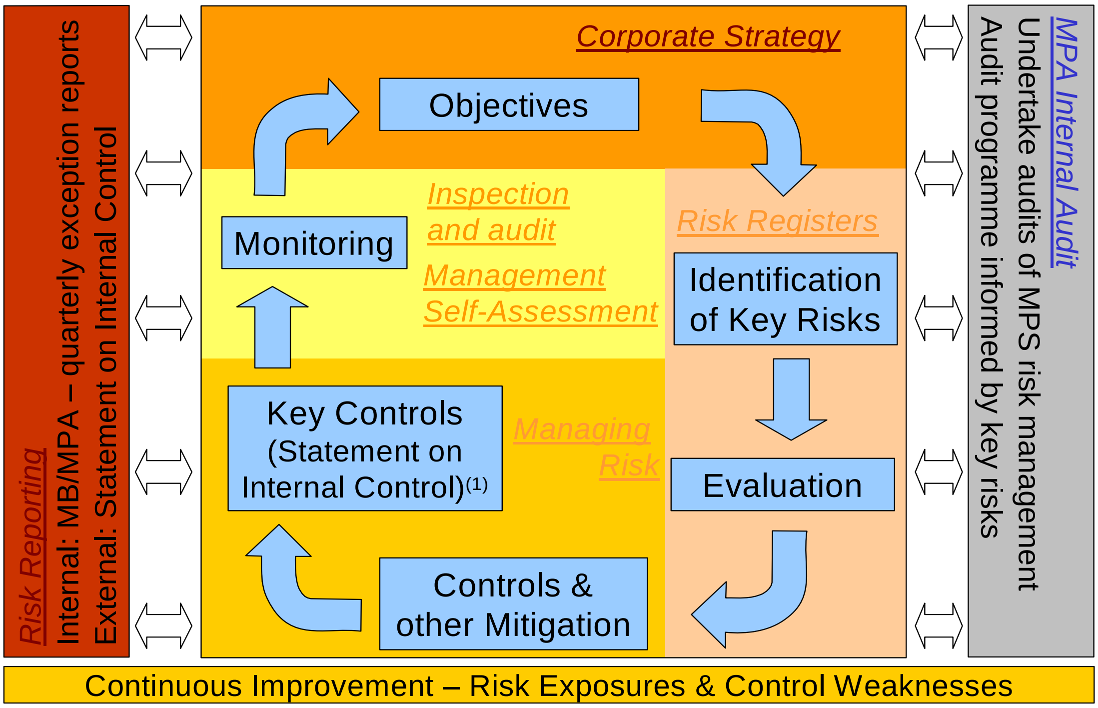
MPS Business Risk Management Process



(1) The Statement on Internal Control process adds value to the MPS by enabling us to identify key controls

The basic risk management process is simple but powerful. It is a 'virtuous circle' commencing with the identification of risks to the achievement of objectives. The identified key risks are recorded and evaluated – on the basis of impact and likelihood – within risk registers. Risks are managed by internal controls and other risk mitigation measures. The Statement on Internal Control process enables us to identify the controls that matter most – the key controls – and thus to focus scarce resource where it will be most effective and give us best value. Individual risks and controls are monitored in a variety of ways including inspection, audit, management self-assessment and quality assurance by the Corporate Risk team. The output from the process informs the setting of strategy and objectives for the next planning period, and thus the circle begins again.

Risk registers should only cover key risks and, although there are no hard and fast rules, SMTs and command teams should generally own between 5 and 15 risks.

Risks are identified at Corporate, Business Group and OCU / Department level. Risk reporting is on a monthly basis at OCU / Dept level, quarterly at the higher levels.

To reflect the aim of embedding risk management within business as usual, the reporting of risks and controls should take place within the line. The Corporate Risk team will report quarterly on the effectiveness of the process on an exception basis.

Internal Audit review the operation of the risk management process in its entirety, and the audit programme is informed by output from the risk management process.