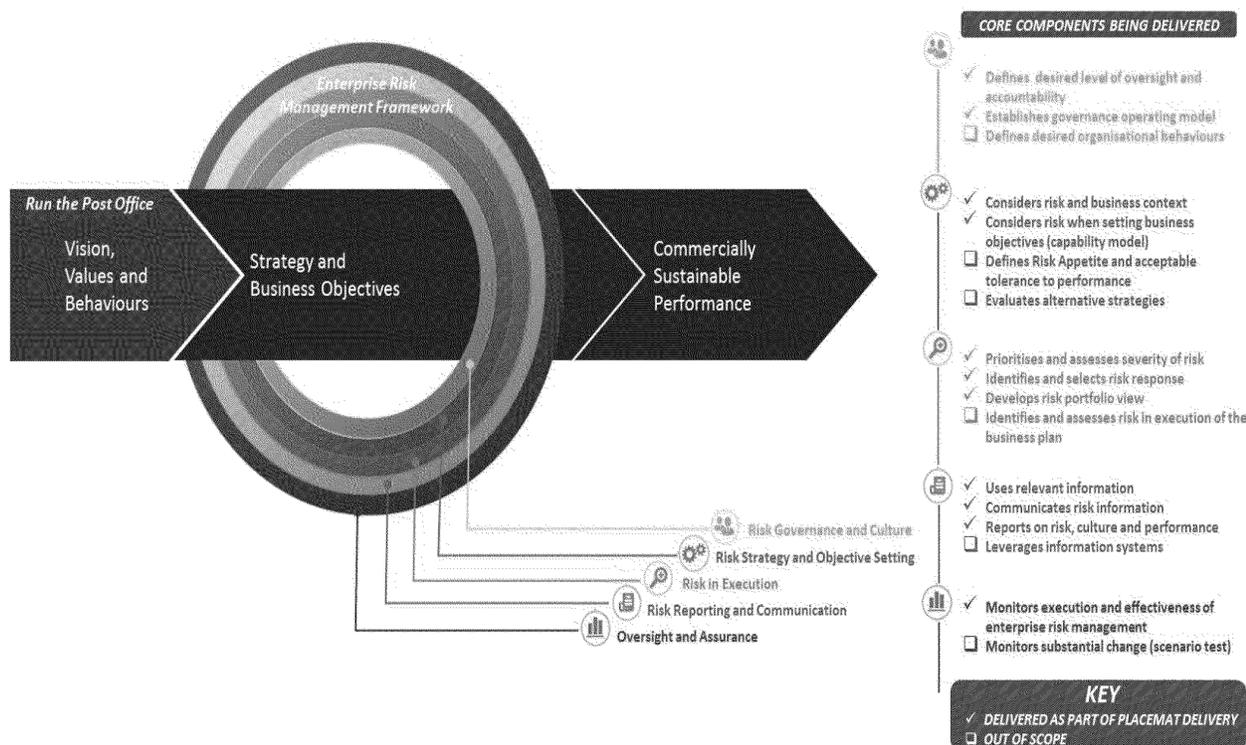
6. The Committee is asked to review this report and confirm its support for the direction of the roll out.

The Report

How are we driving value from implementing the Placemat?

7. An effective risk framework helps drive a culture where the implications of decisions can be discussed explicitly and openly, and employees at all levels understand how much risk they can take in pursuit of objectives. Whilst some aspects of the risk framework have been developed, overall it is currently underdeveloped, delivered on a siloed basis and not enterprise wide in design or scope.
8. The diagram in Appendix 4 highlights, through a series of steps, how the Placemat deliverables will strengthen our risk framework components. This also illustrates how the Placemat will standardise and unify what already exists (including group risk profile, top down risks, risk registers, executive declaration, incident and assurance reporting) to deliver more value out of it. The focus of activity to date has been on identifying, prioritising and assessing the severity of risk.

9. The key outputs delivered through the Placemat process are:
 - Risk and Control Matrix (RACM) by team providing bottom up view of the risk and control environment;
 - Top down view by business area; and
 - Placemat populated with overall results by business area.
10. The Placemat process will also inform disclosures in our Annual Report for 2017/18 including: description of principal risks and uncertainties we face; any concerns regarding going concern based on relevant accounting issues or material uncertainties; and commentary on our review of risk management and systems of internal control.
11. The Placemat outputs are already being used by Internal Audit to inform planning.
12. The diagram below illustrates how the Placemat will strengthen the risk framework. This will support the business to gain a clearer view of its overall level of risk, respond in a considered way and ultimately, a more commercially sustainable way. The components delivered will start to inform a portfolio view of risk which will then allow for the value of “out of scope” components to be considered for development.



13. Examples of how the core deliverables of the Placemat are embedding the principles of sound risk management include:

| | |
|--|---|
| Risk Governance and Culture | <ul style="list-style-type: none"> • It is designed to provide the Board and ARC with greater confidence when discharging accountability of risk taking. • Clearer accountabilities and responsibilities for each of the lines of defence. • Will help risk community to be aware of/understand what is strategically important to the business, and what to watch out for. • Pathway to upskilling 1st line of defence in proactively managing risks. |
| Risk Strategy and Objective Setting | <ul style="list-style-type: none"> • Will help risk community to be aware/understand what is strategically important to the business, and what to watch out for. • Standardised tools and techniques have been developed to populate risk registers which have improved the quality of outputs. |
| Risk in Execution | <ul style="list-style-type: none"> • A comprehensive identification and prioritisation of top down risks. • Helps to recognise how a lack of, or gaps in controls could be driving incidents or near misses. |
| Risk Reporting and Communication | <ul style="list-style-type: none"> • Gives a single point of reference. The insights will help to answer the question, how broad are the risks we are considering? • Gives a way of aggregating proactively similar lower level risks, which occur on multiple risk registers, e.g. conduct, BCP etc. at a consolidated group level. • The reporting will help the business “join the dots” on risk matters. The format has been created with the view that it will convey insights on risks that truly shape our performance, by connecting management with the rest of the organisation on risk matters. |
| Oversight and Assurance | <ul style="list-style-type: none"> • The grouping of key risks under the relevant principal risks will give a meaningful representation of the risk picture. • Allows for more targeted stress testing and focused assurance activity. |

How have we engaged with the business?

14. Following completion of the Supply Chain pilot, the Placemat approach was applied to the rest of F&O. In parallel, we have also applied the Placemat approach to LRG. This work has involved approximately 50 workshops and follow up meetings across 24 teams. We have engaged with GE and Senior Management to identify “top down” risks and outcomes ensuring that process and outcomes are aligned. Introductory sessions have also been given to other parts of the business to get wider feedback and support in preparation for future roll outs.

15. We are engaging with a number of project teams to remove duplication and leverage outputs with GDPR, Joiners Movers Leavers and Legal and Regulatory Framework.

How do you read the Placemat and what is it telling us?

16. Once fully completed, the Placemat will provide a view of how well the Post Office as a whole (and by each business area) is managing the principal risks to the business. The principal risks listed in the Placemat (Appendix 1) are the main types of risks that a business is likely to face. The risks in each business area are mapped to these principal risk types and the effectiveness of existing controls is assessed. The harm table, which together with a risk matrix, underpin the Placemat’s overall RAG scores. The completed Placemat for the F&O business

area is shown in Appendix 1. A consolidated Placemat will be presented at future meetings, reporting risks by exception in each business area, and allowing the business and the ARC to focus on the key risks and their mitigating actions.

17. So far, for the completed business areas, the Placemat is telling us;

F&O has identified 34 top down risks, converged into the 3 net risk RAG rating categories and based on the average impact / likelihood (I/L) from the harm-table scales.

Influencing Factors

- Red: 4 (67% of the net red risks), relate to 'Managing Change' as a result of the Back Office programme replacing a fragile PO SAP and HR SAP with CFS and Success Factors. There are a number of Finance / HRSC processes in scope which directly drive our numbers. Refer to Appendix 2 for further detail on mitigating actions.
- Amber: 11 (50% of the net amber risks) are assessed at I/L 2:5, with the concentration of these in Network Operations and an alignment to a corresponding project either planned or underway. All risks have amber rating parity in their respective Placemat risk categories.
- Green: 3 (50% of the net green risks) are assessed at I/L 5:1 and whilst a green at PO level, at a local level, have been reflected in the Placemat as Amber.

LRG has identified 10 top down risks.

Influencing Factors

- Red: 1 assessed at I/L 4:3, relating to 'IT Security' as a result of known exposures across our security infrastructure.
 - Amber: 7 (88% of the net amber risks) are assessed at high amber, including 2 emerging risks relating to the potential impacts from an adverse outcome from Postmaster litigation and delays through lack business engagement in GDPR project. All risks have amber rating parity in their respective Placemat risk categories.
 - Green: 1 assessed at I/L 2:2 and whilst a green at PO level, at a local level, have been reflected in the Placemat relating to 'Governance' as Amber.
18. This is not a one-off exercise. The Placemat results for each business areas will be formally reassessed quarterly, which will involve the identification of any new risks and review of current ones. It will also involve closing off risks that are no longer relevant. This process will be fully scoped and piloted for F&O and LRG during October, and presented back to the RCC and ARC in November. Whilst reassessment will be completed quarterly, we are educating teams on how to build risk DNA into business as usual. Examples of this resonates through, ownership of proactive risk management, discussion at local and lead team meeting and understanding the root cause of incidents, e.g. linking it to risk.

19. At each ARC meeting the paper will set out the movement of principal risks based on the "top down" view profile, as well as any mitigating factors, informed by either a roll out to a new business area or reassessment of an existing business area.

What are the governance arrangements in "run state"?

20. Accountabilities in the "run state" will be split between the 3 lines of defence. In the "run state" 1st line (the business) will take the lead, with 2nd line (risk and control functions) moving from enabling to check and challenge. The 3rd line (internal audit) will provide independent assurance on the results.

What is the timing of the wider Placemat delivery?

21. During September, we will complete the Placemat rollout with Government and Payments Services. In parallel, we are completing with Telecoms, prioritised to support the business's preparedness for ICO PECR audit planned for January 2018. A wider roll out to FS is proposed in October. We aim to fully populate the Placemat by the end of the 2017-18 financial year with PO-wide reporting brought to the May RCC and ARC.

APPENDIX 2

| Finance & Operations Risks | | Principal Risk | SLT Accountability | SME Accountability | Impact | Likelihood | Risk Score | Comments |
|----------------------------|---|---|-----------------------|------------------------------|--------|------------|------------|--|
| High Risks | | | | | | | | |
| 1 | Retail proposition is not attractive, churn is rising, risking 11,500 | Manage process and deliver services | Mark Ellis | Tom Moran | 4 | 4 | 16 | Projects to mitigate include: simplification, extension of automation to agency branches, white space and new retain value proposition to multiple partners. |
| 2 | High levels of change will cause fragile systems to fail | Managing change | Ben Cooke | Tim White | 4 | 4 | 16 | There are a significant number of business and IT programs impacting applications and processes. All of these programs must follow the IT change process when making technical changes, and each are supported by enterprise architecture, checking designs to ensure overall coherence. |
| 3 | We have to replace POLSAP or shore it up, creating existential risks | Managing change | Amanda Radford | Danielle Goddard / Ben Cooke | 5 | 3 | 15 | The Back Office programme will migrate POL SAP to CFS. The scope covers a number of processes which drive our financials e.g. client settlements. A controls contractor is now embedded within the Programme to oversee migration. POL SAP balances, access profiles (baseline and process) and financial reporting controls will be formally signed off by the Financial Controller and the Financial Accounting and Governance Manager before migration. If POL SAP is not replaced it will be out of support. The existential risks could result in a misstatement of the numbers. |
| 4 | We have to deliver agents pay via CFS | Managing change | Amanda Radford | Joe Connor / Ben Cooke | 4 | 3 | 12 | The agent remuneration project will be live by Feb 2018. Pre-prod dual running Nov and Dec. Prod dual run in Jan. Full calculation in the new model only by Feb 2018. |
| 5 | We have to deliver payroll via SF, building on a fragile HRSC | Managing change | Angela Van-Den-Bogerd | Joe Connor / Martyn Lewis | 4 | 3 | 12 | Success Factors Programme is replacing a number of services currently provided through HR POLSAP and the Back Office Transformation programme is working on the POLSAP Process Migration, with a current view that this will be live by June 2018. This will allow us to decommission POLSAP by September 2018. Data archiving and residency of POLSAP is being investigated. |
| 6 | We are using too much cash, risking loss, funding costs and change funding | Sufficient cash / headroom | Russell Hancock | Doug Brown | 3 | 4 | 12 | A project team is reviewing cash management in its entirety focusing on forecast completeness and inaccuracies. The 'cash declaration' element of the project is critical as without it being right the team will not know what should be in branch. Additional resource in post will look to improve the customer experience of getting cash out and will also be tackling excess cash to reduce fraud / losses. Separately the Forex experience is being reviewed. Projects are scheduled to complete by year end. |
| Medium Risks | | | | | | | | |
| 7 | Financial Reporting is inaccurate creating reputational damage | Reporting results and providing data accurately | Amanda Radford | Danielle Goddard | 5 | 2 | 10 | The Financial Controls Framework (FCF) has been extended to cover FCS processes, branch corrections, agent debt and POMs processes. This work has now started. FCF controls are self assessed by owners monthly. |
| 8 | Safety outcomes are not world class and where they are not in line with required legal and regulatory standards, may lead to serious injury | Keep our people, customers and third parties safe | Angela Van-Den-Bogerd | Martin Hopcroft | 5 | 2 | 10 | Additional Person in Control training has been provided to DMB managers and colleagues and Supply Chain Managers. Over the next 3 months additional training will be provided to all Support teams. Work is ongoing to ensure contractors are clear on roles and responsibilities. The scope of agent activities and opportunity for Post Office to provide guidance is also under review. Additionally, to reduce overall Health & Safety risk, a deep dive review of Health & Safety has been undertaken by the GE Safety Committee and action agreed to reduce each area of risk, reporting to the Committee on a monthly basis at the Operations Board with subsequent 6 monthly 'deep dive' reviews planned. To assess the robustness of the Safety Management System and to identify improvement opportunities to meet World Class level, an independent 3rd party audit is also being planned for Q3. |
| 9 | Our MI is limited leading to poor decisions | Reporting results and providing data accurately | Amanda Radford | Somita Yogi | 2 | 5 | 10 | The Head of Management Information is working with Amanda Radford (Financial Control) and Ben Cooke (IT) to move forward with a business case which considers, what our current constraints are and how we should we move forward (implementing proper structure and tooling to rectify). There are also plans to do a proof of concept for rolling out self-service tool. |
| 10 | We appoint unsuitable applicants leading to performance issues and re-work due to increased terminations through losses. | Manage process and deliver services | Mark Ellis | John Breedon | 2 | 5 | 10 | A review of applications process has been complete and plan for implementing recommendations is now being developed. |

| | | | | | | | | |
|----|---|-------------------------------------|------------------------------------|---------------------------|---|---|----|--|
| 11 | Agents or other third parties steal from us and lose our money | Managing losses and fraud | Mark Ellis | Mark Raymond / Kim Abbott | 2 | 5 | 10 | Paramount is the need to ensure the recruitment process and vetting attract lower risk individuals and that contracts are enforced robustly. The Fraud Analysis team aim to identify losses early so early intervention via telephone or scheduling audits can take place. In addition a system for early intervention is to be introduced where activity will include tasking Security Operations to make visits to identified branches. External company review – EXL are engaged on a piece of work to look to streamline and make more effective the Fraud Analysis Team's reports and analysis. A new debt recovery and investigation process is going to be introduced to recover losses in a far more timely manner including partnership approach reviewing live cases with Security Operations, legal team, contracts and agent debt teams to establish clear action plans to recover loss. Branch Communications including notifications of convictions are to be publicised as a deterrent. Moving forward test cases to prosecute will be identified with a view to returning to a full Prosecution Policy where Proceeds of Crime Act can be utilised, making POL an unattractive business to steal from. |
| 12 | Limited monitoring of and communication with agents, reducing conformance | Managing losses and fraud | Mark Ellis | Kim Abbotts | 2 | 5 | 10 | An annual call plan has been developed. Monthly calls to branch are made on a prioritised basis. The Branch Standards team are unable to currently fulfil level of demand which has been raised with GE. The benefits of re introducing post appointment visits are being considered. |
| 13 | Branch opening hours are wrong, affecting customers | Manage process and deliver services | Mark Ellis | Tom Moran | 2 | 5 | 10 | The Opening Hours Project is under way, with the first batch of work focusing on cleansing data. Q4 'business as usual' activity is planned with the Branch Standards team. |
| 14 | Debt recovery is slow and ineffective creating loss | Managing losses and fraud | Stuart Nesbit | Michelle Stevens | 2 | 5 | 10 | A new faster debt path was designed at a recent workshop. Recovery letters are being redrafted with Legal and then issued, which initially will be a manual process to monitor their effectiveness. We are currently looking to develop a more sophisticated debt management system, which will enable the better integration of management information. |
| 15 | Informal controls and compliance over Operations | Control activities | Various | Danielle Goddard | 2 | 5 | 10 | Refer to risk 7 comments. |
| 16 | We can't communicate effectively with all of our people | Communicate, inspire and align | Russell Hancock Mark Ellis | n/a | 2 | 5 | 10 | |
| 17 | Our change is delivered late, risking costs and benefits or has unintended consequences | Managing change | Angela Van-Den-Bogerd | Jenny Ellwood | 2 | 5 | 10 | Work is underway to assess the do-ability of the integrated plan. Looking at this from an IT, Network, Network Operations, HRSC and FSC perspective. The Gating process is also under review and plans underway to re-educate and reinforce minimum standards with our change governance and controls. The results of this will be presented to ECG in September. Additionally, Stuart Nesbit (FSC) is leading on a review of the forecast and phasing of spend and benefits with the FD's. Once the accuracy of this is validated, variances will be tracked and the reason for those variances tracked for trends and concerns. |
| 18 | Manual processes mean we can't demonstrate compliance on agent vetting and training | Manage process and deliver services | Angela Van-Den-Bogerd / Mark Ellis | John Breedon | 2 | 5 | 10 | The Enhanced User Management Programme is looking to control access to Horizon which will be subject to successful vetting and training. New starters will not be able to obtain Horizon access until vetting and training is successfully completed, making it easier to control. Existing staff will have access to Horizon removed if they do not pass the required compliance training (access could be to a product set or to the full system, depending upon which training they do not sit and pass). However, this Programme is under pressure and has only an approved plan to deploy to '500' branches, which if all goes as planned will commence with 50 branches on 11 September and be complete before the December change freeze. |
| 19 | A lack of training and support for newer agents creates loss and churn | Manage process and deliver services | Mark Ellis | Pam Heap | 2 | 5 | 10 | A structural review of the field teams (Network Ops) is under way. A full review of agent training material is to be completed with the Learning Team. |
| 20 | We report net liabilities reducing confidence in Board and third parties | Procure | Amanda Radford | Danielle Goddard | 3 | 3 | 9 | Various reviews have been completed considering how we increase net asset provision. |
| 21 | Limited DR/BCP plans, largely untested increase the impact of systems and site loss | BCP | Various | Tim Armit / Mick Mitchell | 3 | 3 | 9 | Ongoing enhancement of plans and strategies is being completed across Supply Chain, Chesterfield and Bolton. Chesterfield has a tested recovery solution with SunGard. Supply Chain depots are all being taken through training and the Stay Calm manual rewritten. A recovery solution for Bolton has been proposed and is being considered. Finsbury Dials work at home exercise is planned in August 2017. Risks, impacts and strategies will be developed across all areas in 2017/18. |

| | | | | | | | | |
|-------------------|--|-----------------------------|-----------------|------------------|---|---|---|---|
| 22 | Loss of Swindon operation causes widespread product loss | BCP | Russell Hancock | Rhys Davies | 3 | 3 | 9 | With the closure of Merlin House the contingency for Swindon (albeit on a limited line basis) there is currently, no alternative physical space to put it. A like for like alternative is being scoped at Swansea CVIT – albeit with the same constraints. |
| 23 | We do not have sufficient funds to create a sustainable business | Sufficient cash / headroom | Amanda Radford | Danielle Goddard | 4 | 2 | 8 | A number of initiatives are in place to ensure efficient use of our working capital (particularly our cash inventory - see 6 above) to ensure we create as much headroom under our facilities as possible. In addition, we are formulating a negotiation strategy with Santander to reduce the constraint on headroom driven by their security arrangements and are in talks with banks to arrange up to £50m of standby facilities. Both these initiatives will create additional headroom capacity under existing facilities. |
| 24 | Limited cash data and forecasting leads to a facility breach | Sufficient cash / headroom | Amanda Radford | Mark Dixon | 4 | 2 | 8 | We primarily manage this risk by ensuring we have accurate cash forecasting processes in place. This is a focus for us and there are a number of initiatives in place to improve cash flow forecasting, including the Cash Management project. We approach cash flow forecasting from 2 perspectives: (i) cash in / cash out for the short term view (Treasury); (ii) projections of balance sheets for the medium / long-term view (FP&A). The short-term approach becomes less accurate the further out that you go and hence the need to have two approaches and to align them. We have a daily 8-day rolling forecast in place making use of our TMS to consolidate cash flows. The use of the TMS rather than a reliance on spreadsheets enhances controls. We have put in place weekly and monthly reporting and variance analysis which we distribute to senior management as well as daily reporting and variance analysis which is distributed to the Head of Treasury. The Teams focus is on improving our forecasting using this variance analysis. As a result we have built a new model to forecast Note Circulation Scheme balances, an area in which we clearly need to improve. As a result of OSOP changes in the Wholesale Cash Team, and hence reduced resource levels, there are delays in implementing the new model. We now need to focus on improvements around process and modelling of the medium term and will be addressing this within the cash management project. |
| 25 | We cannot report, forecast or optimise branch cash | Ensuring sustainable profit | Russell Hancock | Doug Brown | 2 | 4 | 8 | A new system is being implemented through Back Office (scheduled for March). The Supply Chain element of POL SAP will move to CWC. This will enable us to forecast more accurately, for example the dates forecasted on will be system driven. This will give us the functionality to create, change events and cleanse data to better reflect normal trading. Branches will also be able to order cash online which will improve the overall experience. |
| Watch List | | | | | | | | |
| 26 | We are not compliant on tax attracting fines and censure | Record and pay taxes | Amanda Radford | Mark Dixon | 3 | 2 | 6 | Although Tax will consist of one individual going forward, there are a number of trained accountants involved with tax preparation at POL. Where specialist input is required additional information is requested from external providers, which by nature of experts and regulated in their chosen field. It is anticipated that the going forward, people other than the new tax manager will be involved in the preparation, with the manager performing review. This will ensure adequate segregation of duties, and also that a 'four-eyes' review has been adopted. This process will take a number of months to be embedded. |
| 27 | We procure badly, destroying value | Procure | Barbara Brannon | William Porter | 3 | 2 | 6 | Sourcing Council will be embedded into change management cycles by the end of year. Category Managers will lead on providing clear content requirements. Business leads will be required to attend meetings, with GE or SLT sponsor signing off the process agreed. Our ability to track spend against supplier will be improved in the short term through a monthly spend report generated showing contract value and forecast by October. Work is nearing completion to review suppliers, where spend is over £5k and allocate owners. The longer term solution will be a contract management system. A business case for this is currently being reviewed. Our ability to manage procurement documentation will be improved through the digital 365 project to SharePoint. A document standard for physical / electronic storage will also be drafted. Bravo will be used by Category Managers to currently plug gaps. The longer term fix for this will be the implementation of a Contract Manager system. |

| | | | | | | | | |
|----|---|---|-----------------|--------------------------------------|---|---|---|--|
| 28 | We procure illegally, attracting fines and censure | Compliance with laws and regulations | Barbara Brannon | William Porter / Jacqueline Scott | 2 | 3 | 6 | Over the next couple of months the Procurement Policy will be refreshed, articulating how to buy and communicated to colleagues / suppliers. This will include a no pay policy. Procurement are also proposing the following: 1. SAP requisition workflow will be also adjusted to move Procurement to the start of the process to help embed. 2. A minimum requirement for all project works to have procurement provisional budget to be introduced. Pipeline accuracy to be Procurement and Category Manager KPI by October. Pipeline will be published to key stakeholders to support business prioritisation. Non-compliance continues to be logged, tracked and escalated to GE and RCC. |
| 29 | We do not keep cash physically secure | Physically secure | Russell Hancock | Mark Raymond / John Flood | 5 | 1 | 5 | 2-3 million is either on the processing floor trays, cages or sealed covered by CCTV. 10-20 million is held in the operational vault. 100-200 million is held in the bonded vault. |
| 30 | Risk of kidnap in SC etc. | Physically secure | Russell Hancock | Mark Raymond | 5 | 1 | 5 | Tiger kidnap training is delivered annually to all staff in Supply Chain. Winter safety awareness training also covers route changes etc. |
| 31 | Risk of political/social violence in Northern Ireland | Keep our people, customers and third parties safe | Russell Hancock | Mark Raymond | 5 | 1 | 5 | In terms of public order in Northern Ireland, to date, 2017 has been widely described as the most peaceful for some years although there remain numerous social and political issues in many communities across the province with some being subject to violent criminal activity. Dissident Republican Terrorist activity has increased significantly with the Police Service of Northern Ireland (PSNI) being the primary target. POL Security is updated by the PSNI on a regular basis of all risks and potential risks to the business. The general risk to POL NI remains at Moderate. |
| 32 | Financial forecasting is limited | Ensuring sustainable profit | Amanda Radford | Ian Lakin | 1 | 5 | 5 | A new interim head of FP&A has been appointed who will review the current reporting and forecasting processes which will look to address the risk. |
| 33 | Purchase to pay process is complex leading to errors and delays | Make payments | Stuart Nesbit | Barbara Brannon | 1 | 5 | 5 | Procurement and FSC are working closely to improve vendor and business conformance to ensure payments are made within 30 days as per the Performance and Reporting requirements due to come into effect in 2018/19. |
| 34 | We do not settle accurately and quickly with clients | Make payments | Stuart Nesbit | Kay Wilson | 4 | 1 | 4 | Due to the low probability no specific additional plans. In the event of system outage manual workarounds are required which through human error could result in clients being paid incorrectly, despite additional checking. The Back Office programme is looking to remove the manual nature. |

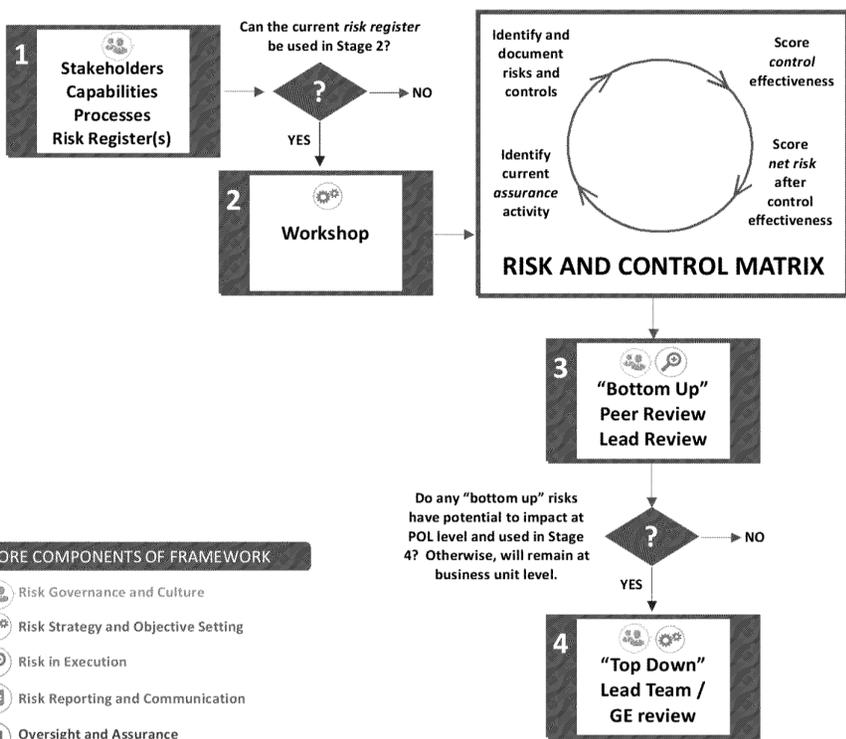
APPENDIX 3

| Legal, Risk & Governance Risks | | Principal Risk | SLT Accountability | SME Accountability | Impact | Likelihood | Risk Score |
|--------------------------------|---|--------------------------------------|--------------------------------|--------------------------------|--------|------------|------------|
| Risk List | | | | | | | |
| High Risks | | | | | | | |
| 1 | Failure to identify and control the insider threat and include security controls in contracts with suppliers. | IT Security | Jules Harris | Mick Mitchell | 4 | 3 | 12 |
| Medium Risks | | | | | | | |
| 2 | Adverse outcome from litigation. | Litigation | Jane Macleod | Mark Underwood | 5 | 2 | 10 |
| 3 | Failure to comply with contractual requirements. | Contract Management | Ben Foat | Ben Foat | 3 | 3 | 9 |
| 4 | Poor oversight over contract management. | Contract Management | Ben Foat | Ben Foat | 3 | 3 | 9 |
| 5 | Increased visibility of POL and POMS to regulators e.g.. ICO re GDPR, HMRC re AML/CTF, FCA re POMS expansion, FCA via Banking Framework. | Compliance with laws and regulations | Jane Macleod | Ben Foat | 3 | 3 | 9 |
| 6 | Lack of GDPR engagement by the business (e.g. around identifying data architecture) has the ability to cause material delay to the programme. | Information Protection | Mark Underwood | Claire D'Netto | 3 | 3 | 9 |
| 7 | We do not have sufficient or appropriate BCP arrangements in place that are documented, understood and tested. | BCP | Tim Armit | Tim Armit | 3 | 3 | 9 |
| 8 | Risk management isn't fully developed and embedded, e.g., no mature risk culture, monitoring, oversight, appetite, policy and compliance framework. | Governance | Richard Williams, Deana Herley | Richard Williams, Deana Herley | 3 | 3 | 9 |
| Watch list | | | | | | | |
| 9 | Business model is not sustainable in light of increasing regulatory requirements. | Compliance with laws and regulations | Ben Foat | Ben Foat | 2 | 3 | 6 |

APPENDIX 4

Placemat Build Process

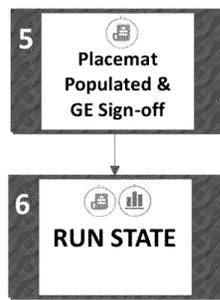
Risk and Control Matrix & "Top Down" Perspective



CORE COMPONENTS OF FRAMEWORK

- Risk Governance and Culture
- Risk Strategy and Objective Setting
- Risk in Execution
- Risk Reporting and Communication
- Oversight and Assurance

Placemat



KEY STAGES OF THE BUILD PROCESS

- 1** As an initial step, the capabilities within the Target Operating Model (TOM) were firstly re-assessed with management from which key enabling processes, risks and controls were identified.
- 2** The assessment of the risk and control environment was undertaken through a series of workshops and follow up meetings with relevant colleagues. As part of the process, Team Leads in conjunction with their teams assessed the risks before and after the application of their mitigating controls using the harm table taking into consideration assurance results, historical incidents and audit findings.
- 3** The RACMs were shared with relevant teams and SMEs to review and feedback. The outputs will be used as Risk Registers going forward. Further work will be completed at each re-assessment on the articulation of risks, controls, assurance and ratings are proportionate. This activity has also given management an opportunity to voice risk concerns and ask for risk guidance.
- 4** The "bottom up" outputs have been reviewed by the GE member with their Lead Team to determine a "top down" function view. This exercise has informed which principal risk categories of the Placemat were applicable, or where reliance is placed on controls operated by other business areas.
- 5** As a final step the Placemat has been populated with an overall RAG status and Risk Rating by assessing and rating the aggregation of each functions "top risks" against the Placemat principal categories.
- 6** As Each RACM has a first line owner who is responsible for maintaining it. Reassessment of the Placemat will be completed quarterly

IT Controls Update

Author: Rebecca Barker Sponsor: Sharon Gilkes, Rob Houghton Date: 25th September 2017

Executive Summary

Context

The purpose of this paper is to update the Audit & Risk Committee on the status of the IT Controls Framework; the most recent remediation plans; any emerging issues or developments; and the next steps of the project.

Questions addressed in this paper

- What is the current status of the IT Controls Framework?
- What are the latest control/remediation results & what does this mean?
- How will the controls reduce our risks?
- What are the next steps?

Conclusion

Of the 193 controls in the IT Controls Framework, 108 are implemented, 64 are partially in place (they do not fully mitigate the risk) and 21 controls are missing. Compared to other IT Control Framework projects, the level of control gap is not unusually large for this stage in the transformation.

We are meeting our forecast of the key controls being implemented. This is because a number of remediation activities are reliant on key programmes including the Security Operations Centre (SOC) and the implementation of the new Service Integrator Target Operating Model. Remediation activities will be implemented as these programmes deliver during 2017/18 and we are adjusting our plan to reflect this.

We have reviewed the Manage Security and Manage Security Services Risk and Control Matrix and identified a number of controls that will reduce the overall risk severity on the IT Risk Register; we are prioritising these.

We have set a target to close the remaining gaps in the IT Controls Framework by March 2018. We expect to have controls operating against all identified key risks by fiscal year end, with every control having been through at least one round of self-assessment and sample audit checks undertaken on each process.

Input Sought

The Audit & Risk Committee is asked to note the progress made and comment on the approach and priorities.

The Report

What is the current status of the IT Controls Framework?

1. We are proceeding with the 11 processes in Tranche 1 (Priority 1 – see Appendix 2) included in the original scope of the IT Controls Framework. These are currently going through remediation assessment: ensuring that controls owners are being identified and remediation actions are being assigned. Remediation is being monitored by IT Risk Management and KPMG.
2. We have reviewed and have full remediation plans for 4 Processes: Incident Management, Change Management, Manage Security and Manage Security Services.
3. The number of controls has slightly decreased from 215 in July to 193 in August. This is due to consolidation and removal of several controls to better match the control environment with the needs of the Post Office. We have reviewed these controls with the Control Owners and Internal Audit, and actioned their feedback.
4. Of the 193 controls, 108 are implemented, 64 are partially in place (i.e. they address some but not all of the risk), and 21 are currently not in place. For all the controls which are not implemented, we have identified and graded the severity of gaps. This assessment has been refreshed to include likelihood (see Appendix 1 for the new criteria).
5. Out of the 193 controls we have categorised 114 as Key Controls. These have been assessed by the level of risk to the business i.e. “What is keeping us awake at night?” The Key Controls will be remediated as a priority.
6. Following remediation workshops we have identified that the design of 108 controls is implemented. These controls have not been subject to detailed testing and we may identify that the remediation activity is insufficient. Further information on testing can be found below.
7. To enable ongoing monitoring of IT Controls Framework and controls self-assessment, we have been developing test scripts for each individual process. This will include sample testing and review of evidence retained as a result of IT Controls Framework controls operation. The main purpose of test scripts is to enable testing of controls found to be already in place and overall operating effectiveness of controls as gaps are remediated.
8. We have discussed the requirements for the upload of the Risk and Control Matrices into TrAction with Internal Audit. We have submitted 2 Risk and Control Matrices to the TrAction team, and we are investigating the cost and timescale required to upload the 11 Risk and Control Matrices.
9. Incident Management, Business Continuity and Managed Security Services have the highest number of controls not in place. This is because a number of the controls are reliant on the implementation of the Security Operations Centre (SOC), which is expected to be in place in Q4 and also the delay of the Target

Operating Model with our Service Integrator and staff resource within the Service Delivery team.

What are the latest control/remediation results?

10. The results of August 2017 remediation activities are summarised in the table below

| Across 11 processes | | | | |
|---------------------|-------------|----------------|-------------------------|--------------|
| Design of Control | Actuals (%) | no of controls | Actuals on key controls | key controls |
| Implemented | 56% | 108 | 49.12% | 56 |
| Partially in place | 33% | 64 | 37.72% | 43 |
| Not in place | 11% | 21 | 13.16% | 15 |
| Total | | 193 | | 114 |

All controls

| Per RACM | CM | IM | PM | MCAT | MS | MSS | MSA | MSP | MAC | MO | MC |
|--------------------|-----------|-----------|-----------|-----------|----------|-----------|-----------|-----------|-----------|-----------|-----------|
| 1 | 5 | 1 | 0 | 3 | 4 | 5 | 4 | 4 | 3 | 17 | 2 |
| 2 | 2 | 5 | 5 | 8 | 2 | 8 | 2 | 6 | 5 | 7 | 10 |
| 3 | 6 | 11 | 5 | 9 | 2 | 14 | 4 | 2 | 5 | 2 | 4 |
| 4 | 1 | 1 | 1 | 1 | 0 | 7 | 2 | 1 | 1 | 2 | 4 |
| Total | 14 | 18 | 11 | 21 | 8 | 34 | 12 | 13 | 14 | 28 | 20 |
| Implemented | 50% | 33% | 45% | 52% | 75% | 38% | 50% | 77% | 57% | 86% | 60% |
| Partially in place | 43% | 61% | 45% | 43% | 25% | 41% | 33% | 15% | 36% | 7% | 20% |
| Not in place | 7% | 6% | 9% | 5% | 0% | 21% | 17% | 8% | 7% | 7% | 20% |

Key controls

| Per RACM | CM | IM | PM | MCAT | MS | MSS | MSA | MSP | MAC | MO | MC |
|--------------------|----------|-----------|----------|-----------|----------|-----------|----------|----------|----------|-----------|-----------|
| 1 | 2 | 0 | 0 | 2 | 3 | 3 | 2 | 3 | 0 | 7 | 0 |
| 2 | 1 | 4 | 4 | 4 | 0 | 8 | 0 | 2 | 2 | 3 | 6 |
| 3 | 4 | 7 | 3 | 4 | 2 | 11 | 2 | 2 | 4 | 1 | 3 |
| 4 | 0 | 0 | 0 | 1 | 0 | 6 | 1 | 1 | 1 | 1 | 4 |
| Total | 7 | 11 | 7 | 11 | 5 | 28 | 5 | 8 | 7 | 12 | 13 |
| Implemented | 43% | 36% | 57% | 55% | 60% | 39% | 40% | 63% | 29% | 83% | 46% |
| Partially in place | 57% | 64% | 43% | 36% | 40% | 39% | 40% | 25% | 57% | 8% | 23% |
| Not in place | 0% | 0% | 0% | 9% | 0% | 21% | 20% | 13% | 14% | 8% | 31% |

| | April | May | June | July | August | September | October | November | December | January | February | March |
|--------------------------------|-------|-------|--------|-------|--------|-----------|---------|----------|----------|---------|----------|-------|
| Target (controls implemented) | 45.0% | 50.0% | 55.0% | 59.0% | 59.0% | 59.0% | 59.0% | 60.0% | 73.0% | 75.0% | 90.0% | 95.0% |
| Actuals | | 50.0% | 50.39% | 59.0% | 59.0% | | | | | | | |

11. We have adjusted the scorecard to reflect the remediation implementation dates which takes into consideration the new Service Integrator Target Operating Model and Security Operations Centre go live dates. The alignment to these programmes enables an increase in implemented controls from December. This reflects the new Service Integrator Target Operating Model going live in November, followed by the Security Operations Centre go-live in February 2018.

12. We have identified 114 key controls and, whilst this is a high proportion in comparison to the overall number of controls, we believe this represents the minimum set of controls required to mitigate our current IT risk profile which is outside of our risk appetite. (refer to appendix 1 for the assessment of a key control)

How will the controls reduce our risk?

13. We have reviewed the Manage Security and Manage Security Services Risk and Control Matrices' and identified a number of controls (see table below) that will reduce the overall risk severity on the IT Risk Register; we are prioritising these.
- Effective Incident Management/Change Management controls would have reduced the overall risk of a Severity 1 incident which occurred on the 30th April 2017 and resulted in lack of connectivity to the live service for multiple branches. In this case, back-end maintenance was not managed via the correct Change Management channels and this resulted in an engineer accidentally shutting down the system. If the correct controls had been in place to ensure that all maintenance/ prerequisites/ benign changes were visible to the Service Integrator and Post Office the impact may have been reduced. Human error cannot be prevented but the controls around Incident Management/Change Management would have reduced the overall likelihood and impact.
 - Effective Manage Change and Acceptance controls would have reduced the overall risk of an incident which occurred in June which resulted in customers being unable to make Metrobank cheque deposits. The issue was the result of a change that had taken place within the clients' domain which had not been tested correctly. We have several controls with the Manage Change and Acceptance process which will reduce this risk going forward. One of the key controls to support this will be that a model test environment is in place which is representative of current and future production environments. The remediation is currently being identified.

High Risks from the IT Risk Register

Tier 1 Controls from Manage Security Services RACM (part of IT Controls Framework)

| Risk Title | Risk Description | Control Remediation/Action Log | Tier 1 Controls and Remediation Action |
|--|--|---|---|
| Vulnerability Testing | Failure by Post Office to ensure there is adequate security to prevent attacks both on the infrastructure and end point across all services that accept, process, store or transmit personal data maintain a secure environment. may lead to legal and regulatory breaches, Resulting in fines/sanctions, financial loss / Service Loss and reputational damage. | <p><u>Lenovo BIOS Vulnerabilities</u> -</p> <p>Lenovo have recently confirmed a BIOS vulnerability exists on Lenovo devices, and a firmware update to resolve the issue has been released. The BIOS is built in software that directs the Operating System at device start -up. To realise the risk an unauthorised party with physical access to the device could potentially take control of it and disable or bypass some security controls. Exploitation would require that the user then accessed the device or had allowed their credentials to be compromised if the device was stolen. Likelihood is low because physical mitigation controls are in place such as restricting access to the buildings and logical controls to restrict access to malicious internet sites necessary to complete the exploitation. Our devices are constantly monitored for malware, and our infrastructure for unauthorised traffic. In the event that a device is found to be compromised, external connections are restricted, thus restricting the potential for data to be exploited. As devices are returned to Computacenter for repair/rebuild the BIOS update is being applied, applying the update remotely to devices in the estate has a high risk of rendering them inoperable</p> | <p><u>Control MSS -C1.1</u> Malware protection tools have been installed on all equipment used for PO business, and updates performed regularly.</p> <p><u>Remediation MSS -C1.1</u> Malware control is in place. The Control Owner in Mick Ebsworth's team needs the support of CC to run this report biannually.</p> <p><u>Control MSS -C2.3</u> Network filtering mechanisms have been implemented, such as firewalls and intrusion detection software, with appropriate policies to control inbound and outbound traffic.</p> <p><u>Gap MSS -C2.3a</u> There is no monitoring of data centre traffic by PO, and no logs are stored for any intrusions or threats. There is no coordinated communication procedure of attacks across the multiple data centres hosting PO information.</p> <p><u>Gap MSS -C2.3c</u> There is no visibility over how often vulnerability and intrusion scans are performed and the outcomes of such exercises. For example, the logs of security related events are kept by CC, however they are not reviewed on a periodic basis, only if an incident occurs (CC). Additionally, Verizon note that no intrusion software has been implemented currently and they are in discussions with PO regarding this.</p> <p><u>Remediation MSS -C2.3a & MSS -C2.3c</u> MSS -C2.3a We get reports on a monthly basis but not in a timely manner. We also don't have a clear visibility of the remediation that's taking place. There is remediation action taking place now to address this by 30 Oct 2017. Going forward, the control around the process will be reviewed on a monthly basis.</p> |
| SOC and supporting technology controls (Provision of Security Operations Centre IT Security) | Failure by POL IT to introduce a Security Operations Centre may lead to increased Cyber attacks, lack of enhanced visibility, lack of prompt detection of threats. Resulting in loss of service, financial loss and reputational damage. | <p><u>Network Access Control Solution</u></p> <p>Hardware assets that are not on the register on the EUC Admin network can access the network via LAN cables at the Post Office sites</p> | <p><u>Control MSS -C2.1</u> Only authorised devices (including Laptops, desktops, Mobiles and Tablets) are given access to corporate information and the enterprise network.</p> <p><u>Gap MSS -C2.1a</u> Network access is partially restricted within PO. However, 1.5 factor authentication in place which means users can only access Office 365 when connected to the PO network externally.</p> <p><u>Remediation MSS -C2.1a</u> All laptops (except BYOD) must have a valid certificate and this process is already in place. Control Owner in Mick Ebsworth's team is in the process of arranging to receive a monthly report from CC demonstrating compliance by 30 Oct 2017. Going forward, the control around the process will be reviewed on a monthly basis.</p> <p><u>Control MSS -C7.1</u> The PO have configured systems and network devices to log suspicious or anomalous behaviour, such as invalid logon attempts, out of hours failed access attempts, network penetration attempts and other security activity.</p> <p><u>Gap MSS -C7.1a</u> Currently no Service Organisation Controls (SOC) in place with third party suppliers.</p> <p><u>Remediation MSS -C7.1a</u> The services are currently completed by 3rd parties providers but not centralised into PO. PO review monthly reports on activities and advise on any incidents and risks. Current work is in progress to centralise this into the SOC Service Organisation Controls by 31 Dec 2017 with monthly reviews to take place after this date.</p> |

Next Steps

14. Continue to validate control designs and gaps with control owners and expand control design to include defined control operators and audit trail. Walkthroughs are scheduled to run over the next couple of weeks for the remaining 7 Risk and Control Matrices'.
15. Test scripts will be finalised for all 11 processes by the end of September.
16. The focus of the workshop that took place on the 7th September has shifted to finalizing the implementation targets, remediation timeline and to plan sign offs of the RACMs. The decision of frequency of testing and the costs will be discussed later this month.
17. Training with control owners will start mid-October. Following advice from the Finance Controls Project this will be carried out in a staged approach and we estimate will take 3 months to deliver.
18. Self-assessment will commence as the Risk and Control Matrices' are rolled out and training is completed with control owners.
19. As an awareness exercise and to provide support to the forthcoming EY Finance Control Audit we will share the IT Control Framework Risk and Control Matrices' for Manage Change, Manage Security Services and Manage Operations with EY.
20. Appendix 2 depicts the Tranche Priority processes for the IT Controls Framework programme. Tranche 2 process controls have not yet been started, these represent the priorities for the remainder of the fiscal year in the following order: Manage Assets; Manage Business Process Controls; Governance Framework; Enterprise Architecture; Manage Configuration and Human Resources. Gap analysis and remediation is expected to be complete by the end of quarter 4.
21. In summary, we expect to have controls operating against all identified key risks by fiscal year end, with every control having been through at least one round of self-assessment and sample audit checks undertaken on each process.

Appendix 1

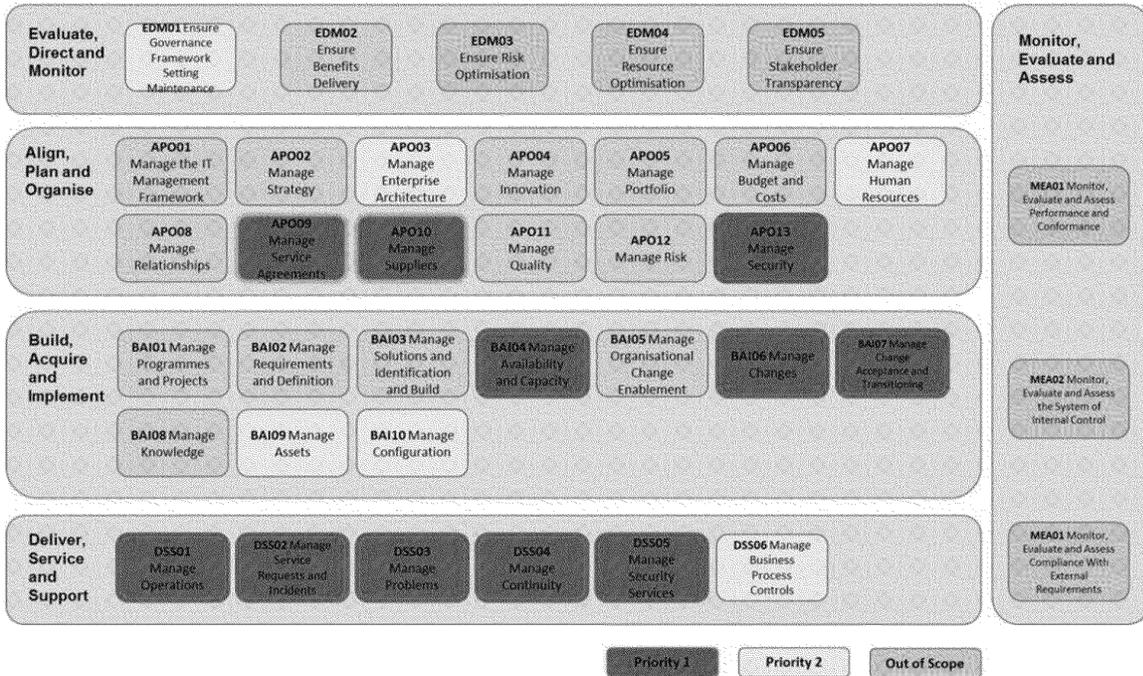
| | Confidentiality (C) | Integrity (I) | Availability (A) | Reputational Risk (R) |
|-------------------------|--|---|--|---|
| Step 1: Risk Assessment | Gap impacts the privacy of sensitive data? | Gap impacts the integrity of data? | Gap impacts the availability of systems? | Gap impacts the reputation of IT internally at POL? |
| | High: private data exposed as a result of the gap | High: Significant volume of important data lost or corrupted by the gap | High: Downtime possible at critical systems or significant downtime of other systems | High: Significant impact on multiple stakeholders |
| | Medium: commercially sensitive data exposed as a result of the gap | Medium: Some deletion/ corruption may occur as a result of the gap | Medium: Gap does not impact critical systems but may cause outage of less critical systems | Medium: High impact on individual stakeholder or some impact on multiple stakeholders |
| | Low: no private or commercially sensitive data exposed | Low: no data loss expected | Low: No outage expected | Low: Little impact on internal stakeholders |

| | Impact | Criteria for CIA | Additional Criteria for R | Example rating (CIAR) |
|---------------------------|--------|---|--|-----------------------|
| Step 2: Impact Assessment | High | One or more high risk Example: HLL | Gap stays at High risk regardless of "R" if one of "CIA" is high. High reputational risk increases the overall impact from medium to high regardless of "CIA" ratings. | HLLL MMLH |
| | Medium | Two or more medium risk Example: MML | High reputational risk increases the overall CIA impact from low to medium. If reputational risk is medium or low, the impact stays the same. | MMLL LLHH |
| | Low | Other Example: MLL | If reputational risk is medium or low, the impact stays the same. | MLLM LLML |

| | Key | Definition | % |
|--------------------|-----|-------------|--------|
| Step 3: Likelihood | 5 | Very Likely | >80% |
| | 4 | Likely | 50-80% |
| | 3 | Possible | 25-50% |
| | 2 | Unlikely | 5-25% |
| | 1 | Remote | <5% |

| Overall Tiering | | Likelihood | | | | |
|-----------------|---|------------|----|----|----|----|
| | | 1 | 2 | 3 | 4 | 5 |
| CIA&R Impact | H | T3 | T2 | T1 | T1 | T1 |
| | M | T3 | T3 | T2 | T1 | T1 |
| | L | T3 | T3 | T3 | T2 | T2 |

Appendix 2 – ITCF processes by Tranche Priority



Disaster Recovery Framework Update

Author: Mick Mitchell/Rebecca Barker.

Sponsor: Rob Houghton

Date: 25th September 2017

Executive Summary

Context

In July 2017, the POL Disaster Recovery Position paper outlined the current Disaster Recovery (DR) position within POL and the need to implement a strong DR Policy and Framework which is regularly tested and improved. This paper provides an update on the remedial actions to date.

Questions addressed in this report

- What is the progress since the last update?
- What are the next steps?

Conclusion

We have carried out a full review of the current state of key services to understand what has been tested and the status of testing that has been carried out to date. We have developed a Disaster Recovery Framework and assessed all DR services against it. 29 services are rated Gold, 10 services are Silver and 13 Bronze, based on recovery times required.

We have reviewed our DR plans with business and process owners to ensure that these plans align to the needs of the business.

We are putting action plans in place to bring non-compliant services into full compliance with the DR framework over the coming months, and will assess the costs involved to support any required contract changes. We will also review and refresh the framework, and further define Recovery Time Objectives (RTO) and Recovery Point Objectives (RPO).

Input Sought

The ARC is asked to note the progress made and comment on the approach and priorities.

The Report

What is the progress to date?

1. We have carried out a full review of the current state of key services to understand what has been tested and the status of testing that has been carried out to date.
2. We have raised a risk exception to postpone the Fujitsu Data Centre Disaster Recovery test from August 2017 to Spring 2018. This was ratified by GE in July 2017. Monthly reviews will be carried out with Fujitsu to ensure the plan to test in Spring 2018 is delivered.
3. We have defined a robust DR framework for IT Services which provides clear definition of the testing and recovery required.
4. Services are categorised by recovery time as Gold (recovery time 5 hours from invocation), Silver (recovery time 24 hours) or Bronze (recovery time 96 hours). We will further refine the DR framework to include the anticipated levels of resilience for all services.
5. We have assessed all DR services against the framework and 29 services are rated Gold, from 8 different Suppliers (further detail in Appendix A). Of the remainder, 10 DR services are rated Silver and 13 Bronze. We are still in the process of reviewing these remaining Silver/ Bronze services but can confirm that 4 Gold services are compliant with the DR framework with the rest still to be determined. We will prioritise this over the next few months.
6. We have carried out a review with business and process owners to ensure that our IT DR plans align to the Business Continuity planning needs of POL.
7. We have implemented improved governance around the process of periodic IT DR testing from our supplier base with monthly reviews with Atos now in place. In future, the postponement of IT DR tests will only be permitted subject to active challenge and subsequent sign off by IT and business owners.
8. We have reviewed the existing IT Service Recovery report that Atos provide and made key amendments that will ensure there is increased visibility of our Disaster Recovery status.
9. We have updated our risk logs to align with the above status.
10. Agreement was obtained from the Risk & Compliance Committee on the 13th September to progress with the next steps below.

What are the next steps?

11. POL IT will now ensure that actions are in place to mitigate any outstanding issues, assess the costs involved to support any required contract changes, and schedule tests that have not been scheduled or aligned to contract specifications. We expect to have an effective DR position across suppliers by the 30th June 2018.
12. We will review and refresh the framework, including the need for further definitions of Recovery Time Objectives (RTO) and Recovery Point Objectives (RPO). The framework will align with the Business Impact Assessment (BIA) that is currently being carried out under the direction of Tim Armit. This alignment will be complete in October 2017.
13. The levels of resilience will be documented for all services within the DR Framework.
14. A further update will be provided in the November ARC alongside the Business continuity update.

Appendix 1. DR Framework – Gold Services Status

| Provider | Summary | Service | Test Status | Comment |
|-----------------------------------|---|--|---|--|
| Fujitsu 8 Gold Services | There has been no formal Data Centre DR test of the Fujitsu environment since May 2013 due to Infrastructure Legacy issues. Component testing has been carried out on most of Fujitsu's platforms. We will initiate a project in Autumn 2017 with the objective of having a full DR test of the Fujitsu environment in 2018. | Network Banking Service (POCA/Vocalink /Santander) | Component test carried out in May 2016 | |
| | | Network | Component test carried out in May 2016 | |
| | | Debit Card | Last full test verified in May 2013 | |
| | | Horizon (Online Processing) | Last full test verified in May 2013 | |
| | | PODG | Component test carried out in June 2017 | |
| | | MDM | Last full test verified in May 2013. | <i>Credence & MDM platforms will migrate to a Cloud-based service platform in October 2017</i> |
| | | Credence | Component test carried out in June 2017 | <i>See MDM note</i> |
| POLSAP | Component test carried out in June 2017 | | | |

| | | | | |
|---|---|---|---|--|
| <p>BT/Verizon 1 Gold Service</p> | <p>The service is currently transferring to Verizon from BT.</p> | <p>Core Branch Network Services</p> | <p>Successful DR Data Centre failover carried out Feb 2017</p> | |
| <p>Atos 1 Gold Service</p> | <p>Atos provide IT Service Desk services to the Post Office from their two locations in Manilla, Philippines, and their Disaster Recovery Centre in Kuala Lumpur, Malaysia.</p> | <p>IT Service Desk</p> | <p>We are awaiting confirmation from Atos on their last IT Service Desk test but an account DR plan was successfully carried out in March 2017.</p> | |
| <p>HP 2 Gold Services</p> | <p>HP provide the Post Office with services for their card account product, including two gold services.</p> | <p>Card Account services - Cheque printing</p> | <p>All services have a DR test annually (last known test was July 2017). Currently waiting for a status update on this test.</p> | |
| | | <p>Card Account services - Banking Engine</p> | <p>As above</p> | |
| <p>Gemalto 1 Gold Service</p> | <p>Gemalto provide Biometric Application, Enrolment and Identification (AEI) services to the Post Office Branch Network.</p> | <p>Biometric Application, Enrolment and Identification (AEI) services</p> | <p>Last DR test May 2017. Some issues identified and actions being put in place to resolve.</p> | |

| | | | | |
|--|---|--|--|---|
| <p>VocaLink 1 Gold Service</p> | <p>Vocalink provides a payment service gateway and is protected as part of the national infrastructure. Routers are located in Fujitsu Datacentre. Vocalink switch to alternative datacentres every 3 months as they have active/active Datacentres.</p> | <p>Vocalink Payment Services gateway</p> | | |
| <p>Accenture 3 Gold Services</p> | <p>Gold Services are Credence (Software), POLSAP (Software), Common Digital Platform (CDP)</p> <p>The CDP service that supports Post Office.co.uk has been classified as a Gold service with a RTO within 5 hours. This is not backed up in the contract (RTO 21.4 hours). Business decision will be required to confirm if this is acceptable and we except this risk or potentially incur costs to reduce the contractual RTO. Meeting will be scheduled in September 2017 with the process, business and service owners.</p> | <p>Credence (software)</p> | <p>Component testing of Credence infrastructure carried out by Fujitsu June 2017</p> | <p><i>Credence & MDM platforms will migrate to a Cloud-based service platform in October 2017</i></p> |
| | | <p>POLSAP (software)</p> | <p>Component testing of POLSAP infrastructure carried out by Fujitsu June 2017</p> | |
| | | <p>Common Digital Platform (CDP)</p> | <p>CDP platform was successfully tested in October 2016.</p> | <p><i>See note in Summary column re RTO.</i></p> |
| <p>Computacenter 12 Gold Services</p> | <p>A full disaster recovery test occurred in June 2017. This exercise successfully recovered in- scope services however there were issues during testing which resulted in some failures, these included Office 365, Skype, SRM, "follow me"</p> | <p>DHCP Core Network</p> | <p>June 2017 – see note in Summary column</p> | |
| | | <p>Active Directory</p> | <p>As above</p> | |
| | | <p>Email</p> | <p>As above</p> | |

| | | | | |
|---|---|---|----------|--|
| | printing, ADFS (Active Directory File | OneDrive | As above | |
| <p>System) and SMTP. All issues have been resolved.</p> <p>Meetings will be held with business owners and Atos in September 2017 to ascertain a suitable date for re-test. Atos recommendation is for a re-test within 6 months.</p> <p>The timing of the re-test should allow Computacenter and all 3rd parties reasonable time to investigate and remediate the root cause of issues identified during the test and facilitate a successful re-test in reasonable timescales.</p> | System) and SMTP. All issues have been resolved. | SharePoint | As above | |
| | | Skype | As above | |
| | Meetings will be held with business owners and Atos in September 2017 to ascertain a suitable date for re-test. Atos recommendation is for a re-test within 6 months. | Ricoh Printer Server ("Follow Me Printing") | As above | |
| | The timing of the re-test should allow Computacenter and all 3rd parties reasonable time to investigate and remediate the root cause of issues identified during the test and facilitate a successful re-test in reasonable timescales. | Admin LAN | As above | |
| | | Firewall and DDoS | As above | |
| | | Core Network | As above | |
| | | Wi-Fi | As above | |
| | | VPN | As above | |

Financial Reporting Controls

Author: Amanda Radford

Sponsors: Al Cameron

Date: 25 September 2017

Executive Summary

Context

The purpose of this paper is to update the ARC on the status of the Financial Reporting Controls Framework (the FRC) with the latest self-assessment results as at July 2017.

In May 2017, an incident was raised regarding a £0.5m debit balance in relation to the closed Merlin House cash centre. Normal reconciliation and review procedures had not detected the unsupported balance. This paper sets out our review and conclusions on the balance.

Questions addressed in this report

1. What is the current status of the FRC?
2. What work was undertaken on the Merlin debit balance?
 - a. Investigation performed
 - b. Investigation conclusion
 - c. Changes to the control environment

Conclusions

The framework has continued to expand (269 controls at the end July 2017 from 262 at end May 2017) as we implement further new controls. Monthly self-assessment is continuing in the TrAction online self-assessment tool. Conformance remains high.

PwC internal testing of controls is complete except for spreadsheets where draft results are available. There are no red exceptions but improvement is required on spreadsheets.

The Merlin investigation work is complete. On POLSAP, a balancing account was used to mop up timing differences on the third party cash distribution business. Limited underlying transaction data was available, so the balance was monitored. On clearing the account, an unsupported debit of £0.5m was identified. Former employees, interviewed by our lawyers, have stated that the monies were lost over a period of time following system outages and despite investigation we do not have the data to prove otherwise. As we are unable to directly associate the loss with the actions of the former employees we will not be able to prosecute. We have asked HR to consider what disciplinary procedures (including recovery of any bonuses) could be available.

Strictly Confidential

The account is closed, no further similar balances have been identified, additional journal authorisation has been implemented over the underlying POLSAP entries, the number of POLSAP users has been reduced and a full count of all cash has been undertaken with no further losses identified.

Our additional procedures give confidence that this was an isolated incident. However, until POLSAP is fully replaced we retain risk and are right to undertake additional checks and post balance sheet reviews and to be prudent in our accounting judgements.

Input Sought

The RCC is asked to note the progress made and comment on the priorities.

The Report

1. What is the current status of the FRC?

1.1 The controls within the 12 processes included in the original scope of the FRC are being self-assessed by control owners on a monthly basis. Results are monitored by the FRC Manager on a monthly basis. The table summarises compliance in July.

| | | |
|--|------------|------------|
| July 2017 - Total controls | 269 | |
| Less: Controls in remediation | -13 | |
| Controls to be set to live | -10 | |
| Controls not due to be operated due to frequency | -55 | |
| Total population for self-assessment | 191 | 71% |
| Self-assessed and operated effectively | 184 | 96% |
| Self-assessed but not operated effectively | 6 | 3% |
| No self-assessment submitted | 1 | 1% |

1.2 Of the 269 controls at end July 2017, 191 (71%) were issued for self-assessment. 184 (96% of those issued for self-assessment) were operating effectively. Of the remaining 7 controls, 3 were not performed in time but were subsequently confirmed as effective, 1 was not performed effectively but mitigating procedures were reviewed, 2 related to the change in the Fixed Assets control environment which is under review, and 1 was not self-assessed but was later confirmed as effective.

1.3 Of the 78 controls not issued for self-assessment at the end of May, 55 were not due to be operated in the period. 13 controls were in remediation, and 10 were yet to be set to live. For the 13 controls in remediation, workaround controls are in place or remediation is in progress. The 10 controls being made live for

self-assessment relate to the overall control environment and have been reviewed to ensure there were no unaddressed risks which could affect the financial statements.

- 1.4 PwC have completed their independent testing of controls and have provided a consolidated report, showing that of the 80 controls tested there were 12 amber exceptions identified and no red exceptions identified. The amber exceptions mainly related to ownership issues and wording changes. These have since been resolved.
- 1.5 There were 13 open control gaps remaining at end of July 2017 for which workaround controls are in place or remediation is being completed. None are considered high risk; 9 are considered medium risk (including POLSAP journal approval) and 4 low risk. The remaining medium risk gaps are subject to additional procedures each period end.
- 1.6 A Finance Service Centre controls analyst (contractor) has now joined the FRC team and will start work on FSC controls. A permanent controls analyst has been recruited to start in October 2017, who will perform monthly testing of controls. We are still recruiting for a Masterdata specialist.

2. What work was undertaken on the Merlin debit balance?

- 1.7 The Merlin incident identified that a POLSAP user, Merlin Cash Centre Manager, was able to change the location and aging of a balance in an amalgam POLSAP such that balance sheet review controls did not detect the issue.

Investigation performed

- 1.8 In response to the Merlin incident, the following investigation work has been performed;
 - a. A review of the Merlin cash centre financial records and internal controls including review of the relevant debtor accounts, review of the cash transactions carried out by the cash centre manager, walkthrough of cash centre processes, review of cash transactions on the POLSAP outage dates, and review of BACS payments to customers. A Deloitte Senior Manager was seconded to the POL Accounting and Governance team to perform this investigation.
 - b. Formal interviews were held with the former employee to understand the causes of the unexplained balance.
 - c. A detailed post balance sheet review which focused on testing the material receivables and payables balances as at FY16/17 year end, with a focus on testing the clearing of balances (i.e. receipts or payments) after the year end, and reviewing support for any un-cleared items.
 - d. Full cash counts were performed at all cash centres

Investigation conclusion

- 1.9 The investigation performed has identified accounting entries which could relate to missing cash. However, the cause of this potential cash loss could not be confirmed to either be accounting errors following system outages, or the theft of cash. The balance is not supported by any physical cash or asset, and has been written off.
- 1.10 Whilst the balance sheet review identified a small number of adjustments, none of them were similar in nature to the Merlin balance. The total, which netted to 65k (including the £557k Merlin debit) was adjusted in the year-end financial statements.
- 1.11 The cash count results have been agreed to the POLSAP GL accounts. Some cash in despatch was not counted at the time of the count, but alternative procedures were performed to trace each of these items in Horizon to the subsequent acceptance by branches. No issues were noted.
- 1.12 Based on our work, we are confident that this was an isolated incident.

Changes to the control environment

- 1.13 In response to the Merlin incident, the following controls have been implemented;
- a. An authorisation process over high value manual journals in POLSAP has been implemented and is being sample tested each period end.
 - b. POLSAP user access has been reviewed and 54 roles have been removed in order to reduce risk.
 - c. A control is being introduced to the framework for a bi-annual full cash count at all cash centres.

Appendix 1 – July 2017 CSA results by process

| Controls | | Control Gaps | | | Control Owners | | July 2017 CSA Results (submitted August 2017) | | | | | |
|------------------------|----------------|--------------|----------------------|----------|----------------|----------------|---|-------------------------------|------------------------------|--------------------------------------|--|----------------------------|
| Process | Total controls | Control gaps | H/M/L Impact of GAPS | | | Owner Assigned | No owner assigned | Controls operated effectively | No self assessment submitted | Not operated due to agreed frequency | Self-assessment submitted but control not operated | Controls to be set to live |
| | | | H | M | L | | | | | | | |
| Bank & Cash Management | 32 | 0 | 0 | 0 | 0 | 32 | 0 | 29 | 0 | 3 | 0 | 0 |
| Bill To Cash | 19 | 2 | 0 | 1 | 1 | 19 | 0 | 13 | 0 | 4 | 0 | 0 |
| Control Environment | 21 | 1 | 0 | 1 | 0 | 21 | 0 | 6 | 0 | 4 | 0 | 10 |
| Fixed Assets | 20 | 3 | 0 | 0 | 3 | 20 | 0 | 15 | 0 | 0 | 2 | 0 |
| Payroll | 47 | 1 | 0 | 1 | 0 | 47 | 0 | 42 | 0 | 2 | 2 | 0 |
| Procure To Pay | 28 | 0 | 0 | 0 | 0 | 28 | 0 | 14 | 1 | 12 | 1 | 0 |
| Project Accounting | 11 | 1 | 0 | 1 | 0 | 11 | 0 | 5 | 0 | 5 | 0 | 0 |
| Record To Report | 40 | 3 | 0 | 3 | 0 | 40 | 0 | 29 | 0 | 7 | 1 | 0 |
| Settlement Process | 14 | 0 | 0 | 0 | 0 | 14 | 0 | 9 | 0 | 5 | 0 | 0 |
| Stock | 7 | 2 | 0 | 2 | 0 | 7 | 0 | 2 | 0 | 3 | 0 | 0 |
| Tax | 19 | 0 | 0 | 0 | 0 | 19 | 0 | 12 | 0 | 7 | 0 | 0 |
| Treasury | 11 | 0 | 0 | 0 | 0 | 11 | 0 | 8 | 0 | 3 | 0 | 0 |
| | 269 | 13 | 0 | 9 | 4 | 269 | 0 | 184 | 1 | 55 | 6 | 10 |

Financial Crime Risk Update

Author: Sally Smith

Sponsor: Jane MacLeod

Meeting Date: 25th September 2017

Executive Summary

Context

This paper updates the Audit & Risk Committee on the implementation of improvements to the anti-money laundering control framework and progress with the actions arising under HMRC's Anti-Money Laundering (AML) and Counter Terrorist Financing (CTF) audit, together with the risk assessment work being undertaken to address Financial Crime Risks.

Questions this paper addresses

- What is the current position with the HMRC Audit and potential penalties?
- What is the current position on progress with the Financial Crime risk assessment work and next steps?
- What are the impacts for Post Office of regulatory changes

Conclusion

1. Regular meetings are being held with HMRC and the HMRC audit action plan is on track. The penalty notice in respect of historic premises registrations has now been received and paid (£796.5k). HMRC are still considering the regulatory position relating to Bill Payments and potential penalty for regulatory breaches relating to Bureau de Change.
2. Risk Assessment work has progressed well and will be 'business as usual' by the end of the current financial year. The Financial Crime Team are to support and deliver workshops to product managers to embed the methodology across the business.
3. Post Office continues to work with HMRC to understand the implications of the new Fit & Proper test regime and for HMRC to clarify their interpretation and guidelines in respect of eKYC and retention of identity documentation.

Input Sought

The ARC is asked to review this report and the progress in addressing the action plan.

The Report

HMRC Audit status

4. Further meetings have been held with HMRC on the 26th July 2017 and the 23rd August 2017. An updated Bureau de Change action plan was presented by the project team in July, with improved timescales for delivery, and this has been accepted by HMRC and is currently on track; key deliverables are:
 - New customer data capture and identification/address verification thresholds and data capture improvements delivered into the Network on 30th August 2017
 - A daily feed of all Bureau de Change activity into a central Post Office data depository, with appropriate tools for rules based exception reports together with the ability to undertake ad-hoc and holistic transaction monitoring, is scheduled for delivery at the end of January 2018
 - Subject to procurement timeframes, PEPs and Sanction screening is expected to be delivered by end February 2018 and eKYC by end April 2018.
5. HMRC advised they are considering a penalty in respect of breaches of Regulations 19 and 20:
 - Regulation 20 (Risk Based Approach) – HMRC cited 'behavioural' failures relating to the lack of up to date Bureau de Change risk assessments and processes, and failings in relation to AML/CTF policy documentation (the 2012 version was current until 2016, with no evidence of review).
 - Regulation 19 (Record Keeping) – HMRC cited observation of a lack of knowledge as to where and how data was stored (no data dictionary maintained), there were delays in data provision and that missing transactional and due diligence data was identified during the audit. As such HMRC believe POL was in breach of the requirements to maintain due diligence information for a minimum of five years.
 - The starting penalty is £5,000, although turnover and gross profit are also taken into consideration. Based on financial information provided by the Bureau de Change product team, HMRC estimate a penalty in the region of £700k, although they are intending to reduce this by 50% in recognition of the collaborative and proactive approach by Post Office to date. The financial information provided is still under review by forensic accountants within HMRC, and the pre-penalty notice will not be received until this work is complete; further, a decision from HMRC about Bill Payments is awaited as this may impact apportionment of costs of premises registration (see point 7. below). These costs are c.£1.3m per annum and currently all costs are allocated to the Bureau de Change business. If Bill Payments are ruled as in scope for HMRC regulation, this will increase the Bureau de Change gross profit calculation and could increase amount of penalty calculation. Post Office has challenged whether it is properly regulated by HMRC for bill payments (see para 7 below).
6. HMRC confirmed that whilst there were previous historic failings relating to Staff Training (Regulation 21), they had evidence that throughout the audit Post Office had been continually improving their AML/CTF communication plan to address this.

Additionally, in relation to Due Diligence (Regulation 7) breaches, although Post Office was unable to monitor the £10k limit and some over limit transactions had been entered into, HMRC had not identified many specific failures. Therefore Post Office will not be fined for breaches to regulations 7 & 21 but is likely to receive a warning.

7. After the meeting on 26th July 2017, Post Office wrote formally to HMRC advising the legal basis of the view that Post Office is not directly regulated for Bill Payment services. This is being considered by HMRC as part of a sub-sector review and is still with the HMRC Policy and Legal teams for a decision. Until a decision is reached, HMRC will not audit the Post Office in respect of this activity.
8. The penalty notice relating to historic premises registration issues was received on 10th August 2017 (£796.5k) and has been paid.

Financial Crime Risk Assessment Update

9. The action plan in Appendix A gives full updates, but in summary:
 - Risk assessments for Drop and Go, MoneyGram, Gift Cards, Travel Money Card, International Payments and Postal Orders are complete, with no-material remediation required and will be tracked for annual review going forward.
 - Risk assessment for Bill Payments is nearing completion and will shortly be issued to the product manager for review and sign-off. [At this stage, no material remediation is expected]
 - The Bureau de Change control strength and residual risk scores are being re-evaluated as the remediation solutions are delivered.
 - The following approach will be adopted for the remaining products and services:
 - i. Residual risk was last calculated in October 2016 by Thistle Initiatives, this is now being reviewed in line with business changes and controls identified from the high risk re-assessments completed. Current assessment is that there are no high risk products and services remaining that require remediation work, but this will be confirmed and reported at the November ARC once the work is complete.
 - ii. Product Manager risk assessment workshops will be rolled out from the end of September 2017 in conjunction with the proposed Product Manager training to be delivered by Cranfield School of Management. Attendees will complete the Product Information Pack for their products and services after these workshops. The Financial Crime Team will check these completed documents against the existing risk assessment, and amend residual risk calculations, as appropriate. These will then be diarised for annual review going forward, along with the 8 high risk products and services.
10. Non-conformance issues in the Network in July and August 2017/18 include 30 incidents identified at 24 branches:
 - 17 branches are on the non-conformance watch list and manually monitored monthly
 - 1 branch has been added this quarter
 - 1 branch has been removed this quarter

11. The volume of suspicious activity reports (SARs) has reduced by c.20% in July and August and this appears to be in relation to MoneyGram. MoneyGram implemented new identification requirements from 20 June 2017 to meet new requirements under the money laundering regulations and all transactions now require identification to be presented and recorded. Customers sending or receiving £800 or more must present ID at the counter and upload an image of their ID direct to MoneyGram via a dedicated upload portal in order for the transaction to be completed. MoneyGram then check these against the details captured at point of sale before they release the funds. At this stage we are not sure if the reduction is because suspicious activity is being driven elsewhere, or staff fail to be suspicious because they have taken identification. A recent branch focus article was circulated on 14 September 2017 to raise awareness of the need to report all suspicions. We will continue to monitor.

Anti-Bribery and Corruption (ABC) Risk Assessment update

12. The following has been completed since the last update:
 - ABC policy – being submitted to September 2017 ARC for final approval.
 - Gifts and Hospitality reporting tool launched.
 - ABC training launched 8th September 2017.

AML/CTF training update

13. HR have confirmed that a process has been established to ensure that all new back office staff and contractors complete training within 30 days of joining. Financial Crime Team have established ongoing compliance checks.
14. As at the time of writing there are c. 130 branches that have not completed training as required and the Branch Standards Team are working through appropriate intervention options with the Contracts Team and the Network Team to ensure completion.

POMS MLRO report

15. A report on POMS activity has been produced by the Financial Crime Team and MLRO and is being presented to the POMS R&CC and ARC this month. No material weaknesses have been identified and the governance framework is currently considered to be effective in managing and overseeing the AML risks within the POMS business.
16. From the risk assessment undertaken in April 2017, there were only minor recommendations made and POMS evidenced a clear reporting structure in which financial crime concerns are escalated efficiently to senior management. The policies, procedures, monitoring, controls and both internal and external audits to mitigate exposure to financial crime are in place and communicated effectively to third parties. The risk assessment evidenced that all insurance products within POMS remit were within the risk appetite set by the business.

Regulatory updates

17. eKYC – HMRC have advised that they have not reached a decision internally regarding the adequacy of eKYC for customer due diligence and the interpretation issues between themselves and the JMLSG. We understand that a number of organisations are raising queries with HMRC regarding this issue and Post Office has written formally to HMRC to request response and guidance regarding this issue.

18. Fit & Proper test – HMRC is still undertaking internal analysis of the interpretation and application of the requirements, in conjunction with discussions with the top 11 organisations directly regulated by them. Post Office has provided to HMRC details regarding the due diligence measures undertaken in relation to the on-boarding of agents. We expect further guidance and clarification by the end of 2017. Post Office have until the date of our next annual registration (1st June 2018) to comply with these new requirements.
19. There has been no further guidance or update relating to the Fifth Money Laundering Directive announced on 30 November 2016 and the updates given in March remain current.

External threats

20. There have been no new issues since the May 2017 report.

Appendix A – Action Plan

| PROJECT / SPECIFIC TASK | STATUS | COMPLETION DATE | UPDATE |
|---|---------------|------------------------|--|
| AML/CTF Branch Training Failures Review | In Progress | 30/09/2017 | 01.09.17 Data received from Branch Standards Team confirming the number of individuals who took more than five attempts to pass the AML/CTF training. We are at present reviewing the findings which will be drafted into a high level report. |
| Risk Assessment Tool | In Progress | 30/09/2017 | 04.09.2017 The tool has been reviewed and its question bank updated to reflect regulation changes. We are also in the process of creating a new portal to make it more user friendly. |
| RAT Ref 2015/7 - Digital Passport/ Digital Check & Send | In Progress | 28/02/2018 | 04.09.17 Product Owner has confirmed that service will only be available to branches with AEI. The project is currently in design and test stage, and is expected to go live in February 2018. No financial crime concerns at this stage. |
| Branch Premises Registration Policy & Procedures Review | In Progress | 15/09/2017 | 01.09.17 Updated Policy and Procedures have been drafted and circulated to stakeholders for review. |
| Santander Business Deposits/Time Saver Deposit Project | In Progress | 30/09/2017 | 01.09.2017 A report setting out the risks and concerns in relation to the existing and proposed service has been created and circulated to stakeholders for comments. |
| EUM Project | In Progress | 30/09/2017 | 18.08.17 The project team have confirmed that they are looking for potential alternatives or better controls around RUID. They also advised that passwords would be managed at branch level. Financial Crime Team has advised that if passwords are not controlled centrally, there is a potential risk that if a staff member leaves, their ID could be passed on to new members of staff. |

| PROJECT / SPECIFIC TASK | STATUS | COMPLETION DATE | UPDATE |
|---|---------------|------------------------|---|
| Bureau de Change Product Information Pack (PIP) Update | In Progress | 30/09/2017 | 31.08.2017 PIP has been updated in line with the changes made to the product. This at present is with the product manager for review. |
| Postal Orders - Monitoring and Controls | In Progress | 30/09/2017 | 04.09.17 The Financial Crime Team are working with the product manager to review and improve existing monitoring. |
| JMLIT Section 7 Requests Policy and Procedures Review | In Progress | 15/09/2017 | 18.08.17 Process guide has been drafted and circulated to stakeholders for review |
| Product and Service Residual Risk Reassessment (From TI Assessment in October 2016) | In Progress | 30/09/2017 | 04.09.2017 A reassessment of previously completed risk assessments is underway to review if generic business changes have changed any of the key risk areas. |

Financial Services Conduct Risk Update

Author: Jonathan Hill

Meeting date: 25 September 2017

Executive Summary

Context

1. This paper updates the Committee on current risks and actions in respect of conduct risk. One of the key risks on the FS Risk register (also reflected in the Post Office and POMS risk registers) relate to conduct risk. Conduct risk in the regulated financial services context refers to risks to customers from poor product design, distribution and selling processes as well as those risks relating to poor product fulfilment.

Questions this paper addresses

2. This paper provides an update on the key conduct risks and how they are being managed.

Conclusions

3. Although the business faces some conduct risk challenges, some of which are referred to below, they are being managed within the overall risk appetite. Post Office has an averse risk appetite for not complying with law and regulations or deviation from business' conduct standards. Key assurance on this is provided through the MI dashboards and reports from BoI and POMS (attached).

Input Sought

4. The ARC is asked to note these developments.

The Report

Key Risks, governance and management information

5. Conduct risks are measured and reviewed by FS&T Risk together with our Principals on an on-going basis and management information is provided on the key risk areas. These are reviewed at the BoI-Post Office Customer and Conduct Risk Committee and POMS-Post Office Joint Compliance Committee, which meet monthly.

Current risks and issues

Customer Relationship Managers (CRMs)

6. As at 8th August there were 511 CRMs. The majority of these are active and digital tablet enabled. During July a new Telecoms tablet journey was enabled, allowing CRMs to engage with customers on Post Office Homephone, broadband and fibre products. It is planned that the CRM programme will pause at this number of CRMs for a period allowing the knowledge and processes of all the product journeys to bed in.
7. We have a more positive engagement with customers (on an introductory basis) on FS products through CRMs, which is carried out within a Training and Competence ("T&C") scheme that FS&T Risk oversee and monitor. Nevertheless as we seek to innovate the CRM network, we need to ensure that the conduct and operational controls in place remain appropriate.
8. The latest Video Mystery Shopping results for July were positive with only 3 out of 29 shops graded red. In each of the three red VMS the CRM did not provide an overview of the full range of savings accounts and in two instances the customers were not encouraged to read the application pack and consider the information before making an application.
9. The T&C Framework outlines the process Senior/ Support Managers need to follow when dealing with red VMSs. The actions are completed, documented and reported back in the monthly BOI Regulatory Review VMS Report.
10. The weekly ASPM/RSDM development call includes a VMS performance update. This includes a broadcast of the weekly results, the main causes of red & amber grades and the actions ASPM's and CRM's need to undertake.
11. We will monitor the next round of mystery shops at the respective BoI and POMS Committees.

Advertising breaches and issues

12. BoI repeated a concern that had been previously raised in relation to ensuring that marketing materials passed their approval 'sell by' date are re-reviewed and re-submitted for approval. Recent recruitment in the marketing team should make these incidents less likely. The Head of Marketing has been asked to provide a written response ahead of the next BoI Customer and Conduct Risk Committee.
13. On a related issue BoI monitoring has raised an issue in relation to a worsening trend of out of date literature in branches. From its monitoring activity (April-June) c60% of branches have been found to have out of date literature available to

customers either on display or behind the counter. FS&T Risk will work with the Retail Network team to ensure customers are given the appropriate literature and review what more can be done to improve compliance in this area.

Branch Regulatory knowledge

14. A recurrent monitoring theme from both Principals is a concern about the level of product or regulatory knowledge shown by a counter colleague when tested. Whilst there may have been some gaps identified we are working with our Principals to ensure that the questions tested are appropriate. For example, we would agree that a counter colleague should know how customers can make a complaint but would not necessarily expect them to answer questions about the FOS process.

Future issues

15. There are a number of significant regulatory initiatives on the horizon that impact on Post Office and POMS:
 - a. General Data Protection Regime (GDPR) - February 2018. This project is being led by the DPO and we are working with the team to assess and implement the requirements
 - b. Vetting and 'Fit and Proper' - this is becoming an increasing priority for many of our regulators (e.g., FCA and HMRC). There is a new vetting process in place, but we need to risk assess new requirements (e.g., from HMRC) and assess whether the scope of checks needs to increase.
 - c. Senior Managers and Certification Regime (SMCR) - extension to all regulated firms by 2018. This will have a direct impact on POMS. POMS is leading a project to implement this, which POL FS&T Risk is supporting, as it is the company directly impacted. The FCA has confirmed, as expected, in its latest Consultation Paper that Appointed Representatives such as Post Office will not be directly subject to SMCR. However, further guidance on the approach to SMCR for Appointed Representatives will follow.
 - d. Insurance Distribution Directive, one of the proposed key requirements is increased CPD training for counter staff. POMS is leading a project to implement this by February 2018, working with the Post Office Training and FS&T Risk teams.
 - e. Payment Services Regulations (Payment Services Directive 2) rules were finalised in July 2017 to be implemented in January 2018. As well as impacting on the conventional payment business these are of significant strategic impact as these regulations will open up access to the personal banking market for new types of payment firms and also allow third party firms to perform aggregation functions on behalf of and with the permission of consumers.
 - f. Vulnerable customers: This is an FCA/Ofcom priority area. A vulnerable customer policy was agreed at the July RCC. We will shortly instigate risk assessment work together with the Retail Business Unit to assess whether we have any significant gaps in our approach.

Jonathan Hill
Head of FS&T Risk & Regulation

BOI Post Office Money branch distribution - August 2017

Risk ratings

July risk ratings and how they compared to June

- Red rated MS shops ▲
- Red rated CRM shops ▲
- Red rated counter shops ▲
- Black rated MS shops ◀▶
- MS mutiple red/black shops ◀▶
- A or B rated mortgage cases ▲
- D rated mortgage cases ◀▶
- MS meeting QAT benchmark ◀▶
- Distribution complaints ▲
- Mis-selling complaints ◀▶
- Conduct survey results ◀▶
- Mystery shopper experience ▲
- NPS survey results ◀▶
- Branch product knowledge ◀▶
- Branch regulatory knowledge ◀▶
- Specialist/CRM knowledge ▲
- Branch advertising reviews ◀▶
- Advertising breaches/issues ◀▶
- Social media breaches/issues ▲
- Savings cancellations ◀▶
- Competent specialists ◀▶
- Supervisor spans of control ◀▶
- BOI supervisor reviews ◀▶

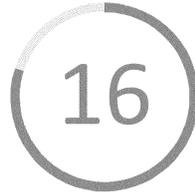
Performance measured in July

Risk ring and overall performance rating



Based on the weighted cumulative outcome of the KRIs we measured in July, the overall risk rating is Amber.

Green rated KRIs



Amber rated KRIs



Red rated KRIs



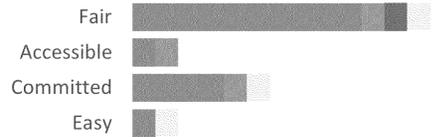
This month we were within tolerance for 19 out of the 20 KRIs we measured. 16 of our KRIs were rated green and 3 of our KRIs were rated amber. One of our KRIs was rated red. In comparison, in June we exceeded tolerance in 2 of our KRIs and in May we exceeded 3 of our tolerances. On average, in each month between February and July, we were within tolerance in 18 of the KRIs we measured and exceeded tolerance in 2.

July v June ratings

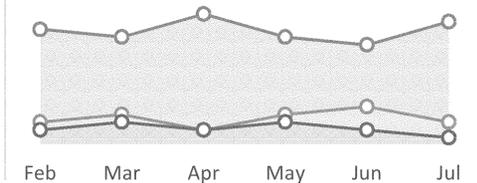
- ◀▶ 13
- ◀▶ 2
- ◀▶ 1
- ▲ 3
- ▲▼ 1
- ▼ 0

One KRI remained red, one KRI moved out of red and no KRIs fell to red.

Performance against our FACE commitments



Distribution of KRI risk ratings between February 2017 and July 2017



Exceptions and key trends

CRM mystery shops - the CRM credit card pilot, which resulted in a number of red-rated mystery shops, has now ceased. CRM savings shops have improved, with 12 out of 70 (17.1%) being red rated in the 3 months to the end of July. Only 3 out of 29 shops were graded 'red' in July. While these shops relate to lower-risk introductory activities, remedial actions are being followed up with Post Office and progress will be kept under close oversight for a period.

Advertising breaches and issues - Two material financial promotion breaches were recorded in July and related to in-branch current account leaflets remaining in the public domain after their withdrawal dates. POL have confirmed that the reapprovals 'were' missed' as a result of the impact of the organisational restructure on the Marketing function. This is the third month in a row that there have been such material breaches and, as such, this has been followed up with Post Office.

Branch regulatory knowledge - 2 out of 54 branches were rated red for 'conduct and culture' during the last three months. The red ratings resulted from a range of different issues. The most prominent related to regulatory processes including the location of the branch 'operations manual' and gaps in staff knowledge of the FOS process. There were no red rated branches in July.

Quality of Mortgage Advice - An improvement in 'C' grade cases from 9 to 2 in July and only 1 'D' case, improved the proportion of initial case checks passing QAT file checks, with 95.9% (89%) achieving an 'A' or 'B' grade. The 'D' grade related to advice which was considered unsuitable based on conflicting file notes. The QAT team continue to work with POL to mitigate these errors.

Please note, reporting in relation to a number of new KRIs will commence in September.

◀▶ Remained green ◀▶ Remained amber ◀▶ Remained red ▲ Improved to green ▲ Improved to amber ▼ Fell to amber ▼ Fell to red

BOI Group classification : Red (Confidential) - distribute only with sender's permission

IRRELEVANT CONDUCT RISK SCORECARD

| Area | Measure | Rating Criteria | | | Current | | | | | | |
|---------------------|---------|-----------------|---------------|---------------|---------|---------|---------|---------|---------|---------|---------|
| | | Green | Amber | Red | Jul-17 | Jun-17 | May-17 | Apr-17 | Mar-17 | Feb-17 | Jan-17 |
| <h1>IRRELEVANT</h1> | | 0-1,000 | 1,000 - 1,500 | 1,500 - 2,000 | 399 | 395 | 345 | 299 | 314 | 264 | 321 |
| | | 0% - 35% | 36% - 45% | 46% - 100% | 38.3% | 50.6% | 34.0% | 33.7% | 36.8% | 31.3% | 27.5% |
| | | 0 - 3 | 4 - 7 | 8 + | 3 | 0 | 0 | 1 | 0 | 1 | 1 |
| | | 0% - 10% | 11% - 20% | 20% - 100% | 20.8% | 11.8% | 7.0% | 5.0% | 0.0% | 13.0% | 20.0% |
| | | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | -5 | 5-9 | 10+ | | 1 | 5 | 8 | 7 | 5 | 1 |
| | | 0% - 10% | 11% - 14% | 15% - 100% | 25% | 42% | 40% | 24% | 19% | 20% | 15% |
| | | 0% - 10% | 11% - 14% | 15% - 100% | 12% | 15% | 10% | 10% | 6% | 22% | |
| | | 0% - 5% | 6% - 10% | 11% - 100% | 3.5% | 4.1% | 3.5% | 3.6% | 4.1% | 2.9% | 2.8% |
| | | 0% - 9% | 10% - 14% | 15% - 100% | | | | | | | 9.0% |
| | | 0% - 9% | 10% - 14% | 15% - 100% | | | | | | | |
| | | 0% - 5.9% | 6% - 10% | 11% - 100% | 5.7% | 7.6% | 4.9% | 5.2% | 6.1% | 4.6% | 4.6% |
| | | 100% - 95% | 95% - 90% | 89% - 0% | 100% | 100% | 96% | 97% | 100% | 100% | 87% |
| | | 100% - 95% | 95% - 90% | 90% - 0% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| | | 100% - 95% | 95% - 90% | 90% - 0% | | | | 98% | 92% | 88% | |
| | | 100% - 80% | 75% - 70% | 69% - 0% | | | 75% | 72% | 72% | 86% | |
| | | 80 | 79-60 | >59 | 75% | 76% | 77% | 77% | 77% | 82% | 88% |
| | | 35 | 34-30 | >30 | 41 | 38 | 38 | 38 | 42 | 42 | 40 |
| | | 50%+ | 35-49% | -35% | 78% | 87% | 75% | 51% | 45% | 65% | 52% |
| | | 0 | 1 | 2 | 1 | 3 | 1 | 1 | 3 | 1 | 1 |
| | | 0 - 15 | 16 - 20 | 20+ | 13 | 15 | 13 | 17 | 21 | 20 | 14 |
| | | | | | 121,201 | 91,236 | 77,536 | 75,655 | 59,846 | 50,832 | 47,553 |
| | | | | | 557,272 | 567,639 | 568,537 | 570,931 | 574,089 | 575,327 | 577,782 |

IRRELEVANT

Change Risk Update

Author: Jenny Ellwood Sponsor: Angela Van Den Bogerd Meeting date: 25 September 2017 (ARC)

Executive Summary

Context

This report provides an update on the delivery status of the Change Portfolio, the key risk themes under management and the current highest scoring risks, referred to as the 'top risks' within the Change Portfolio.

Questions addressed in this report

- What is the current delivery status of the Change Portfolio and key delivery challenges?
- What are the key risk themes being managed at present and mitigation plans?
- What are the current top risks currently being managed within the Portfolio and what is the performance of risk management based on the mitigation plans?
- What are the types of portfolio risks and how has this mix changed?

Conclusion

1. The current delivery status is 'Red' and the Enhanced User Management (EUM) and Success Factor Programmes are experiencing some significant challenges.
2. The key risk themes we continually push against are: 1) what does the next 12–18 months change activity look like and can we do it all, 2) what is the impact on the network and is it manageable, 3) Why do we continue to underspend and 4) what impact does this have on our benefits profile?
3. In terms of current top risks these are EUM Effectiveness and the delivery of 2017/18 Integrated Change Plan. The risk we reported in July in regards to IT Vendor Renegotiations is improving in both its impact and likelihood and is now reporting as an 'amber' status risk. For EUM the programme are making some excellent headway and are looking to agree a revised plan and business case by the end of October. In terms of the integrated change plan a review of the 2017/2018 change activities is underway with a detailed update scheduled for the Executive Change Group (ECG) by the end of September.
4. An additional point to note is that a communication is due to be issued to all Postmasters, week commencing 18 September. The letter provides an update on the work undertaken to simplify transactions and confirms the next simplified journey to be rolled out (Mails transactions). It also covers the impact this will have on their branch remuneration. Whilst this is not entirely new news it provides the confirmation of when the remuneration changes will commence and could generate increased calls and queries.
The approach has been agreed with the National Federation of Sub Postmasters (NFSP) and a team has been put in place to provide support and advice to Postmasters to review and change their operations and improve their sales and wider retail performance to maximise the potential benefits for them. We will closely monitor the response we receive to the letters, but believe we are prepared to manage this activity.
5. The type and mix of the portfolio remains broadly unchanged in this reporting cycle. Key MI to evidence this is shown within the appendices. The new integrated plan being developed, along with parallel capacity work, is also driving

- discussions on potential risks and dependencies and progressing well. For this reporting period the Portfolio risks have reduced to 25 and remain consistent with the nature and complexity of the individual projects and the timeline.
6. Monthly health checks continue and Programmes are demonstrating they understand their deliverables, risks and issues and work continues to improve dependency identification, tracking and monitoring.

Input Sought

The ARC are asked to note the progress made since the last ARC, the top risks being faced, how they are being managed and mitigated and to advise on any additional areas/topics that should also be taken forward.

The Report

What is the current delivery status of the Change Portfolio and key delivery challenges?

1. At the end of August 2017, the overall Post Office change portfolio status remained Amber, this is taking into account the individual status of each programme across delivery, costs, benefits and risk.
2. In terms of the Portfolio delivery status, we are currently reporting 'Red'. Key delivery challenges include:
 - Capacity: We are currently in the process of assessing (at project level) capacity constrained areas' ability to support all change. The output of this review will be used to identify if re-phasing is required and any subsequent impact on the assumptions in the Strategic Plan.
 - Enhanced User Management (EUM): The programme continues to explore deployment options of the new identity management system and the Steering Committee has identified alternative approaches and revised scope to ensure it is effective and manageable within the Network.
 - Success Factors payroll data migration: This has experienced ongoing difficulties such that the current migration planned for October/November 2017 (which itself reflected an earlier 3 month's delay) is under threat. A root cause analysis exercise has been undertaken which suggests that issues have arisen with the payroll data load particularly where employee records have needed amendment during the period of upload thereby constraining payroll comparison testing. Additionally, difficulty has been experienced with elements of variable pay. HR have simplified wage types where possible reducing these considerably, however, union negotiated pay elements have created issues during migration comparison testing. The programme are moving forward and have now closed their 2nd comparison tests and can now explain every reason for variance. Fixes have been identified and will be in place for the next wave of testing.
 - Ongoing testing capacity: Constraints continue to be monitored and priorities and appropriate scheduling are reviewed on a weekly basis. No immediate concerns but one we continue to monitor through the integrated plan work.

What are the key risk themes being managed at present and mitigation plans?

3. In terms of key risk themes, we continually face challenges which are: 1) what does the next 12-18 months change activity look like and can we do it all, 2) what is the impact on the Network and is it manageable, 3) why do we continue to underspend and 4) what impact does this have on our benefits' profile?
4. To address the challenge of what the next 12-18 months looks like and the impact on the Network, an extensive review of the Change Portfolio is underway. This work has been led by the People and Change Director and has included consideration of the impact of change on a number of key areas: IT, Network Operations, HR Service Centre, Retail branches and Finance Service Centre. A full update on activities is shown in paragraphs 14 to 15.

5. Additionally, work continues to try and establish the true impact and requirements to meet the General Data Protection Regulation (GDPR). The programme has recently confirmed that:
 - 17 out of 114 projects that have already gone live were concerned with the use of personal data; and,
 - 45 out of 199 projects that are still in-flight have been identified as involving the use of personal data. 20 of these have been classified as 'high priority'.
6. The project team has contacted 13 of the 20 high priority projects to confirm their current lifecycle stage and the extent of the use of personal data. At this stage the true impact of the work required to meet the GDPR is still unclear and clarificatory work continues this month.
7. In terms of the Portfolio cost underspend, which currently stands at £11.5m at Period 5. Finance are working closely with the Programme Finance Directors (FD) to establish the root cause and re-forecasts. The areas where the underspend is the greatest is within the IT & Digital portfolio and the Directly Managed Branch (DMB) programme. The DMB programme is a one off variance relating to onerous leases which will resolve itself in Period 6. Although an underspend is shown on branch and network rollout, this is because it is comparing to an historic profile and the Programme is reforecasting based on the current rollout progress. There is no anticipated savings on either.
8. Benefits have continued to be in line with the total value of benefits anticipated each year. However, this has not necessarily derived from the original Programme projected benefits specified, i.e. some Programmes have delivered more which has compensated for those Programmes that have experienced difficulties. The Change Finance Director is assessing what forum is best to review and regularly challenge both costs and benefits tracking and a proposal is to be made to the People and Change Director this month. Discussions are already underway on the benefits MI we require reporting by each Programme. The approach will be that Programme benefits tracking will be consolidated into a central view via the Finance Directors. A review of the approach taken in each Steering Committees will also be undertaken to ensure it allows an appropriate level of monitoring and challenge.

What are the top risks currently being managed within the Portfolio?

9. There are currently 25 open risks being managed at a Portfolio level, a net reduction of -1 from the last ARC report in July 2017. The current top risks are:
 - i) EUM Effectiveness
 - ii) Delivery of elements within the 2017/18 Plan
10. The EUM programme is making some excellent headway with the challenges they need to overcome to ensure full and effective deployment of the new Horizon system access model. Following a detailed review it is felt that the original design pattern developed is unworkable. A new design which takes the dependence on Success Factors away from the solution is now being worked through by Accenture and POL. There is good cross-working across IT, Retail, HR and Financial Services & Telecoms to ensure the new design pattern works from a cost, risk and operations perspective.

11. A revised plan and business case is under development and due to be finalised by the end of October. This is looking at the wider roll out of EUM and it is good to note that there is only a minor delay to the initial roll out, with the top Financial Services high risk branches still planned to go live pre-Christmas.
12. A decision has also been made that the training controls will not be enabled immediately (e.g. we will not automatically remove access from Horizon should an individual fail to pass the training). However, there will be full data held on all individuals within these branches linked to training records. A decision is still to be made around the optimum time to enable the automatic training controls.

| Risk Title | Risk | Current RAG | Mitigation Plan | Due date | Target RAG |
|---------------------------------|---|--|--|--------------|------------|
| (i) EUM effectiveness | <p>There is a risk that EUM does not perform as expected due to</p> <ul style="list-style-type: none"> being unable to collate accurate data from our agents (all of which is being provided by branch staff) POL staff/agents not having an individual email address which can be used to communicate logins and training information, and agents not being able to access SuccessFactors via the internet/browser solution and therefore not being able to access training material and test. <p>This all leads to our inability to address the key business goal, which is for POL to prove to its client that persons transacting on its behalf are suitably qualified and vetted.</p> | <p>16</p> <p>I/L</p> <p>4:4</p> | 1. Identify gaps within the SF/EUM design – 7 June 17 (all actions) | 1. Ongoing | 9 |
| | | | 2. Developing end to end process maps with risks and controls | 2. Ongoing | I/L |
| | | | 3. Identifying the key business decisions that still remain outstanding | 3. Complete | 3:3 |
| | | | 4. Explore alternative options to meeting the business outcome (i.e. using Horizon for agents' training, building an interface between Horizon and SuccessFactors) | 4. Complete | |
| | | | 5. GE workshop to make required decisions (decision on Action 4 outputs) | 5. Complete | |
| | | | 6. To clarify the 'burden of proof' by our FS clients and RMG on how much evidence they require for us to provide on transacting/selling on their behalf | 6. Complete | |
| | | | 7. Explore with Network the genuine reasons when Dual Login is used and whether this needs to remain or a workaround can be put in place | 7. Complete | |
| | | | 8. Revised business case and replan | 8. Oct 17 | |
| | | | 9. Model office and pilot completion | 9. Complete | |
| | | | 10. Deployment approach proposal to SteerCo | 10. Complete | |

13. Work has continued within IT to mitigate the IT vendor renegotiations risk, since the last ARC the Post Office has signed a Letter of Intent with Atos and a new Client Executive has also been appointed. Principles have also been agreed with Fujitsu. Work is underway on reforming ways of working and restructuring the governance framework. The risk has now reduced in terms of both impact and likelihood and has reached its target position.

| Risk Title | Risk | Current RAG | Mitigation Plan | Due date | Target RAG |
|---|--|---|--|-------------|------------|
| (ii) IT Vendor Renegotiations | <p>There is a risk that IT Vendors engagement proves difficult and they display poor behaviours through renegotiations which</p> | <p>9</p> <p>I/L</p> <p>3:3</p> | 1. Establish Legal support to assist in vendor contract renegotiations | 1. Complete | 9 |
| | | | 2. Hire negotiation and procurement expertise | 2. Complete | I/L |
| | | | 3. Contract Managers in place to manage transition and ensure | 3. Ongoing | 3:3 |

| Risk Title | Risk | Current RAG | Mitigation Plan | Due date | Target RAG |
|------------|---|-------------|---|---|------------|
| | could impact successful change delivery | | <p>Vendor SLAs and commitment is maintained</p> <p>4. Provide support and guidance to Senior Stakeholders (IT & other Business Areas) regarding any high level strategy discussions with any of the impacted Vendors.</p> <p><u>Short Term Actions:</u></p> <p>5. Enforcement of clear relationship management governance on vendors, everything will go through the vendor manager, internal comms to be issued to provide structure around the vendor manager engagement and key contacts</p> <p>6. Stand up relevant vendor management governance forums</p> <p>7. Renegotiation of Atos contract (Project Armada) (Atos proposal now approved)</p> <p>8. Fujitsu (Project Everest) scope obtained with a view to understand ownership of key activities (post in-house move)</p> <p><u>Long Term Actions:</u></p> <p>9. Decision regarding Atos (maintain/exit)</p> | <p>4. Ongoing</p> <p>5. Ongoing</p> <p>6. 30 Sept 17</p> <p>7. 30 Sept 17</p> <p>8. 30 Sep 17</p> <p>9. Mar 18 / Sep 18</p> | |

14. The People and Change Director hosted a capacity review workshop on 8 August 2017 where all 75 projects within the current change portfolio were presented to the 5 capacity constrained areas (IT, Network Ops, HRSC, Retail branches and FSC) for an initial impact assessment. A follow up workshop was held on 29 August 2017 at which it was concluded that:
- IT is the main area where capacity will cause impact on delivery. Additionally Network Operations, HR Service Centre and Finance Service Centre will require appropriate early engagement from the projects and sufficient lead-in time to uplift resource to accommodate any increased activities;
 - There are still unknowns that will impact ability to deliver e.g. GDPR; and,
 - Recommendations to include need for the ordering of all projects to make priority calls where capacity constraints exist and ongoing demand management by constrained areas. Also complete a branch view of change to determine ability to support current plan.
15. It is scheduled to present the findings and next steps to GE/ECG on 18 September 2017.

| Risk Title | Risk | Current RAG | Mitigation Plan | Due date | Target RAG |
|--|---|---------------------------------|---|----------------|--------------------------------|
| Delivery of elements of the 2017/18 plan | There is a risk that we will not be able to deliver all of the 2017/18 plan due to multiple capacity constraints. | <p>16</p> <p>I/L</p> <p>4:4</p> | Completion of a review to understand the implications of major programmes on a wider range of constrained resources to establish the feasibility of programme delivery. | ECG – Sep 2017 | <p>9</p> <p>I/L</p> <p>3:3</p> |

16. A full list of the 25 portfolio risks is shown as an Appendix.

What are the types of portfolio risks and how has this mix changed?

17. At the last ARC meeting there were 26 portfolio level risks. The current total is 25 which has been subject to churn in that 4 risks have also been closed namely:
- Capacity of IT Key Suppliers: There was a risk that key IT suppliers cannot meet our change demands due to the pace of change and the concurrency of activities resulting in delays to our "Change Portfolio" delivery plans. This was closed on the basis that it was deemed that elements of this risk were captured and managed under an existing risk.
 - Resourcing Risk (Payroll Legislation): There was a risk that HMRC legislative changes that came into effect in April 2017 could cause significant impact to Change resourcing model and the way that it uses contractor staff. The risk was closed on the basis that it had been managed down to target.
 - Unintended consequences on Operational Performance (People): There was a risk that staff departures as a result of change being implemented may impact the effectiveness of the control environment increasing likelihood of new operational risks. The risk was closed through merger with a similar portfolio risk ('Op Performance – Process').
 - Delivery (Integrated Plan Delivery Performance): There was a risk that our delivery is all back ended and we hit business with too much change all at once. Closed on the basis of replacement with risk on our ability to deliver the 2017-18 change plan due to multiple capacity constraints.
18. The 3 new risks opened are:
- GDPR: see paragraphs 5 to 6.
 - Delivery of 2017/18 Plan: see paragraphs 14 to 15.
 - Model Office Testing Capacity/Resilience: The Model Office is designed to test counter releases and services in a live environment. There is a risk that the introduction of new network routers and platforms (HNGA) introduces complexity and additional time as testing needs to cover different branch types, network routers and platforms (HNGX and HNGA). An additional risk is that the Model Office has limited visibility of change projects in the pipeline, which results in an ability to effectively plan and prioritise activities within Model Office. This risk is being well managed and reducing in terms of impact and probability.
19. Below is an illustration on how the mix of risks at portfolio level continues to flex and shows the open portfolio risks by severity.

| RAG Impact/Likelihood | Minor (1) | Moderate (2-4) | Major (5-11) | Significant (12-19) | Critical (20-25) | Total |
|------------------------------|------------------|-----------------------|---------------------|----------------------------|-------------------------|--------------|
| August 17 | 0 | 3 | 13 | 9 | 0 | 25 |
| July 17 | 0 | 3 | 14 | 10 | 0 | 27 |
| June 17 | 0 | 2 | 15 | 9 | 0 | 26 |
| % of total (current period) | 0% | 8% | 58% | 35% | 0% | 100% |
| Number of New Risks | | | | | | 4 |
| Number of Emerging Risks | | | | | | 6 |
| Number of Closed Risks | | | | | | 4 |

Figure 1: Please note the minor/moderate risks are managed at a local level and not escalated to the Portfolio view. The risk reported as critical in May was around EUM effectiveness and as work is underway on mitigations this has reduced slightly,

Appendix: Change Portfolio risks and supporting metrics

The Portfolio

| | Risk Title | May ARC | Jul Arc | Sep ARC | Grid Ranking CURRENT | Grids Ranking TARGET |
|----|---|---------|---------|---------|----------------------|----------------------|
| 1 | EUM Effectiveness | | ✓ | ✓ | 16 | 9 |
| 2 | Delivery of 2017/18 Plan | | | ✓ | 16 | 9 |
| 3 | IT Vendor Renegotiations | ✓ | ✓ | ✓ | 9 | 9 |
| 4 | Complex Portfolio Planning & IT Management | ✓ | ✓ | | 16 | 8 |
| 5 | IT Delivery Capability | ✓ | | | 16 | 6 |
| 6 | Operational Impact of Generic Training Expiry Dates | | ✓ | | 16 | 6 |
| 7 | IT Change Operating Model | | | | 12 | 8 |
| 8 | Data Risk | | | | 12 | 8 |
| 9 | GDPR | | | ✓ | 12 | 8 |
| 10 | Financial Risk – Insufficient Funds to deliver Transformation | | | | 9 | 9 |
| 11 | Transformation Delivery oversubscribed | | | | 9 | 9 |
| 12 | Unintended consequences on Operational Performance – Process | | | | 9 | 6 |
| 13 | Availability of Key Skills and Knowledge | | | | 9 | 6 |
| 14 | Adverse Impact of Change / Organisational Change on Agents | | | | 9 | 6 |
| 15 | Accounting & Reconciliation | | | | 8 | 8 |
| 16 | Financial Risk – Benefits/Revenue Realisation | | | | 8 | 6 |
| 17 | Deployment of Non-Compliant Solutions/Systems | | | | 8 | 4 |
| 18 | ITNBA Incumbent Supplier Proactive Engagement – BT | | | | 9 | 4 |

| | Risk Title | May ARC | Jul Arc | Sep ARC | Grid Ranking CURRENT | Grids Ranking TARGET |
|----|---|------------|------------|------------|-------------------------|----------------------------|
| 19 | Responsible use of public funds | | | | 9 | 1 |
| 20 | Strategy & Design: Conflict between current BaU and Transformation activities | | | | 6 | 3 |
| 21 | Reputational Damage - Media risk | | | | 6 | 4 |
| 22 | Reputational Damage - Political stakeholder risk (local government) | | | | 6 | 4 |
| 23 | Reputational Damage - Political stakeholder risk (national government) | | | | 4 | 4 |
| 24 | Poor coordination of communications about change activity with stakeholders and employees | | | | 4 | 4 |
| 25 | Model Office Testing Capacity / Resilience *NEW* | | | | 4 | 2 |

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The table below details the number of risks open and closed over the last rolling 12 months.

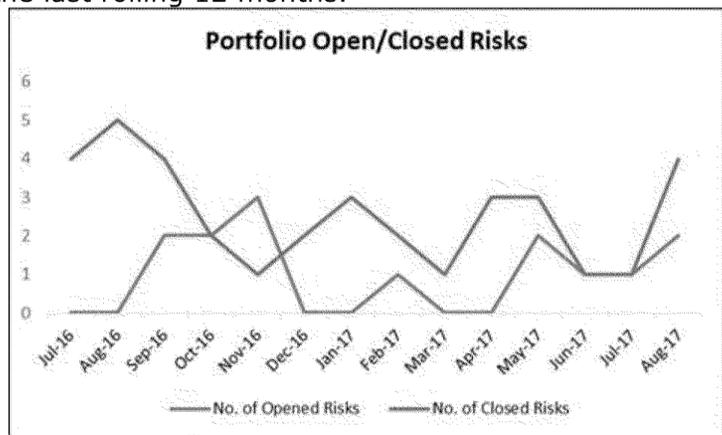


Figure 2: A comparison of open/closed risks (by month)

Risk Weighting

Each portfolio risk has a weighting score calculated by multiplying their impact/probability scores. When added together this provides a cumulative portfolio score which currently stands at 242.

The overall risk severity score has reduced by around 9% since April 2017. This has been the result of risk closures. The risks continue to be monitored in line with the change portfolio risk review process.

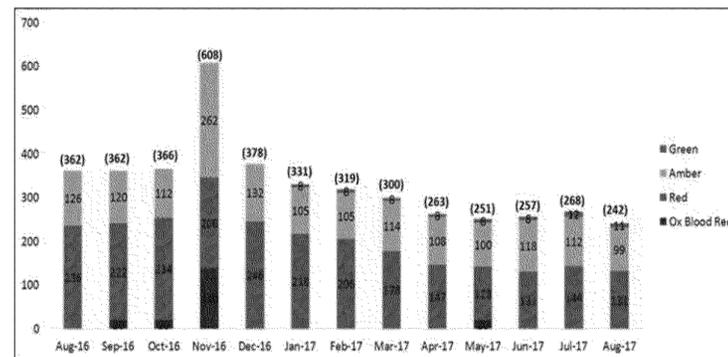


Figure 3: Current cumulative portfolio risk weighting score by month

Figures 4 and 5 illustrate the anticipated impact of a reduction in the number of active risks over the next 6 months will have on the residual risk weighting.

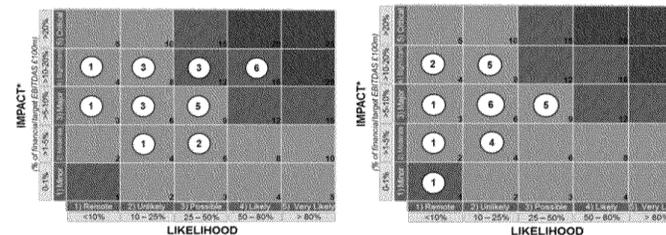


Figure 4: Current portfolio risk weighting (Aug 2017) Figure 5: Projected portfolio risk weighting (Feb 2018)

Business Continuity & Crisis Management Update

Author: Tim Armit

Sponsor: Jane MacLeod

Meeting date: 25 September 2017

Executive Summary

Context

The level of awareness about continuity planning and crisis response continues to increase. In line with ISO Standards methodology, Post Office has a strong Management System in place which meets our external requirements, however there remain gaps across all areas in terms of implementing this system. Priority has been given to customer facing operational areas, Chesterfield and Supply Chain with all other areas within scope but of lower priority currently.

Questions this paper addresses

- How resilient are Post Offices' current business processes, systems and applications?
- What are the next priority areas to be addressed?

Input Sought

The Committee is requested to note the report.

Conclusion

What is the status of business continuity?

1. The last update to the ARC set out a high level road map of the status of business continuity and crisis response. This has now been broken down into more detail focussing on:
 - Locations
 - Business Functions
 - IT Systems
2. There are 21 identified key sites, mainly Supply Chain CVIT locations. Each of these is being visited and we are working with site leaders to agree crisis response and contingency options. A summary of the sites visited so far, high level findings and next steps is shown in the appendix. Other keys sites such as Chesterfield have successfully undergone an exercise to determine the capability of teams to work in a recovery site. On August 25th Finsbury Dials tested its capability to work at home with no issues raised and all participants able to work simultaneously remotely.
3. More detailed work on impacts and risks is required and this is ongoing. Until we understand the impact of each business area, location and system not being operational, we cannot confirm if our recovery capabilities meet our needs. Additionally if we do not clearly understand the risks inherent within our operational environments we can't confirm that we have the correct mitigations. Each site, system and business line will be analysed and reported on by June 2018. This will involve analysing each business area and location for the impact it would suffer during an interruption to determine at what point this impact becomes intolerable. Each location will have the risks analysed and recovery strategies for all areas agreed. Priorities will be Supply Chain, Chesterfield, IT systems. Then Banking Framework, Bolton, Finsbury Dials. All other business areas will then follow.
4. IT Systems are being assessed for impact in conjunction with the IT to assess the impact of the loss of key operational systems, and business continuity are working with them to assess the impact of systems failures across POL.
5. Given the dependency on IT systems, the review of business functions will be undertaken following the IT review. It is planned to have plans for all business functions in place by June 2018. Banking Framework and other key areas are currently being prioritised however the focus will move to other business areas in 2018 as discussed above.
6. A spreadsheet listing all three key areas has been produced and every key point is assessed against the key elements of the ISO standard to measure progress, these are:
 - Impact Analysis
 - Risk Analysis
 - Recovery Strategies
 - Crisis Plans
 - Business Continuity Plans
 - Testing and Awareness

7. There are other components including supply chain analysis and plans for branches that will be included once the basic levels are all in place.

Industrial Action

8. There is a risk that Royal Mail may have industrial action later in 2017. Business Continuity have worked across Post Office to identify all the points of contact between Royal Mail and Post Office. Business Continuity have met with a cross section of Royal Mail managers to discuss the risk of industrial action, the mitigation and contingencies that are in place as well as others that need to be implemented. This is ongoing with future meetings planned. It is thought unlikely that any industrial action will happen before mid-October.

Appendix 1
Status of progress

| <i>Action</i> | <i>Update</i> | <i>Owner</i> | <i>Target Date</i> |
|---|--|----------------------------|--------------------|
| Further training and education for the Business Protection Team including improvement of the procedure to invoke the Business Protection Team | Initial changes made to invocation in place. Workshop planned for September | Tim Armit | 9/17 |
| The IT DR capabilities and subsequent impact on the business need defining and plans considered. | Impact of system failure report first draft published for review | Mick Mitchell/ Tim Armit | 9/17 |
| The Industrial Action plans needs to be reviewed in light of current risks. | Internal POL meeting held and two Royal Mail meetings held to determine needs and plans. POL requirements will feed to the RM plans to ensure we know gaps and planned responses. | Mark Siviter / Tim Armit | 10/17 |
| Development and implementation of a recovery strategy for Bolton | Cost for Sungard solution agreed and budget, meeting with Bolton lead team to agree solution being planned for September. | Joe Conor / Tim Armit | 10/17 |
| Home working as a mitigator for a potential failure of Finsbury Dials needs to be tested and proved | Test run in August. Complete success with no issues. Plan to run this as an annual exercise going forward. Further work with IT on security and skype. | Tim Armit / Mick Mitchell | 1/18 |
| Stay Calm manual needs to be simplified and training provided as to its use | Training across Supply Chain depots underway. Agreement to restructure in place with key users within Supply Chain. Review of documentation complete. Draft new approach out for pilot now, once approach agreed new approach to be rolled out in October. Restructured document in place by year end. | Tim Armit / Marcia Bourne | 12/17 |
| Resilience levels across all key locations and facilities needs to be tested, improvements identified and implemented. | Chesterfield solution in place and approach to PC's being reviewed for improvement by IT. Finsbury Dial home working proven in a | Paula Jenner / Tim Armit / | 6/18 |

| <i>Action</i> | <i>Update</i> | <i>Owner</i> | <i>Target Date</i> |
|--|--|-----------------------------|--------------------|
| | <p>controlled manner and more realistic exercises will develop from this.</p> <p>Supply Chain solutions being reviewed. The levels of resilience will continue to be reviewed whilst plans and strategies are developed across all areas led by Tim Armit but owned by each business lead. This will take until June 2018</p> | Russell Hancock | |
| <p>Supply Chain Sites Visited:</p> <p>Aberdeen / Glasgow / Belfast / Norwich / Sheffield / Birmingham / Hemel Hempstead (at Norwich) / Swansea (at Birmingham)</p> | <p>Key initial findings include:</p> <ul style="list-style-type: none"> • No confirmed or tested continuity locations for depots • No plans for large loss of vehicles • Clarification on crisis escalation and central crisis response needed <p>These and other initial findings have been reported to Supply Chain leadership for them to resolve. Once all visits are complete timescales for resolution will be agreed with Supply Chain management and a method to track these implemented. The reviews are also uncovering some opportunities to review standard methods of operation. Once all issues identified are resolved the sites will show as green with respect their continuity capability. It is anticipated this will be complete by March 2018.</p> | Russell Hancock / Tim Armit | 12/17 |

Post Office Insurance Renewal

Author: Mark Dixon Sponsor: Alisdair Cameron Meeting date: 25 Sept 2017

Executive Summary

Context

The business has a series of insurance policies due for renewal on 1 October 2017.

Question addressed in this report

What level of cover is proposed and how has this changed from last year?

Conclusion

A summary of the policies and cover can be found in the Broker's Pre-renewal Update Report, attached.

Insurances to be purchased are the same as last year. No significant changes are proposed. Coverage levels, with the exception of the extension to the Cyber policy coverage, have been kept in line with last year and all policy limits and deductibles for the current renewal are as per expiry.

These cover the business for most major risks albeit with high deductibles. We consider these levels of insurance to be reasonable and appropriate for the POL business.

POL has not made any claims against its insurers over the last year largely due to the significant levels of self-insurance (via deductibles).

The annual cost of insurance in 2016/17 was circa £1,230k, excluding IPT. We are finalising the cost for 2017/18 and expect small cost savings to be achieved, reflecting the reduction in size of our vehicle fleet and workforce, resulting in a total spend of circa. £1,150k, excluding IPT. It should be noted though that the rate of IPT has increased from 10% to 12%. The overall net savings, after taking account of the IPT increase, are estimated at circa £72k. We propose using this saving to extend our Cyber insurance from the current coverage in relation to two specific contracts to cover the whole business.

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Input Sought

The ARC is asked to approve the renewal as set out in the Brokers' Pre-renewal Update Report, for submission to the Board for approval.

The Report

What level of cover is proposed and how has this changed from last year?

1. Lockton were appointed as insurance broker to the Post Office in 2015 and have now worked with POL on its 2015, 2016 and 2017 renewals. They have helped achieve premium reductions of c.15% in 2015 and c.18% in 2016 as well as various improvements to our policies.

During 2016/17 we have re-aligned all expiry dates to ensure that all policies renew on 1 October.

2. POL purchases insurances expected for a business of its size and complexity. These comprise cover for: Crime; Motor; Combined Liability (Employers Liability and Public/Products Liability); Property Damage and Business Interruption; Directors and Officers Liability; Terrorism; Personal Accident/Business Travel; Professional Indemnity; and Cyber.

POL seeks to manage the cost of its insurance premiums through the size of the deductibles it takes (i.e. the amount that POL must pay before a claim can be made against the insurance provider). This effectively means that POL is "self-insured" for a portion of its risk. For example, under our Crime policy, which provides protection for POL against theft, fraud, and dishonesty committed by employees and third parties, in particular in relation to risks related to our cash centres, the deductible is set at £1m. This implies that any individual loss would need to be in excess of £1m before a claim can be made against our insurers. The level of deductibles varies according to the class of insurance purchased. POL takes advice from its broker when deciding the level of these deductibles.

A summary of the policies and cover proposed for renewal, including details of deductibles and sums insured, can be found in the Broker's Pre-renewal Update Report, attached. A full Renewal Report will be provided by the Broker after renewal is concluded.

3. Insurances purchased are the same as last year. No significant changes are proposed. Coverage levels, with the exception of our Cyber insurance (see 7. below), have been kept in line with last year and all policy deductibles for the current renewal are as per expiry.

These cover the business for most major risks albeit with high deductibles. We consider these levels of insurance to be reasonable and appropriate for the POL business.

4. POL has not made any claims against its insurers over the last year largely due to the significant levels of self-insurance (via deductibles).

5. The annual cost of insurance in 2016/17 was circa £1,230k, excluding IPT. We are finalising the cost for 2017/18 and expect small cost savings to be achieved, reflecting the reduction in size of our vehicle fleet and workforce, resulting in a total spend of circa. £1,150k, excluding IPT. It should be noted though that the rate of IPT has increased from 10% to 12%. The overall net savings, after taking account of the IPT increase, are estimated at circa £72k. We propose using this saving to extend POL's Cyber insurance from the current coverage in relation to two specific contracts to cover the whole business (see 7. below).

6. Motor, Combined Liability and Property Damage cover are all on multi-year agreements put in place last year to achieve cost savings.

7. Our existing Cyber coverage applies only to risks arising out of two contracts (DVLA and Border Agency) and covers first party cyber risks such as extortion and notification and PR expenses. It also includes liability cover for privacy, breach of confidentiality, regulatory fines, mitigation costs and cyber liability. It covers: loss arising out of our failure to protect sensitive, personal or corporate information; liability arising out of the failure of network security; and breach event management expenses. This cover is limited to the DVLA and Border Agency contracts and cover was obtained specifically to address the requirements under these contracts.

Because of the potential difficulties identifying the portion of losses that might be attributed to these two individual contracts in the event of a claim, our brokers have advised that we consider extending coverage to the whole POL business.

In connection with the BBC tender we explored extending coverage to a third contract. It was concluded that this was not possible in the market and that to satisfy the tender requirements we would need to extend coverage from the existing two contracts to the whole business.

Given that the need for Cyber insurance is increasingly likely to become a requirement under future tender processes, this seems a sensible approach.

The annualised premium at the time of the last renewal was £85,500. At the time of the BBC tender we obtained a quote to extend our Cyber coverage. It was estimated that this would double the cost of the insurance.

We therefore propose that for the 2017 renewal we extend coverage to the whole POL business. We estimate that the additional cost of the Cyber coverage will be met from savings under other policies (see 5. above). We are obtaining quotes on this basis.

Attachment 1: Brokers Pre-renewal Update Report



Post Office

2017/18 Insurance Renewal
Pre-renewal Update Report

September 2017

Executive Summary

Background

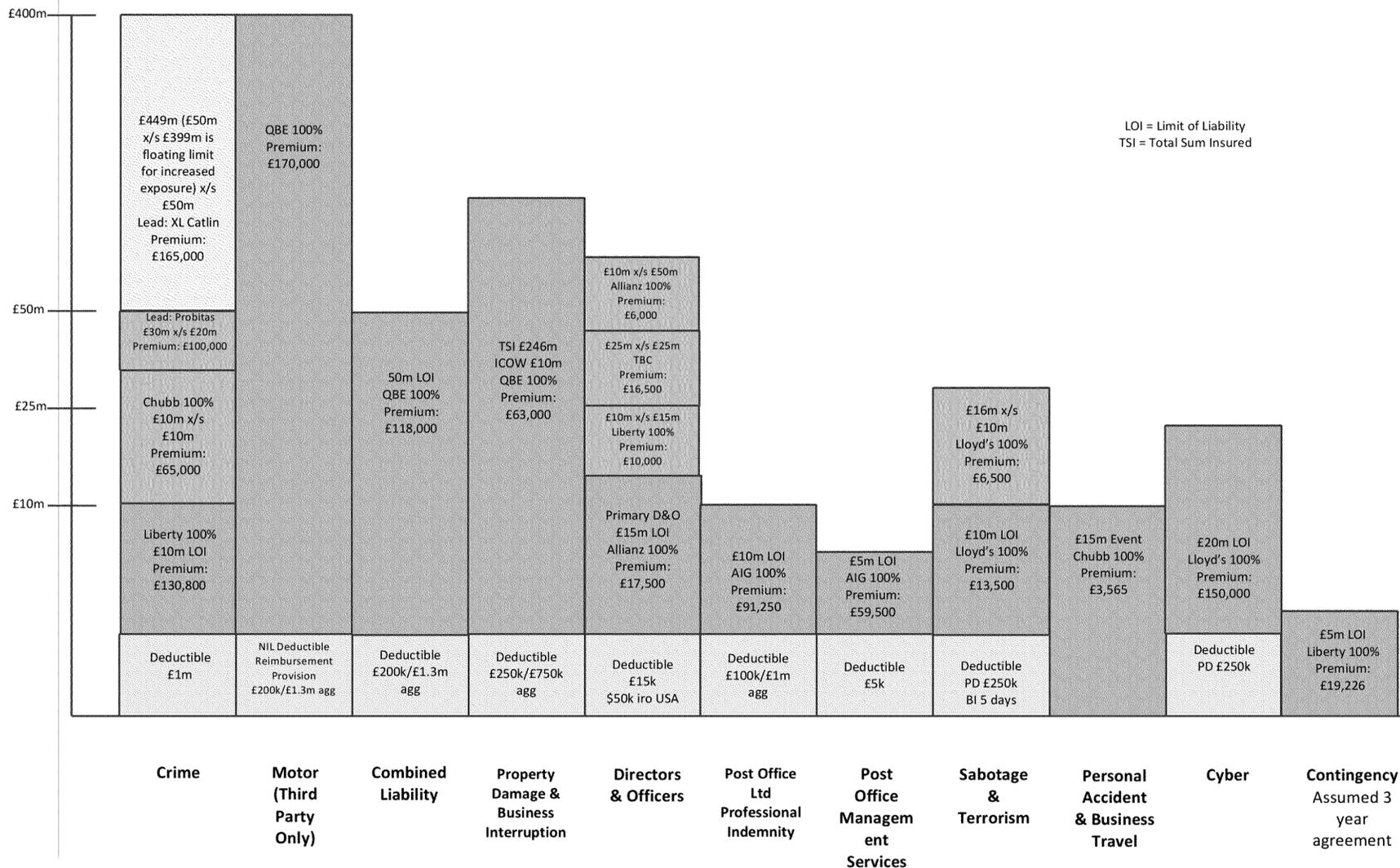
This paper sets out a high level summary of outcome of the renewal of the Post Office insurances due for renewal on October 1st 2017. The key points to note include:

- This year we currently estimate to achieve like for like premium reductions of circa 2% (£23k), adjusted to reflect reductions in the size of your business, again with some improvements to your policies.
- All policy cover, limits and deductibles remain unchanged from 2016/17. Apart from your Cyber insurance whereby the scope of the policy will be expanded at this renewal to cover the entire entity, whereas previously it only covered the activities of two contracts.
- Post Office has not made any claims against its insurances in the past year, largely due to the significant levels of self-insurance (via deductibles) that you take*.

* Claims Commentary – Post Office has not had a claim that has breached the policy deductibles in recent years. You have relatively high deductibles which help the reduce premium spend - but you also have a low frequency of incidents below the deductibles for a company of your size. This might be regarded as a reflection on the quality of your risk management. Full details of your claims experience are available if required.

Programme structure chart

The chart below shows the various insurances Post Office currently purchase (details as proposed for renewal at 01/10/2017).



Summary of policy cover

Crime

This insurance is made up of a primary £10m policy with 'excess layer' policies providing an overall limit of £500m (£499m with a £1m deductible). The key risks are your cash centres but this policy also includes the general theft and fraud risks you face.

Motor Liability

Third party only cover against liabilities arising out of the use of your road vehicles, including contingent cover that protects Post Office where employees use their own vehicles for Post Office business. This is also, of course, a statutory insurance.

Combined Liability

Employers Liability cover (a statutory cover for liabilities to employees) and Public/Products Liability cover protecting you against liabilities to third parties.

Property Damage and Business Interruption

An 'all-risks' basis of insurance cover for your physical assets, although as with all insurances the policy does have exclusions. You only insure individual properties with a value over £500k. The policy is 'full value', based upon the property values you declare to insurers. The policy also includes business interruption cover in the form of 'increased costs of working' with a £10m limit and a 36 month Indemnity Period.

Terrorism

Insurance against damage to your physical assets arising out of a terrorist incident, with a policy limit of £26m per claim. This limit is based upon your largest exposure at Swindon.

Directors and Officers Liability

Covers the cost of compensation claims made against your business's directors and key managers (officers) for alleged wrongful acts.

Wrongful acts include:

- breach of trust
- breach of duty
- neglect
- error
- misleading statements
- wrongful trading

Professional Indemnity

Professional Liability arising out of certain specific activities – you have two policies; one for POL, which broadly covers all services performed for your clients and customers, and another for POMS which covers its activities as an insurance intermediary. Both policies were originally purchased in respect of two contracts which required you to have the cover, but the scope of the policies has since expanded.

Cyber

Both policies were originally purchased in respect of two contracts which required you to have the cover, but the scope of the policy will be expanded at this renewal to cover the entire entity. The policy covers first party cyber risks such as extortion and Notification and PR Expenses. It also includes liability cover for Privacy, Breach of confidentiality, Regulatory fines, Mitigation costs and Cyber Liability.

Personal Accident/Business Travel

Provides fixed benefits following bodily injury for all Employees whilst in pursuit of occupational duties on your behalf away from usual place of employment or whilst travelling directly to or from the usual place of employment from their permanent or temporary residence, but only where the Bodily Injury is as a result of Terrorist attack.

Provides fixed benefits for all Employees including their accompanying Partner and/or children during Foreign and Domestic Business Travel including incidental holiday.

Also provides fixed benefits for all Post Office Sub-Post Masters and Sub-Post Mistresses and their substitutes, their registered Assistants and their substitutes including those working under franchise and modified Sub Post Contracts, at any time as a direct result of an unprovoked malicious assault by another person where the assault is directly in connection with the Insured Persons duties or position with the Insured.

Special Contingency

Details of this are not widely circulated.

Premium summary

| Policy | 2016/17 Premium | 2017/18 Premium | Percentage Premium Saving 2016/17 – 2017/18 | 2017/18 Premium Comments |
|-----------------------|--------------------|--------------------|---|---|
| Crime | £ 465,800 | *£ 460,800 | 1% | *Only 3 rd Excess layer renewal terms received so far. |
| Motor | £ 247,440 | £ 170,000 | *15% | *Entering 2 nd year of 24 month agreement. Percentage saving is based on the reduction in the minimum premium due. |
| Combined Liability | £ 157,500 | £ 118,000 | *13% | *Entering 2 nd year of 24 month agreement. Percentage saving is based on the reduction in the minimum premium due. |
| PI – POL | £ 91,250 | *£ 91,250 | 0% | *Renewal terms TBC. |
| PI – POMS | £ 49,500 | *£ 59,500 | 0% | *Renewal cover bound. Exposure increased by 56% but premium increase only 20%, hence the insertion of 0% in respect of the premium saving. |
| Cyber | £ 85,500 | *£ 150,000 | 0% | *Based on quotation received to widening cover to whole organisation. The quotation does contain subjectivities. |
| PD & BI | £ 63,000 | *£ 63,000 | 0% | *Entering 2 nd year of 24 month agreement, updated schedule of values required. |
| D & O | £ 50,000 | *£ 50,000 | 0% | *Renewal terms TBC. |
| Terrorism | £ 20,000 | *£ 20,000 | 0% | *Renewal terms TBC, updated schedule of values required. |
| Contingency | N/A | *£ 19,226 | N/A | *Renewal terms TBC. Current 36 month policy is due to expire. |
| PA & Travel | £ 3,565 | *£ 3,565 | 0% | *Renewal terms TBC. |
| Total | £ 1,233,555 | £ 1,205,341 | *2% | *Factors in exposure reduction applying to Motor and Combined Liability policies. But doesn't reflect nil Contingency premium being paid last year. |
| Total inc. IPT | | £ 1,349,982 | | Insurance Premium Tax increased to 12% on 01/06/2017 |

- Since Lockton's appointment in 2015 overall premium spend has decreased by circa 43% (£520k), not allowing for reductions in the size of your business. Whilst at the same time enhanced policy coverage including lower deductibles on certain policies have been achieved.

Losses Management

Authors: Stuart Nesbit & Mark Ellis Sponsors: Al Cameron Meeting date: 25 September 2017

Executive Summary

Context

Losses is a collective term for the indirect costs of running the network: product fraud, customer bad debt, robberies and unrecovered cash shortfalls in branches.

At the end of Q1, we explained to the Board that we had seen a significant increase in branch shortfalls. In addition, robbery losses were adverse to plan. In combination, these created a large financial challenge, £2.2m adverse to plan. We also highlighted that we had seen two very significant individual branch losses, one of which seemed to be planned criminal activity. Higher losses had led to the suspension of 36 agents, creating pressure on network numbers.

The Board asked for more information to be shared with ARC.

Questions

1. What has happened since July?
2. Why are we seeing higher levels of agent loss?
3. What are we doing about it?

Conclusion

The variance to plan has reduced to £1.3m YTD at P5. The run rate of losses has fallen, we have recovered some cash previously provided for and we have had only one loss of more than £100k in the last two months.

We believe that the rising trend of branch losses has a number of drivers: greater availability of cash during last year's contingency against industrial action; very few prosecutions due to Sparrow; a decline in conformance with the daily branch cash declarations; limited MI over the level of cash in an individual branch; and a very high level of change in the network through Network Transformation.

We are undertaking a number of tactical, remedial actions: improved branch conformance on cash declarations; better fraud analysis; quicker audits; bringing back excess cash from branches and speeding up the debt path. These will be supplemented by the longer burn programmes; systemic changes to cash declarations; lower cash holdings; and better MI enabled by Back Office Transformation.

Input Sought

The ARC is asked to note the issues, progress and plans and provide feedback.

Strictly Confidential

The Report

What has happened since July?

1. The variance against budget has fallen from £2.2m at the end of P3 to £1.3m at P5 primarily as a result of:
 - Two months without losses from robberies, creating a £0.2m benefit against budget and reducing the YTD adverse to £0.2m on a cost of £0.7m. The volume and seriousness of robberies is volatile and we do not see a particular pattern emerging; and
 - Net agent recoveries of £0.1m against a budgeted cost of £0.5m, reducing the variance on branch shortfalls by £0.6m. YTD, losses are £1.6m, still £1.1m adverse to plan. This included the recovery of one significant loss of c. £300k.
2. While the run rate has significantly improved it is too early state it as a trend or to confirm that other issues won't emerge.
3. The higher rate of targeted audits is ongoing. To the end of P4, 195 audits had been scheduled against 425 for last year and 364 the year before. The accuracy of risk identification has improved, with 81% of audits showing a loss compared to 77% last year and 66% the year before. 88 postmasters had been suspended by end of P5.
4. The average loss has increased to £175K from £100k last year but in Q2 to date we have seen only one loss of more than £100k (£120k) which was identified this week.
5. We are undertaking cash counts at 10% of branches who receive new IT kit. There is no evidence emerging so far of a wider losses problem.

Why are we seeing higher levels of agent loss?

6. Agent losses can simply be a result of poor operational management. The other typical source is Postmasters "borrowing" cash for another purpose, perhaps funding their retail business, intending to repay the money and being unable to do so. Deliberate active criminal theft is relatively rare, although it accounted for our most material individual loss of £400k in Q1.

7. Factors which have created the environment leading to higher losses probably include: greater availability of cash during last year's contingency against industrial action; very few prosecutions due to Sparrow; a decline in conformance with the daily branch cash declarations; limited MI over the level of cash in an individual branch; and a very high level of change in the network through Network Transformation. Unsurprisingly, NT changed branches account for some 81% of losses.

What are we doing about it?

10. The Branch Standards team has increased conformance on cash declarations back to 90%. For the 10% remaining, we will shortly be contacting them again to warn them of a chargeable visit if they do not conform.
11. We have also agreed to make a number of changes to the process to make it easier for Postmasters to complete. The changes include the removal of the option to see what the cash total should be before the declaration is made so agents will no longer be able to simply insert the system answer. These represent amendments to Horizon core code and are currently planned to be implemented in May 2018: we have asked Rob Houghton if this can be accelerated.
12. We are targeting excess cash. An initial list of 120 branches brought back c. £4.5m. The immediate focus is on Local Models which consistently hold more than £50k. Clearly more strategic interventions on cash levels are in planning and we will revert to the Board in November.
13. While risk identification is clearly strong and improving, we are working with a third party, EXL, to see if we can make the process quicker. We have 9 additional FTE undertaking audits which has reduced the wait time from 4-6 weeks to 1-2 weeks. This may be helping us find the losses earlier and at lower levels.
14. We have reviewed the agent debt path from first principles, creating a single end to end process with much earlier legal intervention that starts this week. Measuring the performance of the new way of working is a challenge that we are looking at.
15. We are challenging our debt recovery processes, to see if we should be more assertive in prosecuting, crystallising security and guarantees and selling the debt. Prosecutions will depend upon Counsel's view of Deloitte's new work to support its status as an expert witness and may not scale until the Criminal Cases review Commission has completed its work on former convictions. We may be able to test the process after November.
16. In addition to the cash management work, we are going through strategic reviews of our relationships with agents from recruitment to onboarding to management. This will likely have far reaching changes in the way we work with agents and minimising losses will be one of the criteria. In addition, system changes through Back Office Transformation should give a platform to improve our MI.

Financial Crime Policy

Author: Sally Smith

Sponsor: Jane MacLeod

Meeting Date: 25 September
2017

Executive Summary

Context

The ARC approved the Financial Crime Policy in September 2016. The Policy anticipates that it will be reviewed annually. As a result of this annual review, changes have been made which require the approval of the Audit & Risk Committee. These changes were reviewed and approved at the Risk & Compliance Committee on 20th July 2017.

Questions addressed in this paper

- What changes to the policy do we propose and why?
- What are the implications of these changes?

Conclusion

1. The Financial Crime Policy has been amended to reflect new legislation and clarifies minimum control standards, roles and responsibilities.
2. There are some minor changes to the requirements and minimum standards of controls which will be communicated to relevant stakeholders, and monitored on a business as usual basis by the Financial Crime team.

Input Sought

The ARC is asked to approve the updated Financial Crime Policy.

The Report

Why do we need to review this policy?

3. The terms of the policy require it be reviewed annually. Further, there have been relevant legislative changes which are required to be reflected in the policy.

What changes to the policy do we propose and why?

4. The policy template and format has been redesigned to ensure that the purpose, core principles and impacts are understood. It now sets out clear minimum control standards and responsibilities for application of those standards.
5. Key changes include:
 - The definitions of Financial Crime have been updated to reflect recent changes in regulations and laws that are applicable including the Criminal Finance Act 2017 and the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017.
 - The policy framework and the key linked and associated policies have been updated to provide greater clarity to individuals and stakeholders.
6. Risk Assessment methodology and Product Information Packs that have been developed over the last 12 months are now referenced for the first time.
7. A new section has been included clearly mapping minimum control standards, responsibilities and timescales.
8. We have also reviewed policy queries and issues that have been raised to date to ensure that the revised policy now addresses all previously raised concerns.

What are the implications of these changes?

9. We do not believe that the changes introduced to this Policy will have a material adverse impact on any current Post Office practices or procedures, or impose additional costs.
10. Changes to the policy will be communicated to all employees through internal communications which will include a link to the updated document on the Post Office Intranet. In addition, a series of workshops for product managers in Financial Services & Telecoms and Retail will be run by the Financial Crime Team during the second half of 2017/18 to provide training on 'business as usual' risk assessment methodology and use of the Product Information Pack and Risk Assessment tools.
11. The Financial Crime team will monitor adherence to the minimum control standards set out in the policy on an on-going basis and any control gaps identified will be reported to the R&CC and ARC as required.

What will the impact be on our wider business?

12. The ability to identify actual or potential Financial Crime risks is not mature across the business and more needs to be done culturally to embed the methodology. Nevertheless, significant progress has been made over the last 18 months, and a number of high risk products and services have been formally assessed and documented. Additionally, the introduction of the Risk and Controls Matrix and Placemat methodology across the business is improving controls.

13. Design of compliance oversight monitoring to test the Groups controls and confirm effectiveness and adherence to Financial Crime policies, will be further developed over the next 12 months
14. Although Post Office has an 'adverse' risk appetite, it is accepted that we cannot be 100% effective in preventing all losses and risk exposures, however there are implicit tolerances in terms of budgets for losses, etc., across the business.

What would the impact be of delaying approval?

15. Post Office Limited is required to maintain up to date policies to support contractual requirements with clients and suppliers (e.g. MoneyGram and the Partner Banking Framework) as well as to discharge its regulatory obligations. Failure to do so may result in breach of contract, and/or regulatory sanctions or penalties.
16. 'Group' policies such as the Financial Crime Policy are also applicable to Post Office Management Services Limited ('POMS'). POMS is required under its regulatory responsibility to the Financial Conduct Authority to have up to date policies and failure to do so may lead to regulatory sanctions or penalties.



GROUP POLICIES

Financial Crime Policy

Version – V1.4

Chief Executive's Endorsement

The Post Office Group is committed to doing things correctly. Our Values and Behaviours represent the conduct we expect. This policy supports these to help us ensure the highest standards of financial crime prevention, detection and management are maintained.



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1. Overview

1.1. Introduction by the Policy Owner

The General Counsel has overall accountability to the Board of Directors for the design and implementation of controls to prevent or deter Financial Crime. Financial Crime is an agenda item for the Audit and Risk committees and the Post Office board is updated as required.

1.2. Purpose

This Policy has been established to set the minimum operating standards relating to the design and implementation of controls to prevent or deter Financial Crime throughout the Group¹. It is one of a set of policies which provide a clear risk and governance framework and an effective system of internal control for the mitigation of risk across the Group. Compliance with these policies supports the Group in meeting its business objectives and to balance the needs of shareholders, employees² and other stakeholders.

1.3. Core Principles

The governance arrangements described in this Policy are based upon the following core principles:

- The interests of stakeholders are protected by ensuring that excessive powers are not delegated to individuals;
- Decisions taken by management are consistent with the Group's strategic objectives and Risk Appetite, which are approved by the Board;
- Appropriate conduct is demonstrated in executing the requirements contained within the Policy;
- Every member of staff is responsible for understanding and managing the risk they take on behalf of the Group;
- Clear accountabilities are delegated by management to people who have the right level of skill, competency and experience;
- All employees are required to comply with Group Policies.

1.4. Application

This Policy is applicable to all areas within the Group and defines the minimum standards to control financial loss, customer impact, regulatory breaches and reputational damage in line with the Group's Risk Appetite.

In exceptional circumstances, where risk sits outside of the Group's accepted Risk Appetite a Risk Exception can be granted. For further information in relation to the risk exception process please see the Risk Exception process found [here](#).

¹ In this policy "Post Office" and "Group" mean Post Office Limited and Post Office Management Services Ltd.

² In this policy "employee" means permanent staff, temporary including agency staff, contractors, consultants and anyone else working for or on behalf of Post Office.

While Post Office does not tolerate events that are criminal in nature and which may give rise to unacceptable and illegal behaviour, it recognises that despite its many endeavours, it is not possible to eliminate all risk of internal and external Financial Crime and as a result Post Office may incur losses, and therefore takes a risk based approach to Financial Crime.

Failure to comply with the requirements of this policy by any employee will be regarded as a significant breach impacting on the Group's risk and control environment and may lead to disciplinary action up to and including dismissal and possible prosecution.

The risk to the Group in relation to Financial Crime is reviewed by the board on a regular basis.

1.5. Financial Crime Risk

"Financial Crime" is any offence involving: fraud or dishonesty, misconduct in, or misuse of information or handling the proceeds of crime. It can be internal (by individuals within an organisation) or external (by criminals using an organisation to facilitate financial crime). Financial Crime is commonly considered as including the following offences:

- fraud
- electronic crime
- money laundering
- terrorist financing
- bribery and corruption
- information security

Failure to manage Financial Crime risks and incidents appropriately could result in financial loss, customer impact, regulatory breaches, fines, prosecution, prevention from selling a particular product, loss of existing or future contracts/relationships and damage to reputation.

These risks include, but are not limited to, the following:

External Financial Crime:

The risk of external events due to acts of a type intended to defraud, steal or misappropriate assets/ property, or which seek to circumvent the law, by a third party. Examples would include:

- Any dishonest or fraudulent act,
- Theft of assets from an organisation or its customers,
- Card or account abuse or account takeover by a third party,
- Counterfeit payment instruments (cards, cheques, etc.) and identity documents,
- ATM fraud and theft,
- Online or mobile fraud, and
- Social engineering fraud.

Internal Financial Crime

The risk of internal events due to acts of a type intended to defraud, steal or misappropriate assets/property, or which seek to circumvent regulations or the law applicable to an organisation or its contracts or internal policies or procedures. Examples would include:

- Any dishonest or fraudulent act circumventing regulations or law,
- Profiteering as a result of insider knowledge of an organisation's activities,
- Theft of assets from an organisation or its customers,
- Manipulation of transactional data at point of sale,
- False expense or payroll claims,
- Manipulation of accounts or financial statements, and
- Breach of internal processes or controls for personal gain.

The Group takes the above internal risks and Financial Crime seriously and will take appropriate action against any person including disciplinary and dismissal of anyone involved in such events.

1.6. Legislation

There are a number of relevant UK legal and regulatory requirements which describe financial crime including (but not limited to):

- The Fraud Act 2006
- The Bribery Act 2010
- The Theft Act 1968
- Common Law Offences of Fraud in Scotland
- The Proceeds of Crime Act 2002
- The Criminal Finances Act 2017
- Policing and Crime Act 2017
- The Terrorism Act 2000
- The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (known as Money Laundering Regulations 2017)
- Forgery and Counterfeiting Act 1981
- Identity Documents Act 2010

The group has regard for guidance and other assistance offered by regulatory, industry and other specialist bodies, for example UK Finance (which incorporates BBA, UK Payments and Financial Fraud Action UK), Link, etc., publish trends and analysis on current threats and issues.

2. Risk Appetite and Minimum Control Standards

2.1. Risk Appetite

A Risk Appetite is the extent to which the Group will accept that a risk might happen in pursuit of day to day businesses transactions. It therefore defines the boundaries of activity and levels of exposure that the Group are willing and able to tolerate.

The Group takes its legal and regulatory responsibilities seriously and consequently has³:

- **Tolerant risk appetite** for Legal and Regulatory risk in those limited circumstances where there are significant conflicting imperatives between conformance and commercial practicality
- **Averse risk appetite** for litigation in relation to high profile cases/issues
- **Averse risk appetite** for litigation in relation to Financial Services matters
- **Averse risk appetite** for not complying with law and regulations or deviation from business' conduct standards for financial crime to occur within any part of the organisation
- **Averse Risk Appetite** in relation to unethical behaviour by our staff.

The Group also has a zero tolerance policy to criminal tax evasion and the facilitation of tax evasion.

The Group acknowledges however that in certain scenarios even after extensive controls have been implemented a product or transaction may still sit outside the agreed Risk Appetite. In this situation, a risk exception waiver will be required (See section 1.4 for further details).

2.2. Policy Framework

Post Office has established a suite of Financial Crime policies and procedures, on a risk sensitive approach which are subject to annual review. The policy suite is designed to combat money laundering, terrorist financing, bribery and corruption, fraud and ensure adherence to relevant sanctions regimes. They have been developed to comply with applicable legislation and regulation and cover the following specifically:

- The identification through documented risk assessment of potential or inherent and residual Financial Crime risks and the effectiveness of controls associated with them,
- Completing compliance oversight monitoring to test the Groups controls and confirm effectiveness and adherence to Financial Crime policies,
- On a risk sensitive basis, performing due diligence upon our employees, agents and third parties,
- Where the Group has primary or contractual responsibility for the customer relationship ensuring Customer Due Diligence, Enhanced Due Diligence and Sanctions checking are set at any appropriate level commensurate with the risk,

³ The Risk appetite was agreed by the Groups Board January 2015

- Establishing and maintaining standards for Management Information on Financial Crime. This includes, but is not limited to, record keeping, customer identity documents, reporting of suspicious activity⁴ and details of staff training.

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⁴ For more information in relation to the completion and submission of a Suspicious Activity Report please see the Anti -Money Laundering and Counter Terrorism Policy .

This policy provides an overview of the Financial Crime risk and governance framework and the effective system of internal control for the mitigation of Financial Crime risk required across the Group. The Key Financial Crime policies covering the major risk areas to the Group include:

- Anti-Bribery and Corruption Policy
- Anti-Money Laundering and Counter Terrorist Finance Policy
- Whistleblowing Policy

Associated Policies and Processes include:

- Information Security Policy
- Investigations Policy

Each of the above policies should be considered and read in conjunction with any other policy where relevant. These policies are supported by the Risk Exceptions process.

2.3. Who must comply?

Compliance with this policy is mandatory for all Post Office employees and applies wherever in the world the Groups business is undertaken. All third parties who do business with the Group, including consultants, suppliers and business and franchise partners, will be required to agree contractually to this policy or have their own equivalent policy.

Where non-compliance is identified the matter must be referred to the Policy Owner. Any investigations will be carried out in accordance with the Investigations Policy. Where it is identified that an instance of non-compliance is caused through wilful disregard or negligence, this will be treated as a disciplinary offence.

All Post Office employees are required to report any knowledge or suspicions (internal or external) in relation to Financial Crime please see 3.2.

| Risk Area | Description of Risk | Minimum Control Standards | Who is responsible | When |
|--------------------------------|---------------------|---------------------------|--------------------|--|
| Existing products and services | IRRELEVANT | IRRELEVANT | Product Manager | Annually, or at any time there is a change |
| | | | Product Manager | Any time there is a change |
| | | | Product Manager | Any time there is a change |
| | | | Product Manager | When there is a material issue or incident |

| Risk Area | Description of Risk | Minimum Control Standards | Who is responsible | When |
|-----------------|---------------------|---------------------------|---|--|
| Human Resources | IRRELEVANT | IRRELEVANT | Director of Human Resources | Pre-employment and ongoing where required |
| Operations | IRRELEVANT | IRRELEVANT | <p>All employees</p> <p>All employees</p> <p>Chief Information Officer and Physical Security</p> <p>Internal Audit</p> | <p>Ongoing</p> <p>Ongoing</p> <p>Ongoing</p> <p>Ongoing</p> |

3. Where to go for help

3.1. Additional Policies

This policy is one of a set of policies. The full set of policies can be found at:

<https://poluk.sharepoint.com/sites/postoffice/Pages/policies.aspx>

3.2. How to raise a concern

Any Post Office employee who suspects dishonest or fraudulent activity has a duty to:

- Discuss the matter fully with their Line Manager; or,
- Report their suspicions by telephoning Grapevine on **GRO**; or,
- Report the matter directly to the Money Laundering Reporting Officer (MLRO)
- staff can contact the Post Office's General Counsel, currently Jane MacLeod who can be contacted by email at: whistleblowing@postoffice.co.uk or by telephone on: **GRO**
- Alternatively staff can use the Speak Up service available on **GRO**
- or via a secure on-line web portal: <http://www.intouchfeedback.com/postoffice>

3.3. Who to contact for more information

If you need further information about this policy or wish to report an issue in relation to this policy, please contact financial.crime@postoffice.co.uk

4. Governance

4.1. Governance Responsibilities

The policy sponsor, responsible for overseeing this policy is the General Counsel of Post Office Limited.

The policy owner is the Director of Risk and Compliance who is responsible for ensuring that the Financial Crime Team conducts an annual review of this policy and tests compliance across the Group. Additionally the Director of Risk and Compliance and the Financial Crime Team are responsible for providing appropriate and timely reporting to the Risk and Compliance Committee and the Audit and Risk Committee.

The Audit and Risk Committee are responsible for approving the policy and overseeing compliance.

The Board is responsible for setting the groups risk appetite.

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5. Control

5.1. Policy Version

| Date | Version | Updated by | Change Details |
|---------------|---------|-----------------|--|
| November 2016 | 1 | Georgina Blair | Roll out of Final version |
| April 2017 | 1.1 | Thomas Richmond | Review and update in line with updated regulations and new policy design |
| June 2017 | 1.2 | Thomas Richmond | Updated in line with comments from stakeholders |
| July 2017 | 1.3 | Thomas Richmond | Final draft |
| July 2017 | 1.4 | Sally Smith | POL R&CC approval |

5.2. Policy Approval

Group Oversight Committee: Risk and Compliance Committee and Audit and Risk Committee

| Committee | Date Approved |
|-----------|----------------------------|
| POL RCC | 20 th July 2017 |
| POMS RCC | |
| POL ARC | |
| POMS ARC | |

Policy Sponsor: Group Director of Legal, Risk & Governance

Policy Owner: Director of Risk and Compliance

Policy Author: Head of Financial Crime

Next review: July 2018

Company Details

Post Office Limited and Post Office Management Services Limited are registered in England and Wales. Registered numbers 2154540 and 08459718 respectively. Registered Office: Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ.

Post Office Management Services Limited is authorised and regulated by the Financial Conduct Authority (FCA), FRN 630318. Its Information Commissioners Office registration number is ZA090585.

Post Office Limited is authorised and regulated by Her Majesty's Revenue and Customs (HMRC), REF 12137104. Its Information Commissioners Office registration number is Z4866081.

Anti-Bribery & Anti-Corruption Policy

Author: Sally Smith

Sponsor: Jane MacLeod

Meeting Date: 25th September 2017

Executive Summary

Context

The Audit & Risk Committee (ARC) approved the Anti-Bribery and Anti-Corruption (ABC) Policy in September 2016. The Policy anticipates that it will be reviewed annually. As a result of this annual review, changes have been made which require the approval of the ARC. These changes were reviewed and approved at the Risk & Compliance Committee (R&CC) on 20th July 2017.

Questions addressed in this paper

- What changes to the Policy do we propose and why?
- What are the implications of these changes?

Conclusion

1. The ABC Policy has been amended to reflect the risk assessment and clarifies the minimum control standards, roles and responsibilities
2. The updated Policy reflects all recommendations made as part of the external risk assessment of the ABC framework completed by Thistle Initiatives
3. The ABC Policy has been updated to include reporting guidance, clarification of amounts and line manager or GE approval limits.

Input Sought

The ARC is asked to approve the updated ABC Policy.

The Report

Why do we need to review this Policy?

1. The terms of the Policy require it be reviewed annually.

What changes to the Policy do we propose and why?

2. The policy template and format has been redesigned to ensure that the purpose, core principles and impacts are understood. It now sets out clear minimum control standards and responsibilities for application of those standards.
3. The Policy has been updated to reflect the recommendations made by the external Risk Assessment completed by Thistle Initiatives. The key recommendations include:
 - Governance and oversight is clarified and ownership evidenced through the half yearly executive declarations in respect of their business areas.
 - Consideration is given to the requirements on staff before engaging with any member of government, the businesses stance on sponsorships and grants and a clear definition of a facilitation payment.
 - The publication of a high level public ABC statement (see Appendix A), this is a recommendation from Transparency International¹ to ensure a clear public commitment to business integrity.
 - It enhances monitoring procedures to ensure quantifiable data can be analysed in relation to Gifts and Hospitality.
4. A new tool has been launched to ensure employees can easily and accurately record the offering and acceptance of gifts and hospitality throughout the Group, with improved reporting to GE, the R&CC and the ARC.
5. The thresholds for reporting and approval have been amended and clarified.
6. We have also reviewed policy queries and issues that have been raised to date to ensure that the revised policy now addresses all previously raised concerns.

What are the implications of these changes?

7. We do not believe that the changes introduced to this Policy will have a material adverse impact on any current Post Office practices or procedures, or impose additional costs.
8. Changes to the policy will be communicated to all employees through internal communications which will include a link to the updated document on the Post Office Intranet. Annual ABC training is being delivered to employees in September 2017.
9. The Financial Crime team will monitor adherence to the minimum control standards set out in the policy on an on-going basis and any control gaps identified will be reported to the R&CC and ARC as required.

¹ Transparency International is a non-profit organisation aimed at taking action to combat corruption and prevent criminal activities arising from corruption.

What will the impact be on our wider business?

10. Increased transparency of the ABC framework to include minimum control standards and control responsibility.
11. Improved reporting and oversight at GE level of compliance within their business areas
12. Public transparency of Post Office's adherence and commitment to ABC will be demonstrated through the publication of the simplified ABC Policy
13. Design of compliance oversight monitoring to test the Groups controls and confirm effectiveness and adherence to Financial Crime policies, will be further developed over the next 12 months.

What would the impact be of delaying approval?

14. Risk that the group breaches the Bribery Act 2010 by not having up to date policies and procedures to prevent bribery by any person or company who operates on our behalf.
15. Post Office Limited is required to maintain up to date policies to support contractual requirements with clients and suppliers (e.g. MoneyGram and the Partner Banking Framework) and failure to do so may result in a breach of contract, and whilst not material, could have commercial and reputational impacts.
16. 'Group' policies such as the ABC Policy are also applicable to Post Office Management Services Limited ('POMS'). POMS is required under its regulatory responsibility to the Financial Conduct Authority to have up to date policies and failure to do so may lead to regulatory sanctions or penalties.

Appendix A

Simplified ABC Policy for publication on the Post Office website

Post Office (Post Office Limited and Post Office Management Services Limited) is committed to high standards of ethical behaviour and has zero tolerance towards bribery and corruption. Post Office requires compliance with all anti-bribery and corruption laws in all markets and jurisdictions in which it operates. These laws include the UK Bribery Act 2010 and the Criminal Finances Act 2017.

Post Office's Anti-Bribery and Corruption (ABC) compliance programme and policies is overseen by the Board. Policies incorporate the results of regular risk assessments and emphasise that all employees, including the Board of Directors and Associated Persons, must comply with the principles in these policies in the performance of their services for or on behalf of Post Office. We also expect that outsourcers and other companies providing services to Post Office will adhere to equivalent standards.

At Post Office, we aspire to be at the very heart of customers' choice by becoming the most trusted provider of essential services to every person in the land. It recognises that over and above the commission of any crime, any involvement in bribery will also reflect adversely on its image and reputation. Post Office therefore aims to limit its exposure to bribery by:

- Setting out a clear Anti Bribery & Corruption Policy;
- Training employees so that they can recognise and avoid the use of bribery by themselves and others;
- Encouraging its employees to be vigilant and to report any suspicion of bribery, providing them with suitable channels of communication and ensuring sensitive information is treated appropriately;
- Rigorously investigating instances of alleged bribery and assisting the police and other appropriate authorities in any resultant prosecution;
- Taking firm and vigorous action against any individual(s) involved in bribery.

Based on the above, the ABC Compliance Programme imposes the following requirements:

- All individuals are required by policy to ensure that appropriate due diligence and controls are applied, to any individuals they engage with, to ensure that they comply with the letter and spirit of applicable anti-bribery legislation and regulation; and
- Gifts, Hospitality and Charitable giving: All individuals are required by the policy to avoid offering, accepting or permitting any gift, entertainment, charitable giving, sponsorship or other advantage to be offered or accepted without the appropriate controls being applied.

As part of the prevention, identification and remediation of ABC issues, mandatory training is conducted throughout Post Office and the Financial Crime team carries out regular, risk based assessments, monitoring and testing of its ABC programme.

Post Office also maintains a clear Whistleblowing Policy and processes to ensure that individuals can confidentially, with no fear of retribution, report concerns to be investigated and remediated appropriately.



GROUP POLICIES

Anti-Bribery and Corruption Policy

Version – V1.3

Chief Executive's Endorsement

The Post Office Group is committed to doing things correctly. Our Values and Behaviours represent the conduct we expect. This Policy supports these to help us ensure the highest standards of financial crime prevention, detection and management are maintained.



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1. Overview

1.1. Introduction by the Policy Owner

The General Counsel has overall accountability to the Board of Directors for the design and implementation of controls to prevent or deter Bribery and Corruption. Anti-Bribery and Corruption is an agenda item for the Audit and Risk Committee and the Post Office board is updated as required.

1.2. Purpose

This Policy has been established to set the minimum operating standards relating to the management of our Bribery and Corruption risks throughout the Group¹. It is one of a set of policies which provide a clear risk and governance framework and an effective system of internal control for the management of risk across the Group. Compliance with these policies supports the Group in meeting its business objectives and to balance the needs of shareholders, employees² and other stakeholders.

1.3. Core Principles

To offer a bribe is a criminal offence; bribery is an offer, promise, payment, request, or agreement to receive anything of value from any person or entity in order to induce that person to perform their roles improperly.

In order to prevent Bribery and Corruption the governance arrangements described in this Policy are based upon the following core principles:

- The Group is committed to and oversees the implementation of a Policy of zero tolerance, recognising that bribery is contrary to fundamental values of integrity, transparency and accountability and undermines the Group's effectiveness;
- Post Office has devised a robust Policy and associated procedures (set out in this document) which are proportionate to the risks and complexity of the Group;
- A bribery risk assessment is an integral part of our Group's overall and ongoing risk management process;
- Post Office must assess the risk associated with entering into joint ventures, partnerships or contracting arrangements with other entities and must carry out periodic due diligence based on that risk assessment. This includes ensuring that these organisations have policies and procedures which are equivalent to the Group's own procedures;
- The Group undertakes a training and awareness program to ensure employees are aware of the potential risks, how bribery might affect them, what they should do if they are offered a bribe, and the consequences should they be found to have made or received a bribe;
- The interests of Policyholders and other stakeholders are protected by ensuring that excessive powers are not delegated to individuals;

¹ In this Policy "Post Office" and "Group" mean Post Office Limited and Post Office Management Services Limited.

² In this Policy "employee" means permanent staff, temporary including agency staff, contractors, consultants and anyone else working for or on behalf of Post Office.

- Decisions taken by management are consistent with the Group's strategic objectives and risk appetite, which are approved by the Board;
- Appropriate conduct is demonstrated in executing the requirements contained within the Policy;
- Every member of staff is responsible for understanding and managing the risk they take on behalf of the Group and for ensuring that they act within accordance to them;
- All employees are required to comply with Group Policies.

1.4. Application

This Policy is applicable to all areas within the Group and defines the minimum standards to control financial loss, customer impact, regulatory breaches and reputational damage in line with the Group's Risk Appetite.

In exceptional circumstances, where risk sits outside of the Group's accepted Risk Appetite a Risk Exception can be granted. For further information in relation to the risk exception process please see the Risk Exception process found [here](#).

While Post Office does not tolerate events that are criminal in nature and which may give rise to unacceptable and illegal behaviour, it recognises that despite its many endeavours, it is not possible to eliminate all risks of internal and external Bribery and Corruption. As a result Post Office may incur losses, and therefore takes a risk based approach to Bribery and Corruption.

For definitions please see section 3.1.

The risk to the Group in relation to Bribery and Corruption is reviewed by the board on a regular basis.

1.5. Types of Bribery and Corruption Risk

Post Office is exposed to a number of the above risks relating to Bribery or Corruption. These risks include, but are not limited to, the following:

1. **Payment Risks** –for example, facilitation payments, gifts & hospitality, client training programmes, charitable or political donations, ex-gratia payments/ legal settlements. This would also include the offer of sponsorships or grants.
2. **Third Party/Associated Party Risks** –third parties who provide services on behalf of the Post Office Group engaging in bribery or corruption while performing such services. The scope of this could include agency operators within the Post Office network and suppliers procured through the business or through the Procurement Team. Examples of Associated Parties include agents, consultants, suppliers, introducers, and intermediaries.

3. **Employment Risks** –Post Office employees requesting or receiving something of value from a third party in exchange for providing employment or work opportunities at the Post Office or offering or providing work opportunities, paid or unpaid, to Connected Individuals³, or otherwise using employee connections to improperly obtain business or secure an advantage for Post Office. Employment opportunities (including work experience, secondments, etc.) have a value to the recipient and/or their close family members and may be considered to be bribes if used to improperly obtain or retain business or secure an advantage for Post Office.
4. **Inducement Risks** - Post Office must take reasonable steps to ensure that it, and any person acting on its behalf, does not:
 - o Offer, give, solicit or accept an inducement; or
 - o Direct or refer any actual or potential business in relation to another person on its own initiative or on the instructions of an associate; if it is likely to conflict to a material extent with any duty that Post Office Management Services owes to its customers in connection with an insurance mediation activity or any duty which such a recipient firm owes to its customers in connection with an insurance mediation activity.
5. **Gifts & Hospitality** –The Group has a process for reporting Gifts & Hospitality (both received and offered) details of this can be found [here](#).

1.6. Legislation

The Group seeks to comply with all relevant UK legal and regulatory requirements including (but not limited to):

- The Bribery Act 2010
- The Criminal Finances Act 2017
- Financial Conduct Authority (FCA) Rules and Guidance (to the extent that these apply – see 1.8 below)

Under the Bribery Act, it is an offence to:

- Directly, or indirectly offer, promise or give a financial or other advantage with the intention of inducing any person to perform a business activity improperly or to reward any person for doing so;
- Request, agree to receive or accept a bribe, i.e. to receive a financial or other advantage with the intention of performing a business activity improperly;
- Bribe a foreign public official;
- Fail to prevent bribery by any person who perform services for or on behalf of a company ("corporate offence").

Post Office is subject to the Bribery Act 2010 (Bribery Act) and could become criminally liable as a result of an act of bribery or corruption by its employees or a third party operating on our behalf.

The Bribery Act has extra-territorial effect which means that the actions of Post Office or a third party operating on our behalf outside of the UK may fall within the scope of the Act. In the context of Post Office, this could apply in scenarios such as where a Post Office contractor or supplier resides outside the UK.

³ Connected Individuals means those individuals who are known to have close connections to existing or prospective clients or suppliers, Public Officials, Politically Exposed Persons (PEP) or using employees' connections to improperly obtain business or secure an advantage for Post Office.

The Criminal Finances Act also includes a 'failure to prevent' (strict liability) offence on the Group, where failure to prevent criminal facilitation of a tax evasion offence, by a taxpayer, takes place and there are no reasonable procedures put in place to prevent such facilitation, or it cannot show that these procedures would have been unreasonable.

Post Office can be held liable unless it can demonstrate that it has in place "adequate procedures" designed to prevent this type of misconduct. The controls outlined in this Policy, including appendices, assist Post Office in preventing and detecting corrupt conduct and form an essential component of Post Office's adequate procedures.

1.7. FCA Rules

Post Office Limited is an Appointed Representative of the Bank of Ireland and Post Office Management Services Limited (POMS) and is contractually required to comply with certain regulatory requirements. As such the Group as a whole is obliged to ensure there are adequate systems and controls are in place to mitigate Financial Crime risks.

POMS is a directly regulated firm with the FCA is directly exposed to regulatory fines and censure if the FCA determine that the systems and controls associated with this Policy are not effectively implemented.

This Policy contributes to Post Office's compliance with these regulatory and contractual obligations.

2. Risk Appetite and Minimum Control Standards

2.1. Risk Appetite

Risk Appetite is the extent to which the Group will accept that a risk might happen in pursuit of day to day businesses transactions. It therefore defines the boundaries of activity and levels of exposure that the Group are willing and able to tolerate.

The Group takes its legal and regulatory responsibilities seriously and consequently has⁴:

- **Tolerant risk appetite** for Legal and Regulatory risk in those limited circumstances where there are significant conflicting imperatives between conformance and commercial practicality
- **Averse risk appetite** for litigation in relation to high profile cases/issues
- **Averse risk appetite** for litigation in relation to Financial Services matters
- **Averse risk appetite** for not complying with law and regulations or deviation from business' conduct standards for financial crime to occur within any part of the organisation
- **Averse Risk Appetite** in relation to unethical behaviour by our staff.

The Group acknowledges however that in certain scenarios even after extensive controls have been implemented a product or transaction may still sit outside the agreed Risk Appetite. In this situation, a risk exception waiver will be required⁵.

2.2. Policy Framework

Post Office has established a suite of financial crime policies and procedures, on a risk sensitive approach which are subject to an annual review. The Policy suite is designed to combat money laundering, terrorist financing, bribery and corruption and adhere to relevant Sanctions regimes. These have been developed to comply with applicable legislation and regulation and covers the following specifically:

- The identification of potential financial crime risks
- On a risk sensitive approach, performing due diligence at on-boarding, periodic basis and payment on third parties who perform services for or on behalf of us.
- Maintaining appropriate records for at least the minimum UK prescribed periods.
- Completing compliance oversight monitoring to test the Group's controls and confirming effectiveness and adherence to financial crime policies.
- Establishing and maintaining Standards for Management Information on Financial Crime. This includes, but is not limited to, record keeping, reporting of suspicious activity and details of staff training.

The Anti-Bribery and Corruption Policy is a key Policy under the Financial Crime Policy framework and should be considered and read in conjunction with the overarching Financial Crime Policy where relevant.

⁴ The Risk appetite was agreed by the Groups Board January 2015

⁵ For more information in relation to Risk Exception waivers found [here](#)

2.3. Who Must Comply?

Compliance with this Policy is mandatory for all Post Office employees and applies wherever in the world the Group's business is undertaken. All third parties who do business with the Group, including consultants, suppliers and business and franchise partners, will be required to agree contractually to this Policy with their own equivalent Policy.

Where non-compliance is identified the matter must be referred to the Director of Risk and Compliance and the Group Legal Director. Any investigations will be carried out in accordance with the Investigations Policy. Where it is identified that an instance of non-compliance is caused through wilful disregard or negligence, this will be treated as a disciplinary offence.

All Post Office employees are required to report any knowledge or suspicions in relation to Bribery or Corruption to Grapevine. As such all business units are required to have a process in place for reporting Bribery or Corruption incidents to Grapevine by telephone on **GRO**. For more information in relation to reporting knowledge or suspicions please see section 3.2.

The next page sets out the minimum control standards that the Group has implemented to control these risks.

2.4. Gifts and Hospitality Tool

The purpose of the Gifts and Hospitality Tool is to make it easy for our employees to accurately record the offering and acceptance of gifts and hospitality throughout the Group. For more information in relation to the tool and how to use this, please see the below links:

The Gifts and Hospitality Tool can be found [here](#).

Instructions upon how to complete the tool can be found [here](#).

The procedure for completing the Gifts and Hospitality Tool can be found [here](#)

2.5. Minimum Control Standards

A minimum control standard is an activity which must be in place in order to manage the risks so they remain within the defined Risk Appetite statements. There must be mechanisms in place within each business unit to demonstrate compliance. The minimum control standards can cover a range of control types, i.e. directive, detective, corrective and preventive which are required to ensure risks are managed to an acceptable level and within the defined Risk Appetite.

The table below sets out the relationships between identified risk and the required minimum control standards in consideration of the stated risk appetite. The subsequent pages define the terms used in greater detail:

| Risk Area | Description of Risk | Minimum Control Standards | Who is responsible | When |
|---|---------------------|---------------------------|--------------------|------------------------|
| Appointment and Activities of Consultants and Contractors | IRRELEVANT | IRRELEVANT | Procurement | Ongoing where required |
| Charity Donations | IRRELEVANT | IRRELEVANT | All employees | Ongoing |

| Risk Area | Description of Risk | Minimum Control Standards | Who is responsible | When |
|-----------------------|---------------------|---------------------------|--------------------|---------|
| | | | All employees | Ongoing |
| Conflicts of Interest | IRRELEVANT | IRRELEVANT | All employees | Ongoing |
| Employment Risks | | | All employees | Ongoing |

| Risk Area | Description of Risk | Minimum Control Standards | Who is responsible | When |
|-------------|---------------------|---------------------------|---|--|
| Gifts | IRRELEVANT | | <p>Each employee is responsible for ensuring that all gifts offered or received are recorded.</p> <p>Line manager for approving or declining the acceptance of a gift</p> <p>Group Executive is responsible for approving or declining any offers over £100</p> <p>Financial Crime Team is responsible for reviewing the Gifts and Hospitality register.</p> <p>Human Resources is responsible for reviewing any incidents where further action is required</p> | <p>Ongoing</p> <p>Ongoing</p> <p>Ongoing</p> <p>Ongoing</p> <p>Ongoing</p> |
| Hospitality | IRRELEVANT | | <p>Each employee is responsible for ensuring that all hospitality offered/received are recorded</p> <p>Line manager for approving or declining the acceptance of hospitality</p> | <p>Ongoing</p> <p>Ongoing</p> |

| Risk Area | Description of Risk | Minimum Control Standards | Who is responsible | When |
|---------------|---------------------|--|---|--|
| | | <div style="border: 1px dashed black; padding: 10px; width: fit-content; margin: auto;"> <p>IRRELEVANT</p> </div> | <p>Group Executive is responsible for the approving or declining of any offers of hospitality over £200</p> <p>Financial Crime Team is responsible for reviewing the Gifts and Hospitality register</p> <p>Human Resources is responsible for reviewing any incidents where further action is required</p> | <p>Ongoing</p> <p>Ongoing</p> <p>Ongoing</p> |
| Payment Risks | | <div style="border: 1px dashed black; padding: 10px; width: fit-content; margin: auto;"> <p>IRRELEVANT</p> </div> | <p>Each employee is responsible for ensuring that all hospitality and gifts offered or received are recorded</p> <p>Line manager for approving or declining the acceptance of a gift or hospitality.</p> <p>Group Executive is responsible for the approving or declining of any offers of gifts or hospitality over the agreed amounts</p> | <p>Ongoing</p> <p>Ongoing</p> <p>Ongoing</p> |

| Risk Area | Description of Risk | Minimum Control Standards | Who is responsible | When |
|------------------------------|---------------------|---------------------------|--|--|
| | | IRRELEVANT | <p>Financial Crime Team is responsible for reviewing the Gifts and Hospitality register</p> <p>Group Legal Director is responsible for reviewing and signing off as required any ex-gratia payments or legal settlements as requested from the Business.</p> | <p>Ongoing</p> <p>Ongoing</p> |
| Political Donations/Lobbying | IRRELEVANT | | <p>Each employee is responsible for ensuring that all Gifts & Hospitality offered or received is recorded</p> <p>Group Executive is responsible for the approving or declining of any offers of hospitality by a political party</p> <p>Financial Crime Team is responsible for reviewing the Gifts and Hospitality register</p> | <p>Ongoing</p> <p>Ongoing</p> <p>Ongoing</p> |

| Risk Area | Description of Risk | Minimum Control Standards | Who is responsible | When |
|------------------------------|---------------------|---------------------------|-------------------------|---------|
| Procurement/Third Party Risk | IRRELEVANT | | Chief Financial Officer | Ongoing |
| | | | Procurement | Ongoing |

The Group completes Annual Risk Assessments reviewing its bribery and corruption exposure and its compliance with the above key risk areas.

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3. Definitions

3.1. Definitions

Bribery

Bribery is defined as the offer, promise, payment, request, agreement to receive anything of value whether directly or indirectly to or from any person or entity in order to induce that person or entity to perform their roles improperly or, in the case of a Public Official, in order to influence them with the intention of obtaining or retaining business or an advantage in the conduct of business.

Examples include an offer or promise to give anything of value to anyone to obtain or retain business for or on behalf of the Post Office or to obtain or fulfil a legal or regulatory requirement in furtherance of the Group's business. A bribe can take the form of a "reward" and be paid after the improper performance of the relevant duty or obligation.

Corruption

Corruption is defined as the misuse of entrusted power or public office for private gain.

Educational courses/conferences

Events that are offered by third parties without charge do not amount to hospitality. However, free places to attend courses or conferences that would otherwise attract a charge are covered by this procedure.

Facilitation Payment

A Facilitation Payment is a type of bribe and should be seen as such. A common example is where a government official is given money or goods to perform (or speed up the performance of) an existing duty. Within the UK these are strictly prohibited.

Gifts

Gifts refers to a physical gift and includes the offer to a specific individual or team with the exception of low value promotional items costing under £20 each, such as pens, calendars, diaries, notepads and paperweights.

Hospitality

Invitations to attend events which have a social element (whether or not they are at the same time as or linked to a business meeting) and where the cost of a 'ticket' (participation) is free of charge or reduced in price when otherwise there would be cost attached to it. This would include things such as tickets to a sporting event, tickets to a concert or a corporate dinner.

Inducement

An inducement is a benefit offered to a firm or any person acting on its behalf, with a view to that firm, or that person, adopting a particular course of action. This can include, but is not limited to, cash, cash equivalents, commission, goods, hospitality or training programmes.

Third Party funded trips

Travel/accommodation that is funded by third parties is covered by this procedure as a form of 'hospitality'.

4. Where to go for help

4.1. Additional Policies

This Policy is one of a set of policies. The full set of policies can be found at:

<https://poluk.sharepoint.com/sites/postoffice/Pages/policies.aspx>

4.2. How to raise a concern

Any Post Office employee who suspects that there is a breach in this Policy should report this without any undue delay.

In case of bribery or corruption concerns or whistleblowing, staff may contact:

- their line manager,
- a senior member of the HR Team, or
- if either or both are not available, staff can contact the Post Office's General Counsel, who can be contacted by email at: whistleblowing@[redacted] or by telephone on: [redacted]
- Alternatively staff can use the Speak Up service available on: [redacted]
- or via a secure on-line web portal: <http://www.intouchfeedback.com/postoffice>

Post Office encourages members of the public or people not employed by us who suspect bribery or corruption to write, in confidence, to the **Chief Executive's Office, Finsbury Dials, 20 Finsbury St, London EC2 9AQ.**

4.3. Who to contact for more information

If you need further information about this Policy or wish to report an issue in relation to this Policy, please contact the Policy sponsor or Policy owner.

5. Governance

5.1. Governance Responsibilities

The Policy sponsor, responsible for overseeing this Policy is the General Counsel of Post Office Limited.

The Policy owner is the Director of Risk and Compliance who is responsible for ensuring that the Financial Crime Team conducts an annual review of this Policy and tests compliance across the Group. Additionally the Director of Risk and Compliance and the Financial Crime Team are responsible for providing appropriate and timely reporting to the Risk and Compliance Committee and the Audit and Risk Committee.

The Audit and Risk Committee are responsible for approving the Policy and overseeing compliance.

The Board is responsible for setting the Group's risk appetite.

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6. Control

6.1. Policy Version

| Date | Version | Updated by | Change Details |
|---------------|---------|-----------------|---|
| November 2016 | 1 | Georgina Blair | Roll out of Final version |
| June 2017 | 1.2 | Thomas Richmond | Updated in line with comments from stakeholders |
| July 2017 | 1.3 | Sally Smith | POL R&CC approval |

6.2. Policy Approval

Group Oversight Committee: Risk and Compliance Committee and Audit and Risk Committee

| Committee | Date Approved |
|-----------|----------------------------|
| POL RCC | 20 th July 2017 |
| POMS RCC | |
| POL ARC | |
| POMS ARC | |

Policy Sponsor: Group Director of Legal, Risk & Governance

Policy Owner: Director of Risk and Compliance

Policy Author: Head of Financial Crime

Next review: July 2018

Company Details

Post Office Limited and Post Office Management Services Limited are registered in England and Wales. Registered numbers 2154540 and 08459718 respectively. Registered Office: Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ.

Post Office Management Services Limited is authorised and regulated by the Financial Conduct Authority (FCA), FRN 630318. Its Information Commissioners Office registration number is ZA090585.

Post Office Limited is authorised and regulated by Her Majesty's Revenue and Customs (HMRC), REF 12137104. Its Information Commissioners Office registration number is Z4866081.

Simplified ABC Policy for publication on the Post Office website

Post Office (Post Office Limited and Post Office Management Services Limited) is committed to high standards of ethical behaviour and has zero tolerance towards bribery and corruption. Post Office requires compliance with all anti-bribery and corruption laws in all markets and jurisdictions in which it operates. These laws include the UK Bribery Act 2010 and the Criminal Finances Act 2017.

Post Office's Anti-Bribery and Corruption (ABC) compliance programme and policies is overseen by the Board. Policies incorporate the results of regular risk assessments and emphasise that all employees, including the Board of Directors and Associated Persons, must comply with the principles in these policies in the performance of their services for or on behalf of Post Office. We also expect that outsourcers and other companies providing services to Post Office will adhere to equivalent standards.

At Post Office, we aspire to be at the very heart of customers' choice by becoming the most trusted provider of essential services to every person in the land. It recognises that over and above the commission of any crime, any involvement in bribery will also reflect adversely on its image and reputation. Post Office therefore aims to limit its exposure to bribery by:

- Setting out a clear Anti Bribery & Corruption Policy;
- Training employees so that they can recognise and avoid the use of bribery by themselves and others;
- Encouraging its employees to be vigilant and to report any suspicion of bribery, providing them with suitable channels of communication and ensuring sensitive information is treated appropriately;
- Rigorously investigating instances of alleged bribery and assisting the police and other appropriate authorities in any resultant prosecution;
- Taking firm and vigorous action against any individual(s) involved in bribery.

Based on the above, the ABC Compliance Programme imposes the following requirements:

- All individuals are required by policy to ensure that appropriate due diligence and controls are applied, to any individuals they engage with, to ensure that they comply with the letter and spirit of applicable anti-bribery legislation and regulation; and
- Gifts, Hospitality and Charitable giving: All individuals are required by the policy to avoid offering, accepting or permitting any gift, entertainment, charitable giving, sponsorship or other advantage to be offered or accepted without the appropriate controls being applied.

As part of the prevention, identification and remediation of ABC issues, mandatory training is conducted throughout Post Office and the Financial Crime team carries out regular, risk based assessments, monitoring and testing of its ABC programme.

Post Office also maintains a clear Whistleblowing Policy and processes to ensure that individuals can confidentially, with no fear of retribution, report concerns to be investigated and remediated appropriately.

Anti-Money Laundering & Counter Terrorist Financing Policy

Author: Sally Smith

Sponsor: Jane MacLeod

Meeting Date: 25th September 2017

Executive Summary

Context

The Audit & Risk Committee (ARC) approved the Anti-Money Laundering & Counter Terrorist Financing (AML/CTF) Policy in September 2016. The Policy anticipates that it will be reviewed annually. As a result of this annual review, changes have been made which require the approval of the ARC. These changes were reviewed and approved at the Risk & Compliance Committee (R&CC) on 13th September 2017.

Questions addressed in this paper

- What changes to the Policy do we propose and why?
- What are the implications of these changes?

Conclusion

1. The AML/CTF Policy has been amended to reflect new legislation and clarifies minimum control standards, roles and responsibilities.
2. There are some minor changes to the requirements and minimum standards of controls which will be communicated to relevant stakeholders, and monitored on a business as usual basis by the Financial Crime team.

Input Sought

The ARC is asked to approve the updated AML/CTF Policy.

The Report

Why do we need to review this Policy?

1. The terms of the Policy require it be reviewed annually. Further, there have been relevant legislative changes which are required to be reflected in the policy.

What changes to the Policy do we propose and why?

2. The policy template and format has been redesigned to ensure that the purpose, core principles and impacts are understood. It now sets out clear minimum control standards and responsibilities for application of those standards.
3. Key changes include:
 - We have included updates to reflect recent changes in regulations and laws that are applicable. We have also included the sources of industry guidance available in order to provide greater clarity.
 - We have updated the policy framework and the key linked and associated policies to provide greater clarity to individuals and stakeholders.
 - In line with regulatory requirements we have placed the completion and maintenance of financial crime risk assessments at the heart of the policy.
 - A new section has been included setting out the key offences under the regulations and their potential consequences to both the group and members of staff.
 - The General Counsel is now responsible for oversight of the MLRO and the group's compliance with regulatory obligations.
 - We have highlighted the regulatory requirements in relation to data retention.
4. Risk Assessment methodology and Product Information Packs that have been developed over the last 12 months are now referenced for the first time.
5. A new section has been included clearly mapping minimum control standards, responsibilities and timescales.

What are the implications of these changes?

6. We do not believe that the changes introduced to this Policy will have a material adverse impact on any current Post Office practices or procedures, or impose additional costs.
7. Changes to the policy will be communicated to all employees through internal communications which will include a link to the updated document on the Post Office Intranet.
8. As part of our annual training obligations, AML/CTF training will be updated to reflect the new policy and regulatory requirements.
9. The Financial Crime team will monitor adherence to the minimum control standards set out in the policy on an on-going basis and any control gaps identified will be reported to the R&CC and ARC as required.

What will the impact be on our wider business?

10. Increased transparency of the AML/CTF framework to include minimum control standards and control responsibility.
11. Design of compliance oversight monitoring to test the Groups controls and confirm effectiveness and adherence to Financial Crime policies, will be further developed over the next 12 months.

What would the impact be of delaying approval?

12. Post Office Limited is required to maintain up to date policies to support contractual requirements with clients and suppliers (e.g. MoneyGram and the Partner Banking Framework) and failure to do so may result in a breach of contract, and whilst not material, could have commercial and reputational impacts.
13. 'Group' policies such as the AML/CTF Policy are also applicable to Post Office Management Services Limited ('POMS'). POMS is required under its regulatory responsibility to the Financial Conduct Authority to have up to date policies and failure to do so may lead to regulatory sanctions or penalties.



GROUP POLICIES

Anti-Money Laundering and Counter Terrorist Financing Policy

Version – V3.2

Chief Executive's Endorsement

The Post Office Group is committed to doing things correctly. Our Values and Behaviours represent the conduct we expect. This policy supports these to help us ensure that wherever possible use of Post Office systems and products for money laundering or terrorist financing is prevented, and the highest standards of financial crime prevention, detection and management are maintained.



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1. Overview

1.1. Introduction by the Policy Owner

The General Counsel has overall accountability to the Board of Directors for the design and monitoring of controls to prevent or deter Financial Crime which includes Anti Money Laundering (AML) and Counter Terrorist Financing (CTF). Financial Crime is an agenda item for the Audit and Risk committees and the Post Office Board is updated as required.

1.2. Purpose

This Policy has been established to set the minimum operating standards relating to the design and implementation of controls to prevent or deter Money Laundering and Terrorist Financing throughout the Group¹. It is one of a set of policies which provide a clear risk and governance framework and an effective system of internal control for the mitigation of risk across the Group. Compliance with these policies supports the Group in meeting its business objectives and to balance the needs of shareholders, employees² and other stakeholders.

1.3. Core Principles

Money Laundering and Terrorist Financing are criminal offences and everyone working in the business has a personal obligation to prevent them taking place. The governance arrangements described in this Policy are based upon the following core principles:

- Post Office has devised a robust Policy and associated procedures (set out in this document) which are proportionate to the risks and complexity of the Group;
- The Group ensures that its policies reflect the principles of the AML and CTF regulations and legislation;
- The Group's overall and ongoing risk management process includes a risk based assessment of the financial crime risks to which the Group and its business are exposed, and the quality of its AML and CTF controls and monitoring;
- The Group undertakes a training and awareness program to ensure employees are aware of the risks of money laundering and terrorist financing, what they should do if they are suspicious, and the consequences should they fail to comply with the law;
- The Group promotes ethical and professional standards to prevent it from being used, intentionally or unintentionally by criminals;
- Decisions taken by management are consistent with the Board's approved strategic objectives and Risk Appetite;
- Every member of staff is responsible for understanding and managing the risks they take on behalf of the Group;

¹ In this policy "Post Office" and "Group" mean Post Office Limited and Post Office Management Services Ltd.

² In this policy "employee" means permanent staff, temporary including agency staff, contractors, consultants and anyone else working for or on behalf of Post Office.

- Clear accountabilities are delegated by management to staff who have the right level of skill, competency and experience;
- All employees are required to comply with Group Policies.

1.4. Application

This Policy is applicable to all areas within the Group and defines the minimum standards to control financial loss, customer impact, regulatory breaches and reputational damage in line with the Group's Risk Appetite.

In exceptional circumstances, where risk sits outside of the Group's accepted Risk Appetite, a Risk Exception can be granted. For further information in relation to the risk exception process please see the Risk Exception process found [here](#).

While Post Office does not tolerate events that are criminal in nature and which may give rise to unacceptable and illegal behaviour, it recognises that despite its many endeavours, it is not possible to eliminate all risk of Post Office being used to facilitate Money Laundering or Terrorist Financing activities, and therefore takes a risk based approach.

Failure to comply with the requirements of this policy by any employee will be regarded as a significant breach impacting on the Group's risk and control environment and may lead to disciplinary action up to and including dismissal and possible prosecution.

The risk to the Group in relation to Money Laundering and Terrorist Financing is reviewed by the Board as part of its wider commitment to Financial Crime on a regular basis.

1.5. The Risk of Money Laundering and Terrorist Financing

Money Laundering

Money laundering is the process criminals use to hide, disguise and dispose of cash and assets obtained from criminal activity. Criminals want to disguise the source of their money and remove any link to the original crime. This allows them to avoid prosecution and confiscation of funds.

Terrorist Financing

Terrorist financing involves dealing with money or property that may be used to fund terrorism. The funds and property may be from legitimate sources (e.g. personal funds, charities, sponsored trips, etc.) or criminal sources.

Failure to manage these risks can result in financial loss, customer impact, terrorism, regulatory breaches, fines, prosecution, prevention from selling a particular product, loss of existing or future contracts/relationships and damage to reputation.

1.6. Legislation

There are a number of relevant UK legal and regulatory requirements which are applicable including (but not limited to):

- The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (known as Money Laundering Regulations 2017)
- The Proceeds of Crime Act 2002
- The Criminal Finances Act 2017
- Policing and Crime Act 2017
- The Terrorism Act 2000
- Counter-Terrorism Act 2008

The Group monitors and takes into consideration guidance and other assistance offered by regulatory, industry and other specialist bodies, for example the Joint Money Laundering Steering Group (JMLSG), UK Finance (which incorporates BBA, UK Payments and Financial Fraud Action UL), Link, etc. publish trends and analysis on current threats and issues.

Oversight of compliance with the Money Laundering Regulations by the Group is undertaken by HMRC in the case of Post Office Limited and the Financial Conduct Authority (FCA) in the case of Post Office Management Services Limited (POMS).

Post Office Limited is an Appointed Representative of the Bank of Ireland and POMS and is contractually required to comply with certain regulatory requirements. As such the Group as a whole is obliged to ensure there are adequate systems and controls in place to mitigate risks.

1.7. Offences

The Money Laundering regulations set out five offences for which the Group or a member of its staff can be prosecuted under:

1. **Concealing** - where an employee conceals, disguises, converts or transfers criminal proceeds, or removes them from the UK
2. **Arrangement** - where an employee allows the Group to enter into or become involved in an arrangement where an employee knows or suspects that it involves the proceeds of crime.
3. **Acquisition, use or possession** - where an employee acquires, uses or takes possession of criminal proceeds.

If found guilty of these offences an individual can be given an unlimited fine or up to 14 years in prison or both. The only defence is that an employee had completed and submitted a Suspicious Activity Report to the Money Laundering Reporting Officer (MLRO), apart from 'acquisition' where the Group or a relevant individual would need to evidence that the proceeds had been acquired at fair market price and that they were not aware that they were criminal proceeds.

4. **Failure to disclose** - where an employee fails to report to the MLRO their suspicions or knowledge that someone is involved in Financial Crime.

If found guilty of this offence an individual can be given an unlimited fine or up to five years in prison or both. There are two defences to this offence; training did not cover how to complete a SAR or "a reasonable excuse" such as that an employee was rushed to hospital just prior to completing the report. The reasonableness of the excuse will be tested in court.

5. **Tipping Off** - an offence will be committed if information which prejudices an investigation into Financial Crime is shared by an employee - for examples if an employee informs a suspect that they are under investigation.

If found guilty of this offence an individual can be given an unlimited fine or up to two years in prison or both. The only defence is if an employee did not know or suspect that what was said would prejudice the investigation

2. Risk Appetite and Minimum Control Standards

2.1. Risk Appetite

A Risk Appetite is the extent to which the Group will accept that a risk might happen in pursuit of day to day businesses transactions. It therefore defines the boundaries of activity and levels of exposure that the Group is willing and able to tolerate.

The Group takes its legal and regulatory responsibilities seriously and consequently has³:

- **Tolerant risk appetite** for Legal and Regulatory risk in those limited circumstances where there are significant conflicting imperatives between conformance and commercial practicality
- **Averse risk appetite** for litigation in relation to high profile cases/issues
- **Averse risk appetite** for litigation in relation to Financial Services matters
- **Averse risk appetite** for not complying with law and regulations or deviation from business' conduct standards for financial crime to occur within any part of the organisation
- **Averse risk appetite** in relation to unethical behaviour by our staff.

The Group acknowledges however, that in certain scenarios even after extensive controls have been implemented, a product or transaction may still sit outside the agreed Risk Appetite. In this situation, a risk exception waiver will be required (See section 1.4 for further details).

2.2. Risk Assessment

The Money Laundering regulations require that Post Office completes Group wide risk assessments with a clear rationale to prevent and detect money laundering and terrorist financing.

Risk assessment must include:

- Identifying the inherent money laundering risks that are relevant to the Group, product and/or service
- Assessing customer type, customer behaviour, normal product/service activity, delivery channels, etc.
- Assessing controls to manage and reduce the impact of inherent risks
- Assessing how the Group will monitor controls and improve their efficiency
- Keeping records of key decisions

The Group requires risk assessments to be completed for individual products and services to ensure that sufficient controls are in place to detect and prevent money laundering or terrorist financing, and for these risk assessments to be refreshed annually.

³ The Risk appetite was agreed by the Groups Board January 2015

2.3. Policy Framework

Post Office has established a suite of financial crime policies and procedures, on a risk sensitive approach which are subject to annual review. The policy suite is designed to combat money laundering, terrorist financing, bribery and corruption, fraud and ensure adherence to relevant sanctions regimes.

The Anti-Money Laundering and Counter Terrorist Financing Policy is a key Policy under the Financial Crime Policy framework and should be considered and read in conjunction with the overarching Financial Crime Policy where relevant.

2.4. Who must comply?

Compliance with this Policy is mandatory for all Post Office employees and applies wherever in the world the Group's business is undertaken. All third parties who do business with the Group, including consultants, suppliers and business and franchise partners, will be required to agree contractually to this Policy or to have their own equivalent Policy.

Where non-compliance is identified the matter must be referred to the MLRO (currently the Head of Financial Crime). Any investigations will be carried out in accordance with the Investigations Policy. Where an instance of non-compliance is caused through wilful disregard or negligence, this will be treated as a disciplinary offence.

2.5. Minimum Control Standards

A minimum control standard is an activity which must be in place in order to manage the risks so they remain within the defined Risk Appetite statements. There must be mechanisms in place within each business unit to demonstrate compliance. The minimum control standards can cover a range of control types, i.e. directive, detective, corrective and preventive which are required to ensure risks are managed to an acceptable level and within the defined Risk Appetite.

The table below sets out the relationships between identified risk and the required minimum control standards in consideration of the stated risk appetite. The subsequent pages define the terms used in greater detail

| Risk Area | Description of Risk | Minimum Control Standards | Who is responsible | When |
|-----------|---------------------|---------------------------|--------------------|---------------------------|
| Oversight | <h1>IRRELEVANT</h1> | | General Counsel | Ongoing |
| | | | MLRO | Ongoing |
| | | | MLRO | Annual |
| | | | MLRO | Issue, incident or change |

| Risk Area | Description of Risk | Minimum Control Standards | Who is responsible | When |
|--|---------------------|---------------------------|--|--|
| Existing products and services (continued) | | IRRELEVANT | Product Manager | When there is a material issue or incident |
| Financial settlement and reconciliation | | IRRELEVANT | Chief Financial Officer Chief Information Officer Internal Audit | Ongoing Ongoing Ongoing |
| Monitoring | | IRRELEVANT | Product Manager/MLRO | Ongoing |

| Risk Area | Description of Risk | Minimum Control Standards | Who is responsible | When |
|--|---------------------|---------------------------|--------------------------------------|--|
| Due Diligence | IRRELEVANT | | Financial Crime Team/Product Manager | Annually, or at any time there is a change |
| Politically Exposed Persons (PEP) ⁴ | IRRELEVANT | | Financial Crime Team/Product Manager | As required |
| | | | Product Manager | Ongoing |
| | | | Product Manager | Ongoing |

⁴ PEPs are those who have or are seen to have access to public influence and/or public money and as such are seen as being at higher risk of corruption. A PEP is someone who is: An individual who has or has been in a prominent public role in the UK or abroad such as Heads of State, MPs, Heads of Armed Forces, etc. An immediate family member or a known close associate of such as person.

| Risk Area | Description of Risk | Minimum Control Standards | Who is responsible | When |
|---|---------------------|---------------------------|--------------------|---------|
| Politically Exposed Persons (PEP) (continued) | IRRELEVANT | | Product Manager | Ongoing |
| Sanctions ⁵ | IRRELEVANT | | Product Manager | Ongoing |

⁵ Sanctions are restrictions put in place by a government or a multilateral organisation (such as the United Nations) that limit a person, company or countries access to financial services or financial markets, funds or economic resources in order to achieve a specific foreign policy or national security objective.

| Risk Area | Description of Risk | Minimum Control Standards | Who is responsible | When |
|--------------------------|---------------------|---------------------------|---|---|
| Sanctions (continued) | | IRRELEVANT | Product Manager/MLRO All employees | Ongoing Ongoing |
| Premises Registration | | IRRELEVANT | MLRO Financial Crime Team Network Design & Analysis Team and Financial Crime Team | Ongoing Ongoing Fortnightly |
| Training | | IRRELEVANT | Financial Crime Team/HR Product Manager/MLRO | Annual Ongoing |

| Risk Area | Description of Risk | Minimum Control Standards | Who is responsible | When |
|-------------------------|---------------------|---------------------------|--|---|
| Training (continued) | | IRRELEVANT | HR Financial Crime Team | Ongoing Ongoing |
| Fit and Proper | | IRRELEVANT | Financial Crime Team Director of Human Resources Director of Human Resources | Within 30 days of appointment Pre-employment Ongoing where required |

| Risk Area | Description of Risk | Minimum Control Standards | Who is responsible | When |
|---|---------------------|---------------------------|---|---|
| Record Keeping | IRRELEVANT | | Product Managers MLRO | Ongoing Ongoing |
| Suspicious Activity Reports ("SAR") and Reporting | IRRELEVANT | | All employees and postmasters MLRO Financial Crime Team | Ongoing As required Ongoing |

⁶ The NCA receives all SARs reported in the UK and their role is to investigate in conjunction with other intelligence. Where appropriate the NCA may provide copies of SARs to other intelligence bodies and investigation services (Law Enforcement, HMRC, etc.).

⁷ Where defence is requested, this can take up to seven working days for the NCA to review and during this time customers must not be advised that defence is being applied for as this would constitute 'tipping off'.

| Risk Area | Description of Risk | Minimum Control Standards | Who is responsible | When |
|---|---------------------|---------------------------|----------------------|---------|
| Suspicious Activity Reports ("SAR") and Reporting (continued) | | IRRELEVANT | Financial Crime Team | Ongoing |
| | | | Financial Crime Team | Ongoing |

2.6. Product and Service Risk Tools

Risk Assessment Tool

The Risk Assessment Tool has been created by the Financial Crime Team to assist Product Managers to determine the level of risk exposure and engagement required for new products and services. The Risk Assessment Tool takes into account inherent risks (e.g. payment method, channel, customer demographic etc.), UK regulations and legislation and industry best practice.

The Risk Assessment Tool can be found [here](#).

Product Information Pack

The purpose of the Product Information Pack (PIP) is to provide an overview of the product or service, including customer/transactional journey, parties involved, any contractual responsibilities, monitoring and control requirements. It should consider the inherent risks the product is exposed to from a Group and customer perspective and the framework for the effective risk mitigation of the product.

The existence of detailed operating policies, procedures and processes may be referred to throughout this document and is to be used to illustrate how the risks associated with the product are reduced.

The Product Information Pack can be found [here](#).

3. Where to go for help

3.1. Additional Policies

This policy is one of a set of policies. The full set of policies can be found at:

<https://poluk.sharepoint.com/sites/postoffice/Pages/policies.aspx>

3.2. How to raise a concern

Any Post Office employee who suspects that Post Offices products, services or processes have been used to facilitate money laundering, terrorist financing, or dishonest or fraudulent activity has a duty to:

- Discuss the matter fully with their Line Manager; or,
- Report their suspicions by telephoning Grapevine on [GRO] or,
- Report the matter directly to the Money Laundering Reporting Officer (MLRO)
- Staff can contact the Post Office's General Counsel, who can be contacted by email at: whistleblowing@[GRO] or by telephone on: [GRO]
- Alternatively staff can use the Speak Up service available on [GRO]
- or via a secure on-line web portal: <http://www.intouchfeedback.com/postoffice>

3.3. Who to contact for more information

If you need further information about this policy or wish to report an issue in relation to this policy, please contact [financial.crime](#) [GRO]

4. Governance

4.1. Governance Responsibilities

The policy sponsor, responsible for overseeing this policy is the General Counsel of Post Office Limited.

The policy owner is the Director of Risk and Compliance who is responsible for ensuring that the Financial Crime Team conducts an annual review of this policy and tests compliance across the Group. Additionally the Director of Risk and Compliance and the Financial Crime Team are responsible for providing appropriate and timely reporting to the Risk and Compliance Committee and the Audit and Risk Committee.

The Audit and Risk Committee are responsible for approving the policy and overseeing compliance.

The Board is responsible for setting the Groups risk appetite.

DRAFT

5. Control

5.1. Policy Version

| Date | Version | Updated by | Change Details |
|----------------|---------|-----------------|--|
| November 2016 | 3 | Georgina Blair | Final Version approved by ARC |
| August 2017 | 3.1 | Thomas Richmond | Version updated to reflect legislation changes |
| September 2017 | 3.2 | Thomas Richmond | POL R&CC approval |

5.2. Policy Approval

Group Oversight Committee: Risk and Compliance Committee and Audit and Risk Committee

| Committee | Date Approved |
|-----------|---------------------------------|
| POL R&CC | 13 th September 2017 |
| POMS R&CC | |
| POL ARC | |
| POMS ARC | |

Policy Sponsor: General Counsel/Group Director of Legal, Risk & Governance

Policy Owner: Head of Financial Crime

Policy Author: Head of Financial Crime

Next review: August 2018

Company Details

Post Office Limited and Post Office Management Services Limited are registered in England and Wales. Registered numbers 2154540 and 08459718 respectively. Registered Office: Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ.

Post Office Management Services Limited is authorised and regulated by the Financial Conduct Authority (FCA), FRN 630318. Its Information Commissioners Office registration number is ZA090585.

Post Office Limited is authorised and regulated by Her Majesty's Revenue and Customs (HMRC), REF 12137104. Its Information Commissioners Office registration number is Z4866081.

Protecting Personal Data Policy

Author: Chris Russell

Sponsor: Jane MacLeod

Meeting Date 25th September 2017

Executive Summary

Context

This paper sets out the introduction of the Protecting Personal Data Policy for the Audit and Risk Committee to review and comment

Questions addressed in this paper

- What is the need for a Protecting Personal Data Policy and why now?
- What are the implications of these changes?

Conclusion

1. The Protecting Personal Data Policy has been created to bestride our obligations under the current Data Protection Act 1998, and the General Data Protection Regulation (GDPR) which will come into force in May 2018.
2. The Policy introduces the mandate needed to meet the Group's legal requirements.
3. The Policy sets out minimum standards of controls which will be communicated to relevant stakeholders, and monitored on a business as usual basis by the Data Protection Function.

Input Sought

The Audit and Risk Committee is asked to approve the Protecting Personal Data Policy.

The Report

Why do we need to review this policy?

4. This is a new business Policy and the terms of the policy require it be reviewed by the Audit and Risk Committee.

What is the need for a Protecting Personal Data Policy?

5. The policy has been created to ensure the Group meets its obligations under Data Protection Laws.
6. The regulatory landscape is changing, in May 2018 the GDPR comes into force and will put further obligations on the Group. The Policy has been designed in a manner to ensure compliance with current regulation, but to begin to embed our obligations under the GDPR, and meet the deliverables of the GDPR Programme.

How did we develop these recommendations?

7. The policy has been developed by reviewing current legislation (Data Protection Act 1998) against the incoming legislation changes General Data Protection Regulation).

What will be the impact of the Policy and will there be a need to implement further business processes to meet the Policy requirements?

8. A number of Standard Operating Procedures, as mandated by the Policy, will be created in order document operating procedures to allow the exercise of individual rights.
9. Membership of the Data Breach Emergency Response Team, as mandated by the Policy, will need to be scoped.
10. Data Retention Schedules will need to be reviewed and updated.

How will the Policy be communicated and implemented?

11. Internal communications and training – once the policy has been approved, the GDPR programme Steerco will be engaged, and a multi-channel communication plan developed, in order to meet the programme deliverables against education, awareness and accountability.
12. The revised Data Protection Impact Assessment Tool, is being embedded into the business with the Gating Community, and further by introduction into the Information Security and Data Protection Corporate Training, and multi-channel communications piece.
13. The Data Protection Function will monitor adherence to the minimum control standards set out in the policy on an on-going basis through their review of risk assessments, project business readiness and incidents. Any control gaps identified will be reported to the Audit and Risk Committee as required.



GROUP POLICIES

Protecting Personal Data Policy

Version – V1.2

Chief Executive's Endorsement

Post Office is committed to conducting its business in accordance with all applicable Data Protection laws and regulations and in line with the highest standards of ethical conduct.



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1. Overview

1.1. Introduction by the Policy Owner

The General Counsel has overall accountability to the Board of Directors for ensuring that the requirements of this Policy are maintained, for introducing any change programs that may be required as a result of this Policy and ensuring ongoing compliance programs are managed appropriately.

1.2. Purpose

Trust is at the heart of the Post Office brand and protecting the Personal Data we use is fundamental to maintaining that reputation. Data Protection legislation protects the fundamental rights and freedoms of individuals, in relation to the use of their Personal Data.

As such, this Policy sets out the expected behavior of Post Office Employees and Third Parties in relation to the collection, use, retention, transfer, disclosure and destruction of Personal Data.

1.3. Core Principles

Post Office has adopted the following principles to govern its collection, use, retention, transfer, disclosure and destruction of Personal Data:

1. Lawfulness, Fairness and Transparency

Post Office must Process Personal Data lawfully, fairly and in a transparent manner.

- Post Office must tell the Data Subject what Processing will occur (transparency),
- Processing must match the description given to the Data Subject (fairness), and
- Processing must be for one of the purposes specified in the applicable Data Protection regulation and associated legislation (lawfulness).

2. Purpose Limitation

Post Office can only use Personal Data for the purpose that it was originally collected and limit any further Processing of that Personal Data according to the purposes notified to the Data Subject.

3. Data Minimisation

The Personal Data Post Office collects must be adequate, relevant, and limited to what is necessary in relation to the purposes for which they are Processed.

This means Post Office must not collect or store any Personal Data beyond what is strictly required.

4. Accuracy

The Personal Data Post Office collects must be accurate and, kept up to date.

Post Office must ensure that processes for identifying and addressing out-of-date, incorrect and redundant Personal Data are introduced and maintained. This will ultimately have a business benefit by removing contacts that are no longer using Post Office products or services.

5. Storage Limitation

Personal Data shall be kept in a form which permits identification of Data Subjects for no longer than is necessary for the purposes for which the Personal Data is Processed.

Post Office must, wherever possible, introduce mechanisms and procedures into their systems and processes that limits or prevents identification of the Data Subject (eg Anonymisation).

6. Integrity & Confidentiality

Post Office must Process Personal Data in a manner that ensures appropriate security including:

- Protection against unauthorised or unlawful Processing,
- Protection against accidental loss, destruction or damage.

We must use appropriate technical and organisational measures to ensure the integrity and confidentiality of Personal Data is maintained at all times.

7. Accountability

Post Office must demonstrate these Data Protection Principles are met for all Personal Data for which it is responsible.

It shall be the responsibility of the GE to ensure that all processes for which they are responsible, are conducted in a manner which can be subject to either internal audit or external regulatory scrutiny, and can demonstrate their compliance with this Policy, its corresponding standards and guidance and legal requirements.

1.4. Application

This Policy is applicable to all areas within the Group and defines the minimum standards to control the risks associated with non-compliance of Data Protection regulations.

All Third Parties engaged to process Personal Data on behalf of Post Office (Data Processors) must be aware of and comply with the contents of this policy. Assurance of such compliance must be obtained from all Third Parties, prior to granting them access to Personal Data controlled by Post Office.

The risk to the Group in relation to breaches of Data Protection regulations are reviewed by the board on a regular basis.

Any non-compliance may expose Post Office to complaints, regulatory action, fines and/or reputational damage. Therefore any breach of this policy will be taken seriously and may result in disciplinary action or business sanctions being applied.

1.5. Data Protection Risk

Failure to appropriately manage risks and incidents relating to Data Protection could result in punitive penalties, regulatory breaches, fines, prosecution, and prevention from processing personal data and damage to reputation.

The GE must ensure that all Data Protection risks are identified and addressed when designing new systems or processes and/or when reviewing or expanding existing systems or processes.

A Data Protection Impact Assessment (DPIA) must be conducted, in cooperation with the Data Protection Function for all new, and/or revised systems or processes.

Where applicable, Information Protection and Assurance (IPA) and IT Security, will cooperate with the Data Protection Function to assess the impact of any new technology uses on the security of Personal Data.

All investigations into breaches of this Policy, will be managed and controlled by the Data Protection Function. All investigations will be conducted in conjunction with the Security Operations Centre.

1.6. Legislation

The Group seeks to comply with all relevant UK legal and regulatory requirements including (but not limited to):

- Data Protection Act 1998
- Privacy & Electronic Communications Regulations 2003
- Regulation of Investigatory Powers Act 2000
- Human Rights Act 1998

2. Risk Appetite and Minimum Control Standards

2.1. Risk Appetite

A Risk Appetite is the extent to which the Group will accept that a risk might happen in pursuit of day to day businesses transactions. It therefore defines the boundaries of activity and levels of exposure that the Group are willing and able to tolerate.

The Group takes its legal and regulatory responsibilities seriously and consequently has:

- **Tolerant risk** appetite for Legal and Regulatory risk in those limited circumstances where there are significant conflicting imperatives between conformance and commercial practicality
- **Adverse risk** appetite for litigation in relation to high profile cases/issues
- **Adverse risk** appetite for not complying with law and regulations or deviation from business conduct standards
- **Adverse risk** appetite for data loss/leakage that can lead to customer, commercial or reputational damage
- **Adverse risk** appetite for inaccurate and unreliable processing of data

The Group acknowledges however that in certain scenarios even after extensive controls have been implemented a product or transaction may still sit outside the agreed Risk Appetite. In this situation, a risk exception waiver will be required.

2.2. Policy Framework

Post Office will establish and maintain a suite of Data Protection policies and standard operating procedures (SoPs) and guidance, which are subject to annual review. The policy suite is designed to set out how the business aims to comply with Data Protection regulations.

The suite of documents mandated by this Policy covers the following:

- The identification through documented risk assessment of potential or inherent Data Protection risks and mitigating actions (Data Privacy Impact Assessments)
- Documentation of operating procedures to allow the exercise of individual rights, including:
 - Information access.
 - Objection to Processing.
 - Objection to automated decision-making and profiling.
 - Restriction of Processing.
 - Data portability.
 - Data rectification.
 - Data erasure.
- On a risk sensitive basis, performing due diligence upon our employees, agents and third parties,
- Data Breach escalation and management plans

2.3. Who must comply?

Compliance with this policy is mandatory for all Post Office Employees. All third parties who do business with the Group, including consultants, suppliers and business will be required to agree contractually to this policy or have their own equivalent policy.

Where non-compliance is identified the matter must be referred to the Policy Owner and the Data Protection Function. Where it is identified that an instance of non-compliance is caused through wilful disregard or negligence, this will be treated as a disciplinary offence.

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2.4. Minimum Control Standards

A minimum control standard is an activity which must be in place in order to manage the risks within the defined Risk Appetite statements contained within the table below. To comply with this, mechanisms must be in place within each business unit or product to demonstrate compliance. The minimum control standards can cover a range of control types, i.e. directive, detective, corrective and preventive which are required to ensure risks are managed to an acceptable level and within the defined Risk Appetite.

The table below sets out the relationships between identified risk, the considered Risk Appetite, and the required minimum control standards. The subsequent page defines in greater detail terms used:

| Risk Area | Description of Risk | Minimum Control Standards | Who is responsible | When |
|--------------------------------|---------------------|---------------------------|---|--|
| Proposed Product or service | IRRELEVANT | | Product Manager Data Protection Function | During design phase |
| Existing Products and services | IRRELEVANT | | Product Manager Product Manager | Annually, or at any time there is a change Annually, or at any time there is a change |

| | | | |
|-------------------|-------------------|--|--|
| | IRRELEVANT | Product Manager | When there is a material issue or incident |
| Employees | IRRELEVANT | Data Protection Function All employees | Annually, and when a need is identified |
| Data Processing | IRRELEVANT | Data Protection Function All business functions Data Protection Function | Ongoing Ongoing Ongoing |
| Breach Management | IRRELEVANT | Information Security Data Protection Function | Ongoing Ongoing |

| | | | |
|----------------------|-------------------|------------------------------------|---------|
| | IRRELEVANT | Data Protection Function | |
| Third Parties | IRRELEVANT | Legal and Data Protection Function | Ongoing |
| | | Legal and Data Protection | Ongoing |
| Information Security | IRRELEVANT | All employees I.T. | Ongoing |
| Data Retention | IRRELEVANT | Data Protection Function | Ongoing |

| | | | |
|--|-------------------|--|--|
| | IRRELEVANT | | |
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3. Tools

3.1. Data Protection Impact Assessment

A Data Protection Impact Assessment (DPIA) must be conducted, in cooperation with the Data Protection Function for all new, and/or revised systems or processes. The DPIA Template can be found here ([link](#))

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4. Where to go for help

4.1. Additional Policies

This policy is one of a set of policies and standard operating procedures, which can be found:

insert link

4.2. How to raise a concern

Any Post Office employee who wishes to raise a concern can:

- Discuss the matter fully with their Line Manager; or,
- Email the Data Protection Function- data.protection@postoffice.co.uk GRO
- Report the matter directly to the Data Protection Officer.

4.3. Who to contact for more information

If you need further information about this policy or wish to report an issue in relation to this policy, please contact data.protection@postoffice.co.uk GRO

5. Control

5.1. Policy Version

| Date | Version | Updated by | Change Details |
|-----------|---------|--------------|---|
| May 2017 | 1 | Sophie Dalby | |
| July 2017 | 1.1 | Sophie Dalby | Updated in line with comments from stakeholders |

5.2. Policy Approval

Group Oversight Committee: Risk and Compliance Committee (RCC) and Audit and Risk Committee (ARC)

| Committee | Date Approved |
|-----------|---------------|
| POL RCC | |
| POMS RCC | |
| POL ARC | |
| POMS ARC | |

Policy Sponsor: Group Director of Legal, Risk & Governance

Policy Owner: Director of Risk and Compliance

Policy Author: Data Protection Officer & Senior Data Protection Manager

Next review: September 2018

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Post Office Limited is authorised and regulated by Her Majesty's Revenue and Customs (HMRC), REF 12137104. Its Information Commissioners Office registration number is Z4866081.

Whistleblowing Policy

Author: Sally Smith

Sponsor: Jane MacLeod

Meeting Date: 25th September 2017

Executive Summary

Context

The ARC approved the Whistleblowing Policy in May 2016. The Policy anticipates that it will be reviewed annually. As a result of this annual review, changes have been made which require the approval of the Audit & Risk Committee. These changes were reviewed and approved at the Risk & Compliance Committee on 13th September 2017.

Questions addressed in this paper

- What changes to the Policy do we propose and why?
- What are the implications of these changes?

Conclusion

1. The Whistleblowing Policy has been amended to clarify the minimum control standards, roles and responsibilities
2. There are some minor changes to the requirements and minimum standards of controls which will be communicated to relevant stakeholders

Input Sought

The ARC is asked to approve the updated Whistleblowing Policy.

The Report

Why do we need to review this Policy?

3. The terms of the Policy require it be reviewed annually.

What changes to the Policy do we propose and why?

What are the key features that we propose and why?

4. The Policy template and format has been redesigned but the substance and obligations has not changed. The new format helps ensure that the purpose, core principles and impacts are understood. It sets out clear minimum control standards and responsibilities for application of those standards.

5. Key changes include:

- Updating contact details and help line numbers
- Ensuring that all teams across the business that may receive whistleblowing reports ensure that these are passed onto the Whistleblowing Officer and handled confidentially
- A new section has been included clearly mapping minimum control standards, responsibilities and timescales.

How did we develop these recommendations?

6. Policy queries and issues that have arisen over the previous 12 months have been reviewed to ensure that these concerns are addressed.

What are the implications of these changes?

What will we need to do and by when, to implement and embed these Policy changes?

7. No material changes are required to comply with this updated Policy.

8. Internal communications and training – once the Policy has been approved, there will be a One communication to advise all employees of the changes and provide a link to the updated document on the Post Office Intranet.

What will the impact be on our wider business?

9. Transparency of Post Office's adherence and commitment to the Employment Rights Act 1996 and the Public Interest Disclosure Act 1998

What would the impact be of delaying approval?

10. Risk that the group breaches the Employment Rights Act 1996 and the Public Interest Disclosure Act 1998 by not having up to date policies and procedures to provide protections to whistleblowers.

11. Post Office Limited is required to maintain up to date policies to support contractual requirements with clients and suppliers (e.g. MoneyGram and the Partner Banking Framework) and failure to do so may result in a breach of contract, and whilst not material, could have commercial and reputational impacts.

12. Post Office Limited provides Post Office Management Services (POMS) with its policies suite in the form of "Group Policies". POMS is required under its regulatory responsibility to the Financial Conduct Authority to have up to date policies and failure to do so may lead to regulatory sanctions or penalties.



GROUP POLICIES

Whistleblowing Policy

Version – V1.6

Chief Executive's Endorsement

The Post Office Group is committed to doing things correctly. Our Values and Behaviours represent the conduct we expect. This Policy supports these to help us ensure that colleagues know how to report concerns regarding wrongdoing or dangerous practices and that they can do so without fear of recrimination.



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1. Overview

1.1. Introduction by the Policy Owner

The General Counsel has overall accountability to the Board of Directors for the implementation of controls ensuring Post Office meets its Whistleblowing obligations. Whistleblowing is an agenda item for the Audit and Risk Committee and the Post Office board is updated as required.

1.2. Purpose

This Policy has been established to set the minimum operating standards relating to the management of Whistleblowing throughout the Group¹. It is one of a set of policies which provide a clear risk and governance framework and an effective system of internal control for the management of risk across the Group. Compliance with these policies supports the Group in meeting its business objectives and to balance the needs of shareholders, employees² and other stakeholders.

1.3. Core Principles

Whistleblowing is the reporting of suspected wrongdoing and/or dangerous practices within Post Office. This would include serious accidents, fraud, regulatory breaches, financial impropriety and/or reputational damage.

In order to encourage Whistleblowing and provide appropriate protections to whistleblowers, the governance arrangements described in this Policy are based upon the following core principles:

- To encourage the reporting of any concerns as soon as possible in the knowledge that all concerns will be taken seriously and investigated, and that confidentiality will be respected;
- To provide guidance as to how to raise those concerns;
- To provide whistleblowers reassurance that all concerns are raised without fear of reprisals, even if they turn out to be mistaken;
- Post Office is committed to and oversees the implementation of a Policy in line with the Group's risk appetite. The Policy and associated procedures (set out or referred to in this document) are proportionate to the risks and complexity of the Group;
- Post Office undertakes a training and awareness program to ensure employees are aware of the Whistleblowing policy and procedure.

1.4. Application

This Policy is applicable to all employees within the Group and outlines the protections provided for whistleblowers by law. In order to encourage reporting of wrongdoing, Post Office will, where appropriate, extend equivalent protection to Postmasters, Agent Assistants, and members of the public.

¹ In this Policy "Post Office" and "Group" mean Post Office Limited and Post Office Management Services Limited.

² In this Policy "employee" means permanent staff, temporary including agency staff, contractors, consultants and anyone else working for or on behalf of Post Office.

1.5. Legislation

The Group seeks to comply with all relevant UK legal and regulatory requirements including (but not limited to) the following legislation as amended or supplemented from time to time:

- Employment Rights Act 1996
- Public Interest Disclosure Act 1998

1.6. What is Whistleblowing

“Whistleblowing” refers to the act of exposing potential or actual wrongdoing and/or dangerous practices by reporting it either internally within an organisation, or to an external party. A whistleblower is a person who raises a genuine concern in relation to any wrongdoing, this includes criminal activity, miscarriages of justice, dangers to health and safety and the deliberate attempt to conceal it.

Individuals³ should raise a concern if they are aware of, or suspect, wrongdoing which affects others (e.g. customers, members of the public, colleagues or the Post Office). The following lists some examples (this is a non-exhaustive list) of situations where an individual may raise a concern:

- Financial Crime including Fraud, Money Laundering and financing of terrorism,
- Giving, offering or taking of bribes,
- Financial mismanagement,
- Misreporting,
- Practices that could put individuals or the environment at risk,
- Breach of Post Office internal policies and procedures (including the Code of Business Standards),
- Concerns about slavery or human trafficking, and
- Any conduct likely to damage Post Office’s reputation

Grievances and matters such as bullying and harassment are addressed under Post Office’s HR policies and concerns in relation to such matters should be raised in accordance with the procedures set out in the appropriate HR policy.

If an individual is uncertain about whether something is within the scope of this Policy they should seek advice from the Whistleblowing Officer, whose contact details are set out in this Policy.

1.7. Protecting the whistleblower

Post Office has a statutory obligation to protect whistleblowers and will support any individual who raises genuine concerns under this Policy, even if they turn out to be mistaken. Post Office are committed to respecting the confidentiality of all whistleblowers, and including those who wish to remain anonymous.

Post Office will make every effort to protect the whistleblower’s identity, however, it may be necessary in the course of an investigation to share this information with a relevant stakeholder (e.g. an investigator). There is no requirement for a whistleblower to provide personal contact information. However, not providing this information may reduce Post Office’s ability to undertake a thorough investigation into the concerns raised.

³ In this Policy “individuals” means Postmasters, Agent Assistants, members of the public and employees (permanent staff, temporary including agency staff, contractors , consultants and anyone else working for or on behalf of Post Office). The statutory protections offered under the Public Interest Disclosure Act 1998 only apply to employees, however Post Office Limited will consider extending these protections to other individuals where they have acted in good faith in raising concerns.

Post Office will take all reasonable steps to ensure that whistleblowers do not suffer any detrimental treatment as a result of raising a concern. Detrimental treatment includes disciplinary action, dismissal, threats or other unfavourable treatment connected with raising a concern. Serious action will be taken against any individual who threatens or retaliates against whistleblowers in any way.

If an individual believes that they have suffered any such treatment, they should inform the Whistleblowing Officer immediately. The Whistleblowing Officer should take steps to address any victimisation, which may include working with the HR team to put appropriate measures in place. If the matter is not addressed the whistleblower should raise it formally using Post Office's Grievance procedure.

In all cases the individual's concerns will be treated sensitively and in confidence.

1.8. Whistleblowing Officer and 'Speak Up'

Post Office has appointed the General Counsel as the Whistleblowing Officer who can be contacted on whistleblowing: **GRO**

The Whistleblowing Officer will review concerns raised and determine the best course of action, if any. They may ask for further information in order to make this decision.

It is recognised that sometimes raising a concern directly with the business may not be possible. In such instances individuals should contact the "Speak Up" line, a confidential reporting service which is run by an independent company InTouch MCS Ltd.

Contact details for the Speak Up line are:

- **GRO**
- <http://www.intouchfeedback.com/postoffice> which is a secure on-line web portal:

All reports to the Speak Up line will be acknowledged within five working days and will be passed to the Whistleblowing Officer.

It is also possible that individuals may whistleblow via a complaint to a front line team, e.g. Customer complaints, NBSC and Grapevine. These may be verbal or written communications.

In all instances any whistleblowing reports, regardless of reporting method, will be passed onto the Whistleblowing Officer. The whistleblower may be kept informed of any action taken, however, this information may be limited if it is required to keep the confidence of other people.

1.9. External Disclosures

The aim of this Policy is to provide an internal mechanism for reporting, investigating and remedying any wrongdoing in the workplace. In most cases individuals should not find it necessary to alert anyone externally.

However, the law recognises that in some circumstances it may be appropriate for individuals to report their concerns to an external body such as a regulator. The independent Whistleblowing charity, Public Concern at Work have a list of prescribed regulators for reporting certain types of concerns. Their contact details are as follows:

Helpline: **GRO**

E-mail: whistle@
Website: www.pcaw.co.uk

Public Concern at Work operates free, confidential advice to people concerned about crime, danger or wrongdoing in the workplace. Post Office strongly encourages advice is sought out from Public Concern at Work before reporting any concern to an external party.

Post Office Money Services (POMS) is directly regulated by the Financial Conduct Authority (FCA). Individuals may decide to whistleblow directly to the FCA, and can do so by using one of the following channels.

Helpline:
E-mail: whistle@
Website: www.fca.org.uk/site-info/contact/whistleblowing
Address: Intelligence Department (Ref IDA), Financial Conduct Authority, 25 the North Colonnade, London E14 5HS

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2. Risk Appetite and Minimum Control Standards

2.1. Risk Appetite

Risk Appetite is the extent to which the Group will accept that a risk might happen in pursuit of day to day businesses transactions. It therefore defines the boundaries of activity and levels of exposure that the Group are willing and able to tolerate.

The Group takes its legal and regulatory responsibilities seriously and consequently has⁴:

- **Tolerant risk appetite** for Legal and Regulatory risk in those limited circumstances where there are significant conflicting imperatives between conformance and commercial practicality
- **Averse risk appetite** for litigation in relation to high profile cases/issues
- **Averse risk appetite** for litigation in relation to Financial Services matters
- **Averse risk appetite** for not complying with law and regulations or deviation from business' conduct standards for financial crime to occur within any part of the organisation
- **Averse Risk Appetite** in relation to unethical behaviour by our staff.

The Group acknowledges however that in certain scenarios even after extensive controls have been implemented an action may still sit outside the agreed Risk Appetite.

2.2. Policy Framework

Post Office has established a suite of policies and procedures, on a risk sensitive approach which are subject to an annual review. The policy suite is designed to comply with applicable legislation and regulation. The Whistleblowing Policy should be considered and read in conjunction with other policies where relevant. These may include the Financial Crime Policy, the Anti-Bribery & Corruption Policy, Health & Safety Policies and HR Policies where relevant.

2.3. Who Must Comply?

All third parties who do business with the Group, including consultants, suppliers and business and franchise partners, will be required to agree contractually to this policy or have their own equivalent policy.

Any investigations will be carried out in accordance with the Investigations Policy which is available on the Post Office Intranet

⁴ The Risk appetite was agreed by the Groups Board January 2015

2.4. Minimum Control Standards

A minimum control standard is an activity which must be in place in order to manage the risks so they remain within the defined Risk Appetite statements. There must be mechanisms in place within each business unit to demonstrate compliance. The minimum control standards can cover a range of control types, i.e. directive, detective, corrective and preventive which are required to ensure risks are managed to an acceptable level and within the defined Risk Appetite.

The table below sets out the relationships between identified risk and the required minimum control standards in consideration of the stated risk appetite. The subsequent pages define the terms used in greater detail:

| Risk Area | Description of Risk | Minimum Control Standards | Who is responsible | When |
|---|---------------------|---------------------------|---------------------------|---|
| Receipt and investigation of whistleblowing reports | IRRELEVANT | | Post Office CEO and Board | Ongoing |
| | | | Whistleblowing Officer | Annually |
| | | | Whistleblowing Officer | Ongoing |
| | | | Whistleblowing Officer | Training must be provided at least annually |

| Risk Area | Description of Risk | Minimum Control Standards | Who is responsible | When |
|---|---------------------|---------------------------|------------------------|----------|
| | | | Whistleblowing Officer | Ongoing |
| Breach of confidentiality | IRRELEVANT | | Whistleblowing Officer | Ongoing |
| | | | Whistleblowing Officer | Ongoing |
| | | | Whistleblowing Officer | Ongoing |
| | | | Whistleblowing Officer | Ongoing |
| | | | Whistleblowing Officer | Ongoing |
| Incorrect handling of whistleblowing report | | | Whistleblowing Officer | Annually |

| Risk Area | Description of Risk | Minimum Control Standards | Who is responsible | When |
|--------------------------|---------------------|---------------------------|-------------------------|----------|
| | IRRELEVANT | | Head of Financial Crime | Annually |
| | | | Whistleblowing Officer | Ongoing |
| Insufficient Information | | | Whistleblowing Officer | Ongoing |
| The 'Speak Up' Service | | | Whistleblowing Officer | Annually |

| Risk Area | Description of Risk | Minimum Control Standards | Who is responsible | When |
|-----------------------------|---------------------|---------------------------|--|----------|
| | | | Whistleblowing Officer | Annually |
| Treatment of Whistleblowers | IRRELEVANT | | Whistleblowing Officer and HR Training Manager | Ongoing |
| | | | Whistleblowing Officer and HR Training Manager | Ongoing |
| | | | Whistleblowing Officer and HR Training Manager | Ongoing |

3. Definitions

3.1. Definitions

Grapevine

24/7 Security Support Centre provided by Kings Ltd. Grapevine provide security advice and record all security incidents across the business, this includes burglaries, robberies and the reporting of suspicious activity.

Telephone Number: [GRO]
E-mail: grapevine.admin@kings.co.uk [GRO]

NBSC

Network Business Support Centre (NBSC) is a helpline and the first port of call for Post Office branches if they have any operational query or require assistance.

Telephone Number: [GRO]
E-mail: nbscenquiries@postoffice.co.uk [GRO]

Customer Support Team

Complaints handling team based in Chesterfield. The team address complaints reported into Post Office via various channels, including post and telephone.

E-mail: customercare@postoffice.co.uk [GRO]

Executive Complaints Team

This team handles all complaints addressed directly to the Group Executives. The team liaise with various stakeholders within the business in order to resolve complaints.

E-mail: flagcaseadvisor@kings.co.uk [GRO]

4. Where to go for help

4.1. Additional Policies

This Policy is one of a set of policies. The full set of policies can be found at:

<https://poluk.sharepoint.com/sites/postoffice/Pages/policies.aspx>

4.2. How to raise a concern

Any Post Office employee who suspects that there is a breach in this Policy should report this without any undue delay. Whistleblowing can be reported via the following channels:

- Their line manager,
- A senior member of the HR Team, or
- If either or both are not available, staff can contact the Post Office's Whistleblowing Officer, who can be contacted by email at: whistleblowing@GRO or by telephone on: GRO
- Alternatively staff can use the Speak Up service available on GRO or via the secure on-line web portal: <http://www.intouchfeedback.com/postoffice>

In some instances it may be appropriate for the individual to report in the form of a complaint to Grapevine, the Customer Support Team or the Executive Complaints Team.

4.3. Who to contact for more information

If you need further information about this Policy or wish to report an issue in relation to this Policy, please contact the Policy sponsor or Policy owner.

5. Governance

5.1. Governance Responsibilities

As at the date of approval of this Policy, the General Counsel is both the Policy Sponsor and Policy Owner, responsible for oversight of the Policy.

The Audit and Risk Committee are responsible for approving the Policy and overseeing compliance.

The Board is responsible for setting the Group's risk appetite.

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6. Control

6.1. Policy Version

| Date | Version | Updated by | Change Details |
|---------------------------------|---------|-----------------|------------------------------|
| 27 th April 2016 | 1.4 | Jane MacLeod | Sponsors review and sing-off |
| 21 st August 2017 | 1.5 | Vitor Camara | Annual Review and update. |
| 13 th September 2017 | 1.6 | Thomas Richmond | POL R&CC approval |

6.2. Policy Approval

Group Oversight Committee: Risk and Compliance Committee and Audit and Risk Committee

| Committee | Date Approved |
|-----------|---------------------------------|
| POL RCC | 13 th September 2017 |
| POMS RCC | |
| POL ARC | |
| POMS ARC | |

Policy Sponsor: Group Director of Legal, Risk & Governance

Policy Owner: Whistleblowing Officer

Policy Author: Head of Financial Crime

Next review: August 2018

Company Details

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Post Office Limited is authorised and regulated by Her Majesty's Revenue and Customs (HMRC), REF 12137104. Its Information Commissioners Office registration number is Z4866081.

Vulnerable Customer Policy

Author: Jonathan Hill

Sponsors: Nicholas Kennett, Kevin Gilliland

Meeting Date: 25 September 2017

Executive Summary

Context

Whilst Post Office have a long history of identifying and supporting customers that need extra help to access our products and services, we have not articulated our approach in a formal policy for “vulnerable customers”.

In addition to the Post Office’s on-going approach to looking after our customers, regulators (e.g., Ofcom and the FCA) are becoming increasingly focused on the support firms are giving to vulnerable customers and are looking to firms to set out how they are doing so.

The draft policy was reviewed and approved at the Risk & Compliance Committee on 20th July 2017.

Questions addressed in this paper

1. What are Post Office’s expectations as to how the business and its staff and agents identify and help customers who might be vulnerable?
2. What are our responsibilities, whether they be through laws and regulation or by ‘trying to do the right thing’ by our customers?
3. How will we implement and roll out the policy across the Post Office?

Conclusion

1. We have drafted a Vulnerable Customer policy that is practical and requires little immediate change to our approach.
2. Post Office is already assisting vulnerable customers in a wide variety of ways, both physically (access to services through branches) and through providing clear information about products and services.
3. The implementation plan is based around a basic risk assessment that the Retail and FS&T business areas will undertake to enable Post Office to identify any gaps in its services to support vulnerable customers.

Input Sought

The ARC is asked to approve the Vulnerable Customer Policy.

The Report

1. The policy is set out over three sections:
 - Section 1 sets out an overview of the Policy, its purpose, core principles and legislative/industry sources
 - Section 2 provides a high level risk assessment of the main identified vulnerabilities and the minimum control standards Post Office aims to have to support customers
 - Section 3 explains how people can raise concerns and where to seek further information
2. Increasingly, activities and policies to support vulnerable customers are becoming more of a focus for regulators, in particular the FCA and Ofcom. Ofcom has asked if we would share our policy when it is finalised.

Implementation and roll out

3. The working assumption is that we are broadly compliant with the policy which has been set at 'high level' principles.
4. There are indicators where MI relating to our vulnerability performance can and is reviewed to assess compliance. These include:
 - Complaints
 - Pressure group feedback and complaints
 - Compliance monitoring by FS&T Risk including video mystery shopping
 - BoI monitoring and other feedback
 - Risk incident management information
 - Telecoms "Dunning" MI (vulnerable customer bad debt information)
 - As part of our wider risk assessment work, we will identify more sources of information (see below)
5. We would expect the policy to be communicated in the usual way through team talks and 'One' communications, emphasising that this is a continuation of the approach we already have at Post Office. FS&T Risk and Retail will agree the content of these communications, working with Group Communications.
6. To support our approach to customer vulnerability the FS&T and Retail teams will undertake a vulnerable customer risk assessment and gap analysis to be completed by the end of Q4 2017/18. The risk assessment will include vulnerable customer identification, risk assessments and mitigation plans broken down into product, service, and channel. We will, where possible, aim to use existing work to populate this assessment (e.g., existing product risk assessments).
7. The outcome of the risk assessment and recommendations will be shared as best practice guidance.

8. To ensure that any new initiatives to be taken forward are aligned, a vulnerability harmonisation team comprising relevant business area representatives will be formed. It would be the joint responsibility of the policy owners to establish and chair this group.
9. The harmonisation group will meet on an ad hoc basis and will comprise:
 - A representative from each area impacted.
 - Project Portfolio Manager from the lead team (main business area impacted).
 - The Network Gateway team will be engaged for all initiatives potentially impacting on the branch network.
 - A representative from Post Office Group Risk to review the risk assessment and to provide an independent check on Post Office-wide inclusiveness.
10. The harmonisation group would review whether any new proposal was aligned with wider Post Office activity and that this was not duplicating other work. This group would need to support any new business case for change.
11. Any proposed new initiative or business change would need to be agreed and budgeted with the approval of the relevant business unit, who would need to sponsor the initiative.
12. New (and existing) initiatives will be recorded and reported to the Policy Owners. This will be a key indicator of progress made.

Jonathan Hill

Head of Risk and Regulation, FS&T

September 2017



Vulnerable Customer Policy

Version – v0.2.1



Group Oversight Committee: Audit and Risk Committee
Sign-off Authority: Risk and Compliance Committee
Policy Sponsor: Kevin Gilliland and Nick Kennett
Policy Owner: Tom Weschler and Jonathan Hill
Policy Author: Paul Beaumont and Jonathan Hill
Approved by:
Approved: TBC
Next review: TBC



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1. Overview

1.1. Introduction by the Policy Owner

At the Post Office we are committed to providing quality products and services for all our customers. We work in an open and responsible way that builds the trust and respect of all our customers. Post Office seeks to ensure that all customers are provided with good product and service choices, so that they can make good buying decisions and have a positive experience when dealing with us.

Addressing the needs of vulnerable customers is core to Post Office's social purpose and is aligned to our objectives to be 'Better for Customers' and a 'Great Place to Work'. There are countless examples of how we assist customers when they need us most. This policy outlines the policy approach so that we continue to ensure that we are able to look after the needs of vulnerable customers.

1.2. Purpose

To articulate Post Office's expectations as to how employees and agents identify and help vulnerable customers during their interaction with the Post Office its products and services. This will also be an important document and source of information on Post Office's policy approach for many of our stakeholders.

1.3. Core Principles

Much of consumer protection legislation is underpinned by the notion of the average or typical consumer, and what they might expect, understand or how they might behave. Some consumers may be significantly less able to represent their own interests, and more likely to suffer a greater risk of customer detriment than the average consumer, with regard to achieving the most appropriate price, service, product or quality available to them. This may be for a variety of reasons, as outlined below (this list is not exhaustive).

Vulnerability can impact in many ways and these categories are examples. The Post Office recognises that these customers may have additional needs and may be described as 'vulnerable' although it is important to note that these customers may not regard themselves as such. It is core to Post Office's rationale and purpose to ensure that appropriate respect and care is taken of all types of customer, including vulnerable customers.

Categories include:

| | |
|---|--|
| <ul style="list-style-type: none"> A. Restricted Mobility B. Communications Needs C. Low Basic Skills D. Low Financial Capability | <ul style="list-style-type: none"> E. Mental Capacity F. Age Related Vulnerability G. Life Event Vulnerability e.g., bereavement, critical illness, redundancy H. Financial Difficulties |
|---|--|

1.4. Application

There are already many examples of how Post Office assists vulnerable customers these include:

- Improving disabled access and fitting hearing loops
- Team talks on vulnerability
- Financial Services and Telecoms training on vulnerability e.g., "Delivering a Great Customer Experience", "General Compliance" training modules and the "Compliance Training Manual for Broadband and Phone"
- Training on mental health awareness risk
- Participation in National Police initiatives to mitigate frauds on vulnerable customers
- Rolling out the Banking framework to ensure financial access to communities including the vulnerable when bank branches are closing
- Our response to the Grenfell Tower fire and ensuring we could support customers in time of emergency
- Working with partners such as BoI who give case by case exceptions to the 'terms of conditions' for customers, for example customers in hospital unable to read banking correspondence and statements, or those that have suffered a bout of mental illness.

Post Office provides advice and guidance to customer-facing staff and those involved in the design of products and services and the processes that support their distribution and sale, regarding the legal requirements, regulatory guidance and relevant industry body recommendations, as well as Post Office recommended best practice.

It is the responsibility of those staff to ensure that they comply with and observe those requirements or guidance, and where there is any uncertainty, to seek clarification from relevant Post Office subject matter experts.

1.5. Risk

By not addressing the needs of vulnerable customers, the impact could be significant for those customers that depend on us to deliver our products and services. These risks are included in the minimum control standards section below but could include customers not being able to access our products or services, inappropriate purchases and not being able to understand the features or terms and conditions of a product or service.

It could also cause reputational damage undermining Post Office's achievement of its social purpose. Under both Ofcom and FCA rules there could be regulatory interventions for not treating vulnerable customers fairly.

1.6. Legislation

- Ofcom duties under the Communications Act
- Disability Discrimination Act 1995
- Equality Act 2010
- Mental Capacity Act 2005 and guidance
- Power of Attorney Act 1971
- Disability Discrimination Act (Northern Ireland) 2005.
- Adults with Incapacity (Scotland) Act 2000.
- Consumer vulnerability regulation detailed within the FCA Handbook for CONC and Mortgage Conduct of Business (MCOB).

1.7. Industry Guidance

- FCA website including 2016 Thematic Review on vulnerable customers
- ABI/BBA Codes of Practice
- Age UK advice line
- Money Advice Service
- Pensions Advisory Service

2. Risk Appetite and Minimum Control Standards

2.1. Risk Appetite

A Risk Appetite is the extent to which the Group will accept that a risk might happen in pursuit of day to day businesses transactions. It therefore defines the boundaries of activity and levels of exposure that the Group are willing and able to tolerate.

Post Office's risk appetite is **averse** for:

- non-compliance with law and regulations or deviation from its business conduct standards, and
- for taking risks which might result in failure to maintain the service commitment in respect of customers in line with our social purpose and Government's policy on subsidy.

The Group acknowledges however that in certain scenarios even after extensive controls have been implemented a product or transaction may still sit outside the agreed Risk Appetite. In exceptional circumstances a Risk Exemption waiver may be granted.

2.2. Policy Framework

Post Office's Board has overall responsibility for ensuring that Post Office has a framework to ensure compliance with legal, regulatory and contractual requirements. The Board is kept abreast of relevant matters relating to the management of vulnerable customer matters by reports from its committees including its Audit and Risk Committee.

It is the responsibility of the policy owners to review this policy at least once a year and on an ad hoc basis as necessary to ensure the policy remains effective and up to date.

This policy will be reviewed by The Post Office Risk and Compliance Committee at least once each year from the last date this policy was determined effective.

2.3. Who must comply?

Compliance with this policy is mandatory for all Post Office employees. We will work with our Agency network, Principals and key commercial partners to ensure that where we can the spirit of our approach to vulnerable customers is applied.

2.4. Minimum Control Standards

A minimum control standard is an activity which must be in place in order to manage the risks within the defined Risk Appetite statements contained within the table below. To comply with this, mechanisms must be in place within each business unit or product to demonstrate compliance. The minimum control standards can cover a range of control types, i.e. directive, detective, corrective and preventive which are required to ensure risks are managed to an acceptable level and within the defined Risk Appetite.

The minimum control standard for the vulnerable customer policy is 'directive' and will be communicated to staff through staff communications and intranet.

We should maintain the existing training requirements that we have in place (for example this is covered in the annual Horizon FS handbook training, Team Talks and the 'Delivering a Great Customer Experience module' on Success Factors) and aim to build on this where we can to ensure that our approach is regularly communicated.

The table below sets out some of the key relationships between identified risk, the considered Risk Appetite, and the required minimum control standards:

| Risk Area | Description of Risk | Minimum Control Standards | Who is responsible |
|--|---------------------|---------------------------|--|
| Physical access to the branch network is difficult | IRRELEVANT | | Kevin Gilliland / Al Cameron |
| Customer engagement with products and services is not possible or limited because of a vulnerability | IRRELEVANT | | Kevin Gilliland / Nick Kennett Al Cameron / Kevin Gilliland |
| | IRRELEVANT | | Kevin Gilliland / Nick Kennett |

IRRELEVANT

Kevin Gilliland / Nick Kennett

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| | IRRELEVANT | | Kevin Gilliland / Nick Kennett |

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3. Where to go for help

3.1. Additional Policies

This policy is one of a set of policies. The full set of policies can be found at:

<https://poluk.sharepoint.com/sites/postoffice/Pages/policies.aspx>

3.2. How to raise a concern

Any Post Office employee who is concerned about the application of this policy should:

- Discuss the matter fully with their Line Manager; or,
- Report their concerns to the policy owner.

If you wish to do this anonymously you should contact the 'Speak Up' line on **GRO**

3.3. Who to contact for more information

If you need further information about this policy, please contact Tom Weschler or Jonathan Hill

3.4. Company Details

Post Office Limited registered in England and Wales. Registered numbers 2154540. Registered Office: Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ.

Post Office Limited is authorised and regulated by Her Majesty's Revenue and Customs (HMRC), REF 12137104. Its Information Commissioners Office registration number is Z4866081.

Version Control

| Date | Version | Updated by | Change Details |
|----------------------------|-------------|-------------------------------|---|
| July 2017 | Draft 0.1 | Jonathan Hill / Paul Beaumont | 1st draft in revised template |
| 11 th July 2017 | Draft 0.2.1 | Jonathan Hill / Paul Beaumont | 2 nd draft in revised template |

Corporate Governance Reforms

Author: Natasha Wilson

Sponsor: Martin Kirke

Meeting date: 25 September 17

Context

This paper is to note a recent publication by the Government on Executive Remuneration and Corporate Governance intended to raise the public's trust in business.

In November 2016, BEIS issued a Green Paper on Corporate Governance and Executive Pay. The Green Paper recommended reform in the following areas:

- Executive pay;
- Strengthening the employee, customer and wider stakeholder voice; and
- Corporate governance in large privately held businesses.

The document published on 29 August contains the Government's response to the Green Paper consultation and a number of firm proposals.

Questions

1. What is the timing of the proposals?
2. What are the key proposals affecting Post Office?

Conclusions

1. Implementing the reform proposals will require a combination of changes to the UK Corporate Governance Code, voluntary industry action and secondary legislation.
2. The FRC intends to consult on amendments to the Code in late Autumn; the Government intends to lay draft legislation before Parliament before March 2018.
3. The Government's current intention is to bring the reforms into effect by June 2018 to apply to company reporting years commencing on or after that date.
4. The key proposals affecting Post Office:
 - a. CEO: Employee pay ratio - the Government response confirms that the disclosure regulations will be amended to improve transparency with regard to directors' remuneration. The requirement will be to disclose the ratio of CEO pay to the average pay of a company's UK workforce, along with a narrative explaining changes to that ratio from year to year and how the ratio relates to pay and conditions across the wider workforce. This work is currently being looked at and will be discussed by the GE and Remuneration Committee.
 - b. Strengthening of the employee, customer and wider stakeholder voice - the response states that the Government will introduce secondary legislation to require all companies of a significant size (private as well as public) to explain how their directors comply with the requirements of section 172 (Companies Act 2006) to have regard to employee interests and to fostering relationships with suppliers, customers and others.

This work is currently being looked at by members of the GE and other senior leaders to understand how we can incorporate this proposal within our current and future forums.

- c. Other proposals relating to Remuneration Committees and pay will be discussed by the Remuneration Committee.

Input Sought

The Committee is asked to note the contents of this paper.

The Report

On 29 August, the government published a package of corporate governance reforms intended to raise the public's trust in business. Whilst executive remuneration forms much of the response, it does extend beyond pay and into broader considerations around wider stakeholder involvement and corporate governance in large private businesses.

The press and TUC have criticised the government of what they see as a watered-down set of proposals, however, I believe this a good opportunity for Post Office and we can address the requirements in a positive and pragmatic way.

In summary:

- Disclosure of the ratio of CEO pay to the average pay of the company's worker, along with a narrative explaining the changes to the ratio from year to year and how the ratio relates to pay and conditions across the wider workforce.

Whilst the Government will give further consideration to the methodology for calculating the ratio, at present, it proposes that it should be calculated based on the CEO's total annual remuneration (ie as we disclose in the ARA) relative to the average total remuneration of the UK workforce.

- Strengthening the employee and wider stakeholder voice – the initial proposal back in April to require an employee representative on the Remuneration Committee or Board is not being taken forward. The FRC is to consult upon on different mechanisms (NED representation, employee advisory councils...).
- Corporate governance: The FRC will work with IoD and others to develop a voluntary set of corporate government principles which is likely to apply to companies with more than 2,000 employees.
- Boardroom diversity – the FRC is expected to take forward the BEIS Select Committee recommendations that from May 2020, at least half of all new appointments to senior and executive managements positions in the FTSE 350 and all listed companies are women.

There are other proposals that are specifically related to pay and these will be discussed by the Remuneration Committee.