



Post Office Board Agenda

Date		Present		In Attendance		Apologies	
25 th July 2017							
Start Time		Finish Time					
09.30hrs		13.30hrs					
Location							
Room 1.19 Wakefield							
Agenda Item		Action Needed		Purpose		Lead	
1. Funding Update (without Richard)		For discussion		To discuss the possible scenarios for different levels of funding.		Martin Edwards / CFOO	
2. Welcome and Conflicts of Interest							
3. Minutes of previous Board and Committee meetings including Status Report		Decision		Minutes formally agreed.		Alwen Lyons	
4. CEO Report		CEO report noted		CEO to update the Board on the report.		CEO	
5. Financial Report		CFOO report noted		CFO to update the Board on the report.		CFOO	
6. FS Portfolio review		For discussion		Assessment of FS&T portfolio to confirm sectors of greatest value and opportunity to POL.		Nick Kennett	
7. Peregrine		For discussion		Update on Peregrine negotiations and options for POL.		Nick Kennett	
BREAK							11.20 – 11.30
8. Emerging Technology and Innovation		For information		To demonstrate Emerging Technology that we are reviewing with many providers. Intent is to give 3 to 4 tech demos on technology that could be impactful over a longer time horizon.		Rob Houghton / Jeff Smyth / Martin Edwards	
9. Retail Product Arrangement for DMBs		For decision and delegation		To endorse the recommended approach and delegate authority to the CEO and CFOO to sign a contract.		Kevin Gilliland	



Post Office Board Agenda

Agenda Item		Action Needed	Purpose	Lead	Timing
10.	POca	For approval	To provide an update on the status of ongoing POca procurement and seek delegated authority to sign up to a new MSA with DXC / JPM.	Kevin Gilliland / Tom Wechsler	12.35 – 12.55
11.	Company Secretary Resignation & Appointment Decision	For noting and approval	To note the resignation of Alwen Lyons as Company Secretary and approve the appointment of Jane MacLeod as Company Secretary.		12.55 – 13.00
12.	Items for noting 12.1 Pensions Plan 12.2 Sealings 12.3 Health & Safety 12.4 Meeting dates and forward agendas	For noting For noting For noting For noting	To make Board aware of the Trustee proposal. Board aware of the affixing of the seal. To update Board. For Board to note.		13.00 – 13.05
13.	AOB				13.05 – 13.10
	Close and Lunch				13.10

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POLB 17(4th)
POLB 17/34 – 17/50

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

Minutes of a meeting of the BOARD
held at 10.30am on Thursday 25th May 2017
at 20 Finsbury Street, London EC2Y 9AQ

Present:

Tim Parker	Chairman (TP)
Richard Callard	Non-Executive Director (RC)
Tim Franklin	Non-Executive Director (TF)
Virginia Holmes	Non-Executive Director (VH)
Ken McCall	Senior Independent Director (KM)
Carla Stent	Non-Executive Director (CS)
Paula Vennells	Group Chief Executive (CEO) (Except Minute POLB 17/45)
Alisdair Cameron	Chief Financial and Operations Officer (CFOO) (Except Minute POLB 17/45)

In Attendance:

Alwen Lyons	Company Secretary (CoSec)
Martin Edwards	Group Strategy Director (ME) (Minute POLB 17/37)
Nick Kennett	Chief Executive Financial Services and Telecommunications (NK) (Minutes POLB 17/38 and 17/39)
Kevin Gilliland	Chief Executive Retail (KG) (Minutes POLB 17/38 to POLB 17/40 inclusive)
Mark Siviter	Managing Director, Mails and Retail (MS) (Minute POLB 17/40)
Rob Houghton	Group Chief Information Officer (RH) (Minutes POLB 17/41 and 17/42)

Apologies for Absence: None

POLB 17/34

INTRODUCTION

(a) A quorum being present, the Chairman 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.

POLB 17/35

MINUTES OF THE PREVIOUS BOARD MEETING INCLUDING STATUS REPORT

(a) Richard Callard asked that minute (POLB 17/22(f)) from the previous meeting be clarified. The 2017/18 EBITDAS target would remain at £28m with any possible relief to be discussed at the end of the year.

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- (b) The minutes of the Board meeting held on 28th March 2017 were approved and the Chairman was authorised to sign them as a true record.
- (c) The actions status report was noted as accurate.

POLB 17/36

CEO REPORT

- (a) The CEO introduced her report, focussing on the following key points:
- (b) Joint Strategy Project with Royal Mail Group
The CEO reported the departure from RMG of two key people involved in the joint strategy project, but assured the Board that the new lead was known to Post Office and although he was not a direct report to the RMG CEO, it was believed he would work positively with the Post Office team.
- (c) The CFOO reported that RMG had appointed an internal candidate as their new CFO.
- (d) Identity Services
The CEO explained the enhanced Verify product which would be launched in June and was likely to include a digital driving licence product. **The new product would be helpful for vehicle rental companies and Ken McCall offered advice in accessing this market.** Post Office as the Verify market leader had been chosen to launch this new service in advance of other suppliers and this would help cement the position in the market.
- (e) L300 Event
The CEO thanked the Chairman for speaking at the L300 event where the senior leadership discussed the priorities for 2017/18 and the behaviours required to drive the next stage of transformation.
- (f) NSFP Conference
The CEO had attended the NFSP annual conference and was pleased to report a more commercial focus than in past years, with an alignment to the National Convenience Show giving the retail agenda more prominence. The Executive took the opportunity to discuss the simplification work and there was still an anxiety about the effect of cutting postmasters' remuneration.
- (g) The Board discussed the funding of the NFSP and asked for an update on what they have provided for the investment. The CEO explained that the NFSP were working with the business on simplification and continued to support the Network Transformation programme. Richard Callard reported that the NFSP continued to lobby UKGI against the changes being implemented but it was acknowledged that they continued to support the business in the public domain.
- (h) Industrial Relations

ACTION: Kevin Gilliland/ Ken McCall

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**ACTION: Martin
Kirke**

The CEO reported that the Company were still in dispute with the CWU and UNITE unions although the UNITE dispute was closer to resolution. The Board discussed the reduction in number of CWU reps paid for by the Business which had reduced from nineteen to six.

The Board challenged the practice of paying for any union reps and asked the CEO to check why the union were not paying for their reps.

- (i) **IT Security and Stability**
The Board noted that the CIO would provide an update later in the meeting.
- (j) The Board noted the report from the CEO.

POLB 17/37

FUNDING PLAN

- (a) The Chairman welcomed Martin Edwards, Group Strategy Director, to the meeting.
- (b) The CFOO introduced the paper which set out the current position with the funding documentation. The General Election had made any decision in May implausible and consequently a meeting had been arranged with the Permanent Secretary at BEIS to reassess timelines.
- (c) The funding document set out that Post Office was requesting additional support over the plan period of £420m, reducing to £290m by 2021.
This was split into three parts:
 - Firstly, a further £250m of direct funding: £200m of Government grant together with confirmation of the final year of Network Subsidy Payment of £50m in 2020/21.
 - Secondly, an additional borrowing in recognition of the fact that the changes the Post Office needed to fund were urgent and pressing. Post Office would start repaying this in 2019-20, so the initial commitment of £170m would reduce to a projected net commitment by the end of the plan period of £40m. At no point would the borrowing facilities reach the limit set for 2012-15.
 - Thirdly, the Post Office would ask for BEIS' security over the Revolving Credit Facility to be extended, but disconnected from the level of branch cash held, incentivising Post Office to use its cash efficiently.
- (d) Richard Callard explained the background to the funding discussion and thanked ME and the CFOO for their input to date. He recognised his person conflict of interest and explained the process and expectation from the Minister that his department would carry out due diligence and challenge to the funding proposal before it was submitted.
- (e) The Board discussed the funding proposal and the Board duty to deliver value for the shareholder through a long term sustainable business. The Government funding constraints were acknowledged but the Board recognised that the many

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ACTION: Martin Edwards

iteration to the plan had diluted the initial strategy agreed by the Board.

(f) The Board asked if the Company would be given freedom to raise money from other sources if the funding received from the Government was inadequate. Richard Callard explained that the Government would not allow Post Office to raise equity in the market at the Group level, as by law it had to remain a wholly owned Government entity, and to raise debt, although not illegal, was also difficult to achieve. **The Board asked if the document could stress the need for access to alternative finance if the adequate funding was not forthcoming.**

(g) Richard Callard acknowledged the Board's frustration with the process. He explained that the Secretary of State and Permanent Secretary were concerned about the uncertainty of the renegotiation with RMG and Bank of Ireland, and the digital capability and its investment, particularly in financial services. Richard Callard welcomed the revised document which gave a greater degree of granularity on the proposals, which was what Government was looking for.

Richard Callard also set out that the shareholder had affordability constraints to consider, and this would impact the key decision in Government as to whether it wished to invest now to achieve full commercial sustainability, or whether it was more affordable to invest a lower amount and accept longer term subsidy requirements.

The Chairman stressed that the contract negotiation risk was unavoidable but delaying or reducing the investment would increase rather than negate the risk. The IT project delivery risk understandable but the Board had put people in place to deliver the strategy in the way it had delivered the pension scheme closure and supply chain changes. POMS business was delivered entirely digitally.

ACTION: Richard Callard/ Chairman

(h) **The Chairman stressed the need for support for the funding and suggested that he meet with Mark Russell, CEO UKGI to explain the funding requirement, and the Board's reasons for the investment.**

ACTION: Martin Edwards

(i) **The Board asked the Executive to be more strident in the Executive Summary setting out, why the Board had made the decisions in the paper, and the consequences of the not investing in the options.**

(j) The Board asked how the report was presented to the Minister and the Chief Secretary of the Treasury. Richard Callard explained the process, and the Board asked for assurance that the UKGI paper accurately represented the Board's views. Richard Callard stressed that the UKGI paper was a factual document setting out the revenue projections and why Post Office needed the investment at this time.

(k) The Chairman thanked Richard Callard for the work he is doing and recognised the frustration in the Board with the process.

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ACTION: Richard Callard

The Chairman asked Richard Callard to ensure that UKGI, the Permanent Secretary, and the new SoS all understood that the Board was wholeheartedly behind the strategy as presented, and if a meeting was required to emphasise this, the Chairman and the CEO would be pleased to attend.

- (l) After careful consideration and with the amendments proposed, the Board:
 1. agreed the Funding document and accompanying slides for presentation to UKGI and BEIS;
 2. noted the revised timetable for agreeing the Funding documents;
 3. approved the plans for 2018-21 subject to the funding received; and
 4. approved the request for further funding as set out in the Funding document
- (m) Richard Callard left the meeting.
- (n) The Board received a paper from Martin Edwards which set out the options available to the Business if the necessary funding was not received from the Government. The Board recognised that the options presented were suboptimal but needed to be discussed. The options proposed were set out in three blocks and the paper showed the effect on EBITDAS and cash headroom for each proposal.
- (o) The Board debated the paper and supported the options being proposed.
- (p) ME left the meeting.
- (q) Richard Callard re-joined the meeting.

POLB 17/38

CHIEF EXECUTIVE FINANCIAL SERVICES AND TELECOMS PERFORMANCE REPORT

- (a) Nick Kennett, Chief Executive FS&T, and Kevin Gilliland Chief Executive Retail, joined the meeting.
- (b) NK presented his April 2017 report to the Board and focused on the following key points:
- (c) NK reported that after P1 results FS&T was holding to budget, and although there were some challenges in the Telco area plans were in place to ameliorate the position.
- (d) Mortgage sales were at the highest point for two years after the introduction of a more effective sales process. Post Office and Bol have been working closely to develop a new approach to mortgage products. Bol has confirmed its intent that Post Office will be their exclusive brand in the aggregator space (excluding specialist build funding). There would be a deep dive on mortgages at the next Board meeting.

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- (e) The CFOO explained the advantages and challenges of the mixed product portfolio within the FS&T portfolio and the choices this enables the Executive to make. NK stressed the opportunities for POMS products which are under the Group's control, and could deliver strong growth opportunities, including through acquisitions - this debate would be part of the June away day.
- (f) NK reported that the PSD2 open banking regulation would be an opportunity for Post Office, but at present Bol did not have a product in this area, if the Bank did not deliver this product then Post Office could consider a Fin Tech solution.
- (g) The new Travel Money card has delivered a 55% sales increase, with over 63,000 in sales, the majority of sales taking place in branch with subsequent digital top ups. There had been some issues with the migration of existing cards but full migration should take place over the next 6 months.
- (h) NK was pleased that POMS was on track in period 1, with the new customer management platform (Zeus) operational enabling changes to pricing and more effective introduction of new products. Car insurance remained a challenge with changes to the Ogdens discount rates driving up premiums by up to 10% premium. Home and Travel insurance were both performing well.
- (i) Telco would deliver the New Call customers by September and the Telco strategy would be considered at the Board away day. The Board asked if Telco needed more advertising investment to improve customer recognition, NK explained that the present focus was to get more out of the existing book and he did not think advertising within the budgets available would be an efficient use of a limited resource.
- (j) NK reported that Lloyds Bank had signed up to the banking framework for its business banking customers. The CFOO explained that the effect on supply chain was being monitored. NK also noted that discussions were continuing with banks to expand the services under the Framework, including identity and to support their basic bank accounts.
- (k) The management of regulation and risk remained a key focus for the Executive, with HMRC increasing its regulation on bureau de Change transactions. The level at which a customer's data would need to be recorded was likely to reduce from £2,000 to £850. Which would result in an additional 350,000 data records being captured in branches
- (l) NK updated the Board on the Bank of Ireland negotiations with good progress on business as usual changes and an indication of more focus on Peregrine.
- (m) The Board noted the report.

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POLB 17/39

CHIEF EXECUTIVE RETAIL PERFORMANCE REPORT

- (a) KG introduced the retail commercial performance report for period 1 and focussed on the following key points.
- (b) Retail had finished the year with strong trading and this has continued in P1. KG reported that the decline in branch footfall which had been running at 3% had slowed with the last 10 period to show a decline of 1%. KG explained how footfall was measured and that a piece of work was being undertaken to understand footfall and its effect on cashflows and who is benefiting from the footfall.
- (c) KG reminded the Board that 60% of branch customers were undertaking mails products, 1st Class products were in decline as customers moved to 2nd class which were growing. Home shopping returns continued to increase although the rate of growth had slowed. RMG had introduced a new free tracking service which might reduce the sales of the SignedFor product but there was no evidence of that to date.
- (d) Government services had seen a strong start to the year as the Passport Office's new digital passport service had not seen the growth expected with Post Office retaining the in branch sales. A new Post Office digital service is being developed which will need Passport Office agreement but could be ready in Q4.
- (e) KG reported that following the update to the Board at the last meeting positive progress had been made on Post Office Card account (POca) procurement. Following a hard line approach DXC (formerly HPE) had submitted a revised proposal removing some of their transfer of costs and risks. We are now working through this and it appears that this has halved the gap. We will now use negotiations and other levers to attempt to fully close the gap and get the contract to break-even.
- (f) KG explained the importance of payments as a footfall driver for the Business and the current bid for the BBC contract. The migration from Paypoint to Post Office may be an issue for the BBC and the BBC announcement was now two months late. The Legal team were ready to make a challenge if it became evident that the due Ojeu process had not been followed.
- (g) KG updated the Board on the mails competitor environment and his meetings with retailers to ensure they understood the effect on their basket spend of footfall driven by RMG products.
- (h) Discussion were also underway with Payzone to understand whether there is a potential partnership in the bill payments market. Once the opportunity is explored and a possible business case developed this would return to the Board for further debate.
- (i) KG was pleased with the progress on Network development with 7200 branches delivered and 350 still to transform.

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Conversions of Directly Managed Branches were taking longer to deliver but 30 would be delivered in the year.

- (j) KG explained the progress with the 'no queues at Christmas' initiative and the focus on moving customers who post more than 5 parcels onto the Drop & Go (D&G) service, enabling their transaction to be completed in the back office. This work could then be completed by casuals at a lower pay rate than a counter clerk.
- (k) The Board asked more could be done to enable customers to drop parcels outside core hours. KG explained that D&G customers were given advice on the best time to drop parcels although they usually wanted to meet the RMG last collection time.
- (l) The Board asked if the Business measured waiting times, KG explained that in the larger branches with queue management systems the wait time was measured but in other branches it was based on analysis of capacity and transactions. Ongoing research is also used to provide waiting times.
The Board asked the Executive to consider an adequate sample of large branches measuring queue times to give more rigour to measurement of initiatives.

ACTION: KG

- (m) The Board asked for assurance that the casual labour used over Christmas and for D&G would not be on zero contracts. KG explained that these were not zero based contracts but were flexible which often suited the Post Office and the employee.

ACTION: KG

- (o) **KG was asked to present the work on whitespace branches at the June away day.**
- (p) The Board noted the report.
- (q) NK left the meeting.

POLB 17/40

MAILS STRATEGY UPDATE

- (a) Mark Siviter, Managing Director, Mails and Retail, joined the meeting and together with KG, presented the report.
- (b) KG explained the approach to the negotiations and the areas of the MDA which need to be addressed, but stressed that this was being positioned as a low key negotiation not opening up the whole MDA.
- (c) The Board asked if the negotiation mandate gave the Executive enough flexibility. KG assured the Board that he was happy with the approach and the red lines set out in the mandate.
- (d) The Board asked if there was a risk of energy dissipating with the change of people in RMG. MS accepted that this was always a danger but assured the Board that Post Office and RMG now shared a common view of the market and the risk and

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opportunities which was driving the urgency to negotiate. MS now felt more confident but recognised that the dialogue had yet to start.

- (e) The Board asked KG and MS to continue to develop the next best alternative work in parallel with an emphasis on the technical integration, and to return to the Board with a view on how quickly they could be implemented if the negotiation do not deliver what is needed.
- (f) The Board asked the CEO to ensure she had the strongest negotiation team possible.
- (g) The Board delegated authority to the Mails Strategy SteerCo to oversee the remainder of the Mid Term Review preparation prior to proposals returning to Board for consideration in November 2017 and approved the red line topics for the Mid Term Review.
- (h) KG and MS left the meeting.

POLB 17/41

BACK OFFICE TRANSFORMATION (BOT)

- (a) Rob Houghton, CIO joined the meeting and introduced the report.
- (b) RH explained the HRSAP and POLSAP migration to CFS and the ongoing risks of running POLSAP on old hardware. RH accepted that the hardware was likely to fail at some point but believed that there was enough resilience in place to continue without triggering the additional cost of early POLSAP infrastructure migration at this point. He would continue to monitor the situation and return to the Board in September at which point the decision could be taken on POLSAP migration.
- (c) The CFOO supported the approach and explained that a fully updated business case with costs and benefits would be presented at the September Board.
- (d) The Board noted the update provided and approved the £7.16m of additional funding drawdown, taking the cumulative investment to £8.91m to progress the programme to September.

POLB 17/42

CYBER ATTACK & HORIZON OUTAGE

- (a) RH appraised the Board of the action taken following the recent cyber-attack which had notably affecting NHS systems. He reported that the Post Office was in a strong position and that likelihood of a breach had been very low.
- (b) The Board thanked RH and his team for their vigilance.
- (c) RH updated the Board on Horizon outage and explained that the

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root cause had now been identified as engineer failure in Fujitsu. FJ did not believe it was in any way malicious but have put additional controls in place.

- (d) The Board noted the update.
- (f) RH left the meeting.

POLB 17/43

FINANCIAL REPORT

- (a) The CFOO presented the financial performance report for period April 2017/18.
- (b) The CFOO reported that the Group Executive had been allocated budgets for the year and these included many challenges with £13m yet to be grounded in plans.
- (c) Period 1 had produced a strong scorecard, with branch numbers being the only area of slight concern. The numbers had slipped back slightly since year end but KG was confident that with momentum in the white space plan and the whole estate deals with the multiples, albeit towards the end of the year, the numbers would be achieved.
- (d) The Board noted the financial performance report for April 2017/18.

POLB 17/44

ANNUAL REPORT AND ACCOUNTS (ARA)

- (a) The CFOO introduced the paper and explained the delay in signing the ARA because of the lack of clarity about funding. Work was continuing to be ready for a July signing but if this was not possible then it would be likely to be November.
- (b) The Board debated the stakeholder response to a delay in signing the ARA, but agreed that it could not be signed without funding being in place.
- (c) Carla Stent, the Chair of the ARC explained that the ARC were comfortable with the Going Concern statement even if the ARA could not be signed until November, although the delay did not help with the net liabilities position as it had no impact on the balance sheet. The only part of the audit which EY had challenged was the discount rate used for the pensions' calculation, which they considered to be too prudent, but which the ARC were happy to support.
- (d) The CFOO explained that the EY would undertake a subsequent events review and update which would be more complicated with a November signing.
- (e) The Financial Statements were presented with a change to the treatment of fixed assets moving to an impairment basis.

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- (f) The Chair of Audit was pleased to report that EY had recognised the improvement in the Financial Controls which they believed had moved a long way in a year, while recognising the challenges and risks imposed by old systems.
- (g) The Chair of Audit explained that the front half of the ARA had not been written as the narrative would depend on the funding agreement.
- (h) The Board noted the draft financial statements and POL Briefing Book for the year ended March 2017.

POLB 17/45

APPROVAL OF STIP AND LTIP AS RECOMMENDED BY THE REMMUNERATION COMMITTEE

- (a) The CEO and CFOO left the meeting.
- (b) KM advised the Board that the Remuneration Committee (RemCo) had met earlier in the day to review the proposals. The CFOO had presented a paper to the RemCo on the performance for 2016/17 and the reliefs to be taken into account when assessing the STIP and LTIP results.
- (c) STIP
The RemCo had considered the approach suggested by the CFOO and the results for the year. After due diligence and debate the Committee had decided to recommend to the Board the approval of the EBITDAS result of £5m for the STIP payment.
- (d) The Chair of the RemCo reported the performance reviews against personal objectives for the CEO, carried out by the Board Chairman, and the CFOO and GE members carried out by the CEO.
- (e) LTIP
The RemCo had discussed the LTIP target which was set in 2014, when the Business was pursuing a growth strategy predicated by plans including growth in Government services income. It was acknowledged that the plan had changed over the last three years to one of right sizing the cost base. The RemCo had considered the changes and the delivery of some challenging issues.
- (f) The RemCo Chairman stressed the need to reward the excellent performance and recommended to the Board the EBITDAS result of £13m which would trigger an LTIP payment of 86.4% of bonus.
- (g) Richard Callard challenged the change since January when the LTIP did not look as if it would be triggered. The Chairman of RemCo assured Richard Callard that the Committee had undertaken all due diligence in reaching a recommendation, and

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that improved trading along with other factors had been considered. The accounts have been audited by EY who were comfortable with the accounting treatment, and the ARC had discussed and agreed the discontinued business status which EY had supported.

ACTION: Natasha Wilson (h) **Richard Callard asked for information on the rules regarding the pro-rated LTIP for the CFOO.**

(i) The Board supported the EBITDAS outturn of £13m and recognised that this improvement gave the Business an excellent start for 2017/18 and challenged whether the existing target of £28 with possible relief of £9m for the STIP was a stretching enough target. The Board discussed changing the £28m target but agreed to retain this but without the relief which had been proposed.

ACTION: Ken McCall (j) **The Chair of RemCo was asked to inform the CEO and CFOO that the STIP target for 2017/18 would be £28m without any reliefs.**

(k) The Board asked Richard Callard for an update on the letter sent to the Minister on the 17th March regarding the Executive Directors' remuneration and STIP target. Richard Callard reported that the Minister had raised some questions regarding the STIP targets which had delayed the letter.

(l) The Chair of RemCo explained that the letter had been a follow up to the meeting with Lord Prior where the principles for an increase in pay had been agreed. The Chair of RemCo was disappointed that he had received no personal feedback on the status of the letter. Richard Callard apologies for the lack of feedback but explained that the calling of the election had further delayed the progress.

(m) The Board Chairman stressed that the delay in progress was unacceptable and asked Richard Callard to expedite the issue as soon as the new Minister was in place.

(n) The Board unanimously approved the 2016/17 LTIP and STIP payments to GE members as recommended by the Remuneration Committee and set out in the respective reports.

POLB 17/46

BOARD COMMITTEE CHAIR VERBAL UPDATES

(a) The CEO and CFOO re-joined the meeting.

(b) Audit, Risk and Compliance Committee
The ARC Chair provided an update on the business of the ARC which had met a week before the Board. Four points were noted:

1. The Tax Strategy would come back to ARC in the autumn including the treatment of R & D credits as the Business moves into profit

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2. The IT audit report had revealed a lack of ownership and control for joiners, movers and leavers.
3. A small amendment had been made to the Modern Slavery Statement which would be published on the Post Office website. The ARC had challenged the Executive to be more proactive where possible especially with postmaster assistants

(c) The CEO 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 nett 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 put in place for all joiners, movers and leavers.

(d) Remuneration Committee
KM provided an update on the Remuneration Committee which had met earlier in the morning.

(e) Nominations Committee
TP provided an update on the Nominations Committee which had met earlier in the morning

POLB 17/47

CONTRACT APPROVALS

High Speed Note Counter

(a) The CFOO introduced the paper regarding high speed note counters, which explained the proposal to make a direct award to G&D under Regulation 32(2)(b) of the PCR 2015.

(b) The Board delegated authority to the CEO and the CFOO to contract with Giesecke and Devrient (G&D) for all services associated with the provision and running of the M5 high speed note counting machines for 5 years with the option of 5 two year extensions.

POLB 17/48

RATIFICATIONS OF DECISIONS MADE BY CORRESPONDENCE

(a) Global Payments Contract
The Board ratified the decision it had made by email correspondence on 5th May 2017, in accordance with Article 92 of the Company's Articles of Association, to extend the contract with Global Payments for 12 months with delegated authority given to the CEO to extend for a further 12 months if necessary.

POLB 17/49

ITEMS FOR NOTING

(a) Project Iris Review – Simplifying Supply Chain
The Board noted the report. The Board thanked the CFOO and his team for the excellent delivery of IRIS and for producing the

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paper to enable the Board to review.

(b)

Register of Sealings

The Directors resolved that the affixing of the Common Seal of the Company to documents numbered 1502 to 1521 inclusive in the seal register was confirmed.

(c)

Health and Safety

The Board noted the health and safety performance, risks and mitigating activity within the Health and Safety report and thanked the CEO for the good progress.

(d)

Meeting Dates and Forward Agenda for June 2017 Away Day

The Board noted the future meeting dates and proposed forward agenda.

POLB 17/50

ANY OTHER BUSINESS

(a)

There being no further business the Chairman closed the meeting.

.....
Chairman

.....
Date

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Status Report as at: 19/07/2017

Post Office Limited Board

REFERENCE	ACTION	Action Owner (GE Member)	Due Date	STATUS	Open/Closed
31 January 2017 POLB 17/11 (d)	<u>Board Effectiveness Review</u> Reconsider the proposal for an independent advisor to the Board after the IT strategy presentation at the July Board meeting.	Ken McCall	October 2017 Board		Open
28 March 2017 POLB 17/25 (g)	<u>FS Growth - Falcon</u> A number of Fintech providers were being considered and due diligence was being completed. NK would return to the Board with a concept for consideration in July 2017.	Nick Kennett	September 2017 Board	Action moved to September.	Open
28 March 2017 POLB 17/25 (j)	<u>FS Growth - POMS</u> As part of the long term financial services strategy, a potential future move into underwriting activities would be brought to the Board for further discussion at the appropriate time.	Nick Kennett	TBC		Open
28 March 2017 POLB 17/30 (b)	<u>Contract Approvals - Fleet</u> The Board agreed that the HR Director would be asked to review the inclusion of cars as a benefit as part of the overall review of the remuneration strategy.	Martin Kirke	September 2017 Remuneration Committee	On September Remuneration Committee agenda.	Closed
28 March 2017 POLB 17/32 (e)	<u>Items for Noting - Health and Safety</u> The Chairman requested that Directors be provided with a short briefing paper to clarify their personal liabilities in all areas.	Jane MacLeod (GC)	July 2017 Board	Appendix 1 to this actions list is a briefing paper.	Closed
25 May 2017 POLB 17/36 (d)	<u>CEO Report - Identity Services</u> The CEO explained the enhanced Verify product which would be launched in June and was likely to include a digital driving licence product. The new product would be helpful for vehicle rental companies and Ken McCall offered advice in accessing this market. Post Office as the Verify market leader had been chosen to launch this new service in advance of other suppliers and this would help cement the position in the market.	Kevin Gilliland / Ken McCall	September 2017 Board		Open

REFERENCE	ACTION	Action Owner (GE Member)	Due Date	STATUS	Open/Closed
25 May 2017 POLB 17/36 (h)	<u>CEO Report - Industrial Relations</u> The CEO reported that the Company was still in dispute with the CWU and UNITE unions although the UNITE dispute was closer to resolution. The Board discussed the reduction in number of CWU reps paid for by the Business which had reduced from nineteen to six. The Board challenged the practice of paying for any union reps and asked the CEO to check why the union were not paying for their reps.	Martin Kirke	September 2017 Board		Open
25 May 2017 POLB 17/37 (f)	<u>Funding Plan</u> The Board asked if the Company would be given freedom to raise money from other sources if the funding received from the Government was inadequate. Richard Callard explained that the Government would not allow Post Office to raise equity in the market at the Group level, as by law it had to remain a wholly owned Government entity, and to raise debt, although not illegal, was also difficult to achieve. The Board asked if the funding document could stress the need for access to alternative finance if the adequate funding was not forthcoming.	Martin Edwards	July 2017 Board	Covered in funding document and ongoing discussions with Government.	Closed
25 May 2017 POLB 17/37 (h)	<u>Funding Plan</u> The Chairman stressed the need for support for the funding and suggested that he meet with Mark Russell, CEO UKGI to explain the funding requirement, and the Board's reasons for the investment.	Richard Callard / Tim Parker	July 2017 Board	Tim met with Mark Russell in early July.	Closed
25 May 2017 POLB 17/37 (i)	<u>Funding Plan</u> The Board asked the Executive to be more strident in the Executive Summary setting out, why the Board had made the decisions in the paper, and the consequences of not investing in the options.	Martin Edwards	July 2017 Board	Covered in funding documents.	Closed
25 May 2017 POLB 17/37 (k)	<u>Funding Plan</u> The Chairman asked Richard Callard to ensure that UKGI, the Permanent Secretary, and the new SoS all understood that the Board was wholeheartedly behind the strategy as presented, and if a meeting was required to emphasise this, the Chairman and the CEO would be pleased to attend.	Richard Callard	July 2017 Board	Richard has relayed Post Office's perspective to Ministers.	Closed

REFERENCE	ACTION	Action Owner (GE Member)	Due Date	STATUS	Open/Closed
25 May 2017 POLB 17/39 (l)	Chief Executive Retail Performance Report The Board asked the Executive to consider an adequate sample of large branches measuring queue times to give more rigour to measurement of initiatives.	Kevin Gilliland	September 2017 Board		Open
25 May 2017 POLB 17/40 (e) (f)	Mails Strategy Update The Board asked KG and MS to continue to develop the next best alternative work in parallel with an emphasis on the technical integration, and to return to the Board with a view on how quickly they could be implemented if the negotiation do not deliver what is needed. The Board asked the CEO to ensure she had the strongest negotiation team possible.	Kevin Gilliland / Mark Siviter	September 2017 Board		Open

Directors Duties - Health and Safety

Author: Jean Reynolds Sponsor: Jane MacLeod

Meeting date: 25 July 2017

Executive Summary

Context

At their meeting on 28 March 2017, the Board requested a summary of their duties in relation to health and safety matters. Health and Safety as an area of Board oversight is gaining increased focus driven in part by the increasing activity and higher penalties from the regulator, but also the recognition that care of employees through the health and safety agenda is a key contributor to an engaged and effective workforce.

Questions addressed in this report

- What are the Board's duties in relation to Health and Safety matters?
- What assurance does the Board have that health and safety is managed properly at Post Office?

Conclusion

1. The relevant legislation is the Health and Safety at Work Act 1974 (as amended) which sets out the requirements for employers. In the case of corporate employers, the Board of the employer is required to exercise "best governance". This is defined by the Health and Safety Executive and Institute of Directors Guidance "Leading Health and Safety at Work" (HSE & IOD Guidance) to include the following:
 - Provision of strong and active leadership from the top;
 - Involvement of workers;
 - Undertaking assessments and reviews of health and safety risks;
 - Monitoring, reporting and reviewing the employer's performance in relation to health and safety matters.
2. The Health and Safety Executive is taking a more robust view of corporate failures in relation to health and safety. While they have powers to prosecute and fine individual directors, this has only been used in the most egregious cases. Accordingly, it is important that Boards understand their duties and are able to demonstrate that they have actively sought to understand the risks posed by the business' operating model and have required regular assurance from management to demonstrate that the company has implemented safe systems of work.

Input Sought

The Board is requested to note the advice sought.

The Report

What are the Board's duties in relation to Health and Safety matters?

3. The relevant legislation is the Health and Safety at Work Act 1974 (as amended) which sets out the requirements for employers. The general duties state:

"It shall be the duty of every employer to ensure, so far as is reasonably practicable, the health, safety and welfare at work of all [his] employees." (section 2(1))"

"It shall be the duty of every employer to conduct his undertaking in such a way as to ensure, so far as is reasonably practicable, that persons not in his employment who may be affected thereby are not thereby exposed to risks to their health or safety." (section 3(1))"

There is then significant amount of detail as to how these duties are to be applied to different types of employer, risks and situations.
4. The Act then prescribes that it shall be an offence for a person 'to fail to discharge a duty to which he is subject by virtue of (among others) the above sections.
5. Guidance in relation to these duties is provided to boards by HSE & IOD Guidance 'Leading Health and Safety at Work'. Copies of this report are available on request. In particular, employers must:
 - appropriately assess risks to employees, customers, partners and any other people who could be affected by their activities;
 - ensure the effective planning, organisation, control, monitoring and review of preventative and protective measures including near misses and incidents;
 - have a written health and safety policy if they have five or more employees;
 - ensure the company has access to competent health and safety advice, and
 - consult employees about their risks at work and current preventative and protective measures.
6. 'Best governance' principles are set out in the guidance as follows:

Strong and active leadership from the top

 - ✓ Visible, active commitment from the board
 - ✓ Establishing effective 'downward' communication systems and management structures;
 - ✓ Integration of good health and safety management with business decisions.

Worker involvement

 - ✓ Engaging the workforce in the promotion and achievement of safe and healthy conditions;
 - ✓ Effective 'upward' communication;
 - ✓ Providing high quality training

Assessment and review

 - ✓ Identifying and managing health and safety risks;
 - ✓ Accessing (and following) competent advice;
 - ✓ Monitoring, reporting and reviewing performance

7. The HSE and IoD Guidance states that the Board should 'own' and understand the key issues involved and decide how best to communicate, promote and champion health and safety as being of strategic importance. It suggests naming one board director as a 'health and safety champion' with a non-executive director acting as scrutineer, and adopting a formal procedure for auditing, monitoring and reporting health and safety performance. The board should have unrestricted access to both external and internal auditors, keeping their cost effectiveness, independence and objectivity under review.
8. For a very large company (such as the Post Office) with a turnover exceeding £50 million per annum, fines for non-compliance resulting in death or serious injury may be unlimited, and orders to publicise the conviction can be made. Material failure to comply with their duties may lead to prosecution. Directors have both a collective (Board) and individual responsibility for health and safety. Conviction could involve fines, custodial sentences (suspended or immediate) and disqualification as a director

What assurance does the Board have that health and safety is managed properly at Post Office?

9. The CFOO is the executive with ultimate responsibility for health and safety, and the Health & Safety Manager has a reporting line through to the CFOO.
10. Post Office has a Health and Safety policy approved by the Group Executive which is available through the intranet (most recently reviewed in April 2016).
11. Health and safety matters are considered quarterly at Group Executive level through the Health & Safety Committee¹, and the terms of reference of that committee cover all identified activities that could give rise to safety issues for staff and customers including supply chain, branch operation, building compliance issues, driving, use of mobile phones while driving, remote working and sole worker issues, physical security etc.
12. A Health & Safety report is produced monthly for the Group Executive and for each Board meeting. This report compares actual performance with industry comparable benchmarks. Regular discussions are held with Post Office's insurers to understand developing trends and ensure that Post Office is able to adopt and embed developing best practices promptly. Deep dives are undertaken by the Health & Safety committee on specific risk areas, and in-depth Health & Safety briefings are provided to both the Group Executive and the Board at least once a year. At its most recent meeting, the Health & Safety Committee requested that an external audit be commissioned of the effectiveness of Post Office's health and safety framework. It is anticipated that the audit report will be finalised and available for review by December.
13. Health and safety initiatives are discussed and disseminated across Post Office through team briefings; there is a health and safety calendar to ensure that regular training and updates are provided throughout the year, and there are dedicated

¹ Members are the CFOO (chairman), HR Director, General Counsel and Chief Executive, Retail. Attendees include the Network Operations Director, People and Change Director, Supply Chain Director, and Head of Health & Safety

pages on the Post Office intranet with resources addressing issues such as sickness, attendance, health, safety and well-being.

14. In addition, HR manages an ongoing wellness programme which is reported through these fora, and which covers sickness and absences, emerging themes recorded through the various call centres and helplines, as well as more targeted wellness programmes.

CEO's Report

Author: Paula Vennells Meeting date: 25th July 2017

Executive Summary

Context

Our target for 2017/18 is to achieve EBITDAS of £28m. Our 3 year goals are to:

- Accelerate the transformation of the Post Office.
- Secure commercial sustainability for the long term.
- Establish a business that can ultimately fund investments and the social purpose from profits rather than subsidy.

In summary, our strategy is to secure our position as the UK's number one parcels and letters retailer, grow in financial services and protect our network and social purpose – all supported by a much leaner central organisation.

Questions this paper addresses

1. What is on my mind? (*successes, challenges, opportunities and risks*)
2. What are the implications for our outlook and plans?

Conclusion

1. While the headline figures suggest that we are ahead of budget, underlying EBITDAS was around £1.8m behind target at the end of Q1.
2. We understand that BEIS have made good progress in explaining both the necessity and urgency of our funding request to Treasury Ministers. However, it will not be resolved before summer recess and at this stage no clear indications have been provided around the likely timing or quantum of the final funding deal.
3. In the meantime we are focusing on the delivery of our existing transformation plan for 2017/18. With a range of critical projects underway across technology, network and other areas, it is clear that this programme is at least as complex and challenging as any we have faced over the past five years.

Input Sought

The Board is invited to note the report and highlight any issues where a future discussion would be welcome.

The Report

Looking Back

WHAT HAS GONE WELL?

• **Financial Performance – P3**

- We closed the first quarter with EBITDAS of £1.5m, £1.2m ahead of budget and £11.7m ahead of the same point last year. However, favourable timing differences worth £3m over the year to date (YTD) mean that in reality we have performed worse than budget by £1.8m.
- In trading we are £2.4m ahead of budget YTD, with net income less agents' pay standing at £111.1m by the end of P3. Mails and government services in particular are performing strongly relative to budget, with financial services behind target at this point in the year.
- Operating expenditure was £0.9m adverse to budget by the end of P3, with agents' debt of £(2.2)m the biggest single contributor of this overspend. We are tackling this issue through the cash management project discussed with the Board in June together with a re-design of our debt collections processes.

• **Awards and external recognition**

- Citizen's Advice published two very favourable reports on 14th July about the impact of the Network Transformation Programme (NTP) and the value of the Post Office to consumers and small businesses. Amongst other findings, the research revealed that almost 9 in 10 customers say they expect to be using the Post Office just as much or even more in two years' time – including amongst 16-30 year olds.
- Given the critical stance that Citizen's Advice has tended to take in previous reports on the Post Office, their endorsement of NTP was particular welcome, as was their call to the Government to continue funding the business adequately over the next three years.
- I am delighted to report that the business have received the following awards which reinforce the breadth of the progress we are making:
 - Our Social Media team won a Regional Star Award for "Best Customer Experience Support through Social Media" and our Head of Social Media, Darren Jones, won "Social Media Leader of the Year".
 - Our Legal Team won a silver award for "Best Banking & Financial Services Legal team" in the UK at The Lawyer Awards.
 - The Post Office has been shortlisted for the Franchise Group of the Year category in the Retail Industry Awards.
- In honour of Alwen's enormous contribution to the Post Office over 33 years of service, and her particular leadership and passion for inclusion, we will be launching the 'Alwen Lyons Award' later this year. The award will recognise

colleagues who have made an outstanding contribution to drive the diversity and inclusion agenda for the Post Office and their teams.

WHAT HAS NOT GONE WELL?

• **BBC**

- We were informed by the BBC on 4 July that our tender application for over-the-counter licence fee payments had been unsuccessful and that they intended to award the contract to Paypoint.
- Consequently, we appointed Herbert Smith Freehills LLP to examine the tender material and subsequent feedback to examine the potential to challenge the decision.
- We have analysed the contents of the decision letter and feedback received in a subsequent meeting with the BBC to understand their decision. We are clear that we submitted a highly competitive bid and we have been told that our price was lower than Paypoint's.
- Following Herbert Smith Freehills' advice, we wrote to the BBC requesting further information and an extension to the "standstill" period. This was granted last week with the BBC offering an extension of a minimum of 3 working days on receipt of their substantive response. This is still awaited.
- We will examine their substantive response very carefully but as it stands we are advised that we have insufficient grounds on which to base a challenge, mostly because the BBC's process allowed for a degree of subjectivity in the quality component of the tender albeit within PCR compliance.
- The BBC's decision is, of course, very disappointing. However, there was positive feedback on how competitive our bid was. We will seek to build on that competitive approach as we implement the payments strategy discussed at last month's Board away days.

• **Branch numbers**

- Branch numbers are currently trending downwards, standing at 11,592 at the end of P3 following 58 unplanned closures this year. In 36 of these cases we have closed the branches as a result of losses identified as part of increased audit checks.
- Further work is underway to improve our analysis of those branches which pose a risk of incurring losses, alongside the other actions noted above to improve network cash management and debt recovery.
- We are also progressing work to open new 'whitespace' branches in areas of growing customer demand, which we expect to gain momentum in Q3 and Q4 to offset the recent drop in numbers.

• **Branch technology transformation**

- The early pilots to rollout new branch kit encountered a number of challenges such as problems with printers, resulting in longer installation times than

anticipated. We have used the 'soft launch' period to resolve these and minimise disruption to agents and customers. We are now able to upgrade the router and multiple counters while still allowing the branch to trade for all but c45 mins (the time it takes to install the router that connects the entire branch).

- At time of writing we have transitioned c180 agency and directly managed branches to the new Verizon IT network. 29 of these have also been upgraded to the new branch kit.
- The kit and Horizon upgrade are performing as expected, with postmasters enthusiastic about the faster operating times and brighter/bigger screens.

Looking Ahead

FUTURE FOCUS

- **Funding discussions**

- Political engagement has been progressing between BEIS and Treasury over the past fortnight, including through a meeting between Margot James and Liz Truss (the Chief Secretary to the Treasury) on 12th July, which we understand went positively.
- As Parliament goes into recess on 20th July we do not expect any announcement to be made until after the summer, although clearly we will continue to engage with officials in the intervening months. We will provide an update on the latest position at the Board.

- **Royal Mail negotiations**

- Our current focus with Royal Mail is on building the relationship with Nick Landon, Group MD for Parcels, who has taken over as our main senior contact following the departure of Mike Newnham (who left as part of a wider restructuring of their senior leadership population).
- Initial engagement with Nick has been positive, although the additional time required to get him up to speed on the conclusions of the joint strategy review mean that we are now envisaging a later start to the Mid Term Review negotiations, most likely towards the back end of Q2.
- The combination of trading challenges and the threat of industrial action have continued to weigh on RMG's share price, which is now down around 20% compared with a year earlier. Based on current market capitalisation they face the prospect of relegation from the FTSE100 at the next index review in August.

- **Other major partner negotiations**

- We will provide an update on the latest position in our negotiation with Fujitsu at the Board, taking into account the outcomes of the scheduled meetings over the next week.
- An update on our negotiations with Bank of Ireland is provided in the separate paper from Nick Kennett.

- **Belfast DR Deferral**

- We are reviewing all disaster recovery plans across the business and testing our Business Continuity plans. We are deferring our Annual Disaster Recovery (DR) Exercise on Fujitsu's Data Centre from August until the spring of 2018. This exercise has not been performed since 2013 due to issues with the fragility of the current legacy estate and the possible service risk implications.

- **Confirmation of HMRC pre-penalty notice**

- HMRC have now issued their pre-penalty notification letter in relation to the branch registration issues. The proposed penalty totals £796,500 and the letter includes the methodology for the calculation. We have 30 days to respond to the letter, and are currently reviewing whether there are grounds to argue the underlying facts or the calculation of the quantum.
- We have had further meetings with HMRC regarding compliance around the Bureau de Change product. We have proposed a remediation plan which has been accepted in principle, although HMRC have asked for further detail around certain aspects of this. HMRC have flagged that they are considering a further penalty in relation to historic compliance issues. The amount of any penalty will depend on the methodology used, but could be in the range of £0.3m to £1m. We are continuing to work with HMRC to support the view of our supervisor that the methodology supports a lower level of penalty.
- A further update will be provided to the September meeting of the ARC.

- **ICO audit of Telecoms**

- We have been invited by the Information Commissioners Office (ICO) to participate in an audit under the Privacy and Electronic Communications (EC Directive) (Amendment) Regulations 2011 (PECR). An internal working project group has been set up to fulfil this request. A fuller update will be provided at September ARC.

RISKS OR CONCERNs?

- **Industrial Relations & staff terms**

- On 10th July we informed CWU that as reaching agreement had not proved possible over 2017-2018 for CWU represented grades, we would be imposing

a 2% uplift to basic pay in August, backdated to April. Pay talks with Unite over 2017-18 pay for middle-managers are ongoing.

- We have recently commenced consultation with CWU on our proposal to introduce a new national Collective Engagement Framework, which will reduce the number of CWU union reps on full-time paid release broadly in line with our existing arrangements with Unite. This would increase the level of ad hoc release for CWU reps in line with industry norms, reducing cost and engendering a more 'inclusive' approach to engagement and joint problem solving at local level.
- Internally we have initiated a project to review our employment policies and collective agreements to ensure they are aligned to our commercial ambitions and imperatives. This will incorporate a full review of the MtSF and redundancy compensation arrangements. We will provide an update on our recommendations in the autumn.

- **Postmaster Litigation**

- Post Office's defence in the litigation was filed on 18th July, and we expect the Claimants will respond to Post Office's Defence in a formal document called a Reply which must be served on Post Office and filed with the Court not later than 20th September 2017. Thereafter, the next key date is the Case Management Conference which will take place on 19 October 2017.
- The window for applicants to apply to join the litigation closes on 26 July, and we expect to receive details of the total number and names of applicants shortly thereafter. Present indications suggest that the total number of claimants in the proceedings will be 400-500. To date the level of information we have received regarding the claims of the c200 applicants who were party to the original Claim has been very light. We have still not been provided with details of the total claim.
- At the Case Management Conference in October, Post Office and the Claimants will have the opportunity to agree further steps leading up to trial, including the selection of those postmasters' cases which the parties wish to put forward as Lead Cases; disclosure of documents; witness evidence and expert evidence. Once selected, the Lead Cases will be examined in greater detail by the Court at mini-trials with the aim of using those cases as 'test cases' to determine points of principle or fact that apply broadly to many cases. To be able to do this, the parties will need to set out their positions in relation to these Lead Cases in further, case-specific, Particulars of Claim, Defences and Replies. We do not expect that the substantive hearings for any lead case would be heard for at least another 12 months.
- We will provide a more detailed update to the Board following the Case Management Conference. This update will include an assessment of the range of possible outcomes, based on the issues to be considered through the

Lead Cases, as well as the potential impact on Post Office and its business and operations from these possible outcomes.

• **POCA procurement**

- The POca procurement is reaching its final stages. We are close to reaching provisional commercial agreement with DXC and JP Morgan.
- We are aiming to complete detailed commercial and legal negotiations in July and August, in particular reaching agreement with JP Morgan on how SYSC8 regulations are covered in the new contract.
- The existing POca contract was extended by one month to the end of August to provide time to complete the procurement.
- If negotiations are successful, we will bring a recommendation to the Board for approval. If they are not successful we retain the backup option to return to the old contract and extend indefinitely.

In Conclusion

CONFIDENCE?	IMPLICATIONS?
We face a challenging transformation agenda over the next 9 months, with complex interdependencies related to IT, network and external partners. The backdrop of continued funding uncertainty adds to the challenges, although we are increasingly confident we will get to the right result by the autumn.	We will use the Board meetings in the autumn to review where we are in our transformation plans and how we are prioritising resources. We will also be providing a full update on the strategy topics discussed at last month's awayday.



June 2017 Financial Performance

AI Cameron
25 July 2017



We are slightly behind YTD EBITDAS on an underlying basis

Context

- YTD P2 EBITDAS performance was £0.5m favourable to budget.
- At end of FY16/17, cash in Network was £666m and balance sheet headroom was £189m.
- P3 budget EBITDAS was £(0.7)m

Questions

- How is our scorecard performance in P3?
- What is the financial performance of the business in P3?
- Are we appropriately funded?

Assumptions

- For the purposes of this pack we have assumed a reversal of our impairment policy and depreciation charges have been applied. Should we not reverse the impairment net liabilities would be £(84)m.

Conclusions

- Reporting favourable EBITDAS in P3 (£0.7m) and YTD (£1.2m). However favourable timing differences of P3 £1.9m and YTD £3.0m mean that we are behind budget by £1.2m in P3, £1.8m YTD.
- Trading performance is ahead of budget by £0.8m P3 and £2.4m YTD, with Retail stronger than FS&T. We are investigating agents' pay variances which are not intuitive.
- Most significant underlying adverse cost YTD is Agent Losses (£2.2m)
- Balance sheet headroom fell to £116m due to increases in unprocessed inward remittances at cash centres Half of the increase has now been reversed with the remainder expected in July.
- Branch numbers have fallen with pressure from audits/losses.

Input Sought

The Board is asked to note the financial performance.



Branch numbers fall in P3 resulting from increased audits

Key Performance Indicators	P3			YTD			Full Year Target
	Act	Target	Var.	Act	Target	Var.	
Growth							
Total Gross Income (excl NSP) £m	73.1	72.2	0.9	231.0	229.2	1.8	945.0
EBITDAS £m	(0.0)	(0.7)	0.7	1.5	0.2	1.2	28.0
Headroom £m (vs Board minimum limit)	316	> 200	116	316	> 200	116	> 200
Digital Net Income £m (digital team)				IRRELEVANT			
Net profit £m ¹	TBC		TBC				
Customer							
Customer Effort	77%	76%	1%	75%	76%	(1)%	76%
Net Promoter score Financial Services	25	25	0.0	24	25	(1)	25
Acceptable Wait Time %	93%	95%	(2)%	93%	95%	(2)%	95%
Branch Compliance - Financial Services - basket of 11 measures #	70	<=50	(20.0)	23	<=50	27	<=50
People							
Line Manager Engagement Index % (Once a year May) ²	TBC		TBC		TBC		
Representation (Senior Managers) - Gender	39%	37%	1.6%	39%	37%	1.6%	37%
Attendance	96.8%	96.7%	0.1%	96.8%	96.7%	0.1%	96.7%
IT Lost Time (Number of Sev1/Sev2 IT incidents)	6	13	7	16	39	23	<156
Safety LTIFR	0.493	0.180	(0.313)	0.36	0.180	(0.177)	0.180
Modernisation							
Number of branches (one month in arrears)	Same as YTD		11,592	11,635	(43)	>=11,700	
NT and ND Branches Transformed in Year	31	30	1	137	100	37	400
IT Transformation (% of IT controls implemented)	50%	55%	(5)%	50%	55%	(5)%	All high risk gaps closed

1. Accounting estimate for impairment currently under review as part of FY 2016-17 year end process.

2. Measured annually in May.



Branch compliance, Safety, Number of branches and IT transformation are adverse in P3

- **Branch compliance** result driven by:
 - Mystery shopping performance - Customer Relationship Manager (CRM) performance is now included in the measure. The reason for the change is the increasing number of CRMs under Project Finch. CRM population is expanding and initial mystery shopping performance is lower. We continue to work with the CRMs to improve performance.
 - Savings cancellations within the cooling off period have also increased, on the watch list.
- **Safety LTIFR adverse** due to:
 - DMB – 3 accidents relating to slips and trips with hazards. Hazards now removed and guidance provided, 2 of these incidents led to lost time.
 - Network Operations – 1 accident leading to lost time, due to a fall during a branch visit.
 - Supply Chain – 5 incidents, investigation has been carried out and no underlying trends of any concern. These accidents did not lead to lost time.
 - Above incidents are not considered to be trends but we are reinforcing 'take care' advice.
- **Number of Branches** higher closure volumes due to increased audit activity. Of the 58 unplanned closures year to date, 36 are due to losses identified at audit.
- **IT Transformation** all high risk gaps identified and remediation plans are underway.



Actual EBITDAS is favourable to budget. Potential timing variances suggest an underlying adverse trading position

£m	Period Actual	P3			YTD Actual	YTD		
		Variance to Budget	Timing	Underlying		Variance to budget	Timing	Underlying
Gross Income	73.1	0.9	(0.2)	0.7	231.0	1.8		1.8
Directly attributable cost of sales	(8.9)	1.1	0.0	1.1	(28.4)	3.5		3.5
Net income	64.2	2.0	(0.2)	1.8	202.6	5.4	0.0	5.4
Agents Pay	(29.0)	(1.2)	0.0	(1.2)	(91.5)	(3.0)	0.0	(3.0)
Net income less agents pay	35.2	0.8	(0.2)	0.6	111.1	2.4	0.0	2.4
Staff costs	(15.7)	(0.7)		(0.7)	(46.6)	(2.0)		(2.0)
Non-staff costs	(21.8)	1.2	(1.7)	(0.5)	(71.3)	1.1	(3.0)	(1.9)
Operating expenditure	(37.5)	0.5	(1.7)	(1.2)	(117.9)	(0.9)	(3.0)	(3.9)
FRES	2.2	(0.6)		(0.6)	8.3	(0.3)		(0.3)
EBITDAS	(0.0)	0.7	(1.9)	(1.2)	1.5	1.2	(3.0)	(1.8)

- **Gross income** – see slides 7-9 for commentary. P3 timing variance relates to Banking Framework phasing.
- **Agents pay** – adverse in P3 and YTD due to favourable income variances in Mails and Lottery, in depth challenge and analysis of agents pay is underway.
- **Staff costs** – adverse YTD trend driven by:
 - Delivery of OSOP, although we expect to track broadly in line for the full year and unbudgeted cost accruals.

Underlying non-staff costs are adverse to budget driven by agents debt



- **Non – staff costs YTD** timing variances:
 - **YTD Marketing** underspend principally driven by:
 - £1.0m phasing of retail campaigns expected to reverse in Q3.
 - £0.6m phasing of budget for Summer Travel campaign which will reverse in P4.
 - **Legal** underspend due to timing of agents litigation costs.
 - **HR** underspend driven by timing of training and vetting costs.
- **Non-staff costs YTD** are adverse on an underlying trading basis driven by £(2.2)m agents debt slide 11, and partially offset by a number of smaller variances.
- **FRES** is £(0.6)m adverse in P3 (YTD: £0.3m) resulting from performance of wholesale cash business. P3 reflects true up of May and June performance.



In P3 Retail continues to perform better than budget partially offset by adverse Financial Services and Telecoms variances

	P3		YTD		
	Period Actual	Variance to Budget	YTD Actual	Variance to Budget	Full Year Budget
Gross Income (£m)					Prior year
Mails					
Retail & Lottery					
Government Services					
Payment Services					
Total Retail					
Financial Services					
Telecoms					
Total Financial Services & Telecoms					
Other					
TOTAL GROSS INCOME					
Directly attributable cost of sales					
Net Income					

IRRELEVANT

- **Mails** £0.8m favourable driven by RM Signed For, International delivery and Parcelforce.
- **Government Services** £1.0m favourable:
 - £0.7m Passports due to higher volumes which have not been impacted by HMPO digital initiative as much as anticipated.
 - £0.5m POCA from unbudgeted interest income and slightly higher than budgeted active accounts.
 - £(0.3)m UKVI and ID. While Verify is ahead of target YTD, over the past two months the volumes from government have fallen behind the projected uplift. Ongoing dialogue with GDS and other departments underway alongside wider review of identity services strategy over the summer.



P3 Telecoms gross income adverse but timing of New Call balances through net income

P3	Homephone & Dual	New Call	Other	Total	Period Actual	Budget	Prior year
£m variance to budget:							
Gross income							
Directly attributable costs							
Net income							
IRRELEVANT							
Customer Numbers							
Homephone/Dual/Fibre							
New Call							
ARPU*							
IRRELEVANT							

- **Gross income** adverse driven by delay in New Call acquisition, offset by higher than budgeted HP & Dual customer base.
- **Directly attributable costs** £0.8m favourable variance:
 - £(0.5)m HP & Dual driven by higher customer base
 - £1.1m delay to New Call acquisition
 - £0.2m fewer fibre customers giving lower connection charges

- **Customer numbers** base opened the year favourable to budget, churn in line with expectations.
- **ARPU** marginally below budget, lower call volumes and product mix with fewer customers taking Fibre than forecast.



Financial Services income is £(0.2)m adverse in the period

- **Financial Services** £(0.2)m adverse within which:
 - **IRRELEVANT** adverse. Overall volumes in P3 were **IRRELEVANT** of the previous year, versus a budget of **IRRELEVANT** year-on-year gain, accounting for **IRRELEVANT** of the **IRRELEVANT** variance to budget in P3. **IRRELEVANT**
IRRELEVANT
 - **Mortgages & Transactions** £(0.2)m adverse continuing the recent trend. Mortgage income is 65% up on the P1 comparative as completions flow though
 - **Insurance** £(0.2)m adverse due to lower income from home renewals (£0.2m) partially offset by lower COS to generate an adverse net income of (£0.1m).
 - **Banking** £0.4m favourable, driven by the re-phasing of Banking Framework fee (which has no overall effect YTD) and volumes.



In P3 Gross Profit margin is slightly adverse to budget, however on target YTD

£m	P3					Total P3	YTD					Total YTD	Full year budget
	Retail period actual	Retail variance to budget	FS&T period actual	FS&T variance to budget	Other period actual		Retail actual YTD	Retail variance to budget YTD	FS&T actual YTD	FS&T variance to budget YTD	Other YTD actual		
Gross income													
Directly attributable costs													
Supply Chain													
DMB costs													
Agents pay													
GROSS PROFIT													
ACTUAL GROSS MARGIN													
BUDGET GROSS MARGIN													
IRRELEVANT													

- **Gross profit margin** is on budget YTD at 36%, in P3 Retail gross margin is slightly adverse driven by agents pay.
- **Supply Chain** costs adverse to budget due to delay in implementation of high speed note counters and bedding down of IRIS.
- **Other income** relates to Supply Chain and Gamma.



Agents debt driving underlying adverse non-staff costs

	£k	P3			YTD			Full Year Budget	Prior Year
		Actual	Budget	Variance	Actual	Budget	Variance		
Agents debt		(1.7)	(0.2)	(1.5)	(2.2)	(0.3)	(1.9)	(1.4)	(2.4)
Robbery, Burglary & Fraud		(0.1)	(0.1)	(0.0)	(0.6)	(0.3)	(0.3)	(1.1)	(2.9)
Total		(1.8)	(0.3)	(1.5)	(2.8)	(0.6)	(2.2)	(2.5)	(5.4)

- The budget assumed c.£2m of provision releases.
- Agents debt higher than forecast and creates risk of c.£3m over and above that.
- Significant agents losses in P3 include Crwys £443k, Newington £228k and Desborough £111k. Subsequent recovery of c£300k of the Newington and Desborough losses.
- These cases are being analysed and tracked, with results being taken to the next Losses Fraud & Crime Forum.
- Further actions which are taking place to mitigate this risk are:
 - Deep dive to be conducted and results presented to CRG.
 - Cash management project to reduce cash in the network, increase auditing and improve fraud risk analysis of agent population.
 - Re-design of debt collection process and timelines.



Capital & Investment expenditure is favourable to budget.

£m	P3		Full Year		
	Period Actual	Variance to Budget	YTD Actual	Variance to Budget	Budget
EBITDAS	(0.0)	0.7	1.5	1.2	28.0
Depreciation*	(2.6)	0.0	(8.3)	0.0	(36.0)
Network Payment	5.4	0.0	17.5	(0.0)	70.0
EBIT pre exceptionals items	2.8	0.7	10.7	1.2	62.0
Interest	0.3	0.9	(0.6)	1.2	(7.0)
Impairment	0.0	0.0	0.0	0.0	0.0
Capital & Investment	(4.2)	4.9	(13.6)	9.0	(103.0)
Government Grant Utilisation	5.8	0.0	17.5	0.0	70.0
Profit/(Loss) On Asset Sale	0.0	0.0	5.0	5.0	0.0
Total Profit/(Loss) Before Tax	4.8	6.4	18.9	16.4	22.0

- Assumes that Post Office no longer impairs assets on acquisition, and that assets are depreciated over their useful life.
- In the period spend on capital assets was £9.0m, £21.7m YTD.
- Capital & Investment (previously exceptional) expenditure is favourable to budget:
 - £3.6m of which relates to the Network and delays in ATM deployment and branch fit out phasing.
 - £0.4m People & Engagement Transformation due to delays in Success Factors roll out.
 - £0.9m OSOP due to phasing of payments made from the redundancy provision.
- YTD profit on asset sale driven by disposal of Great Portland Street property in P1.

* Estimated depreciation charge.



P3 balance sheet shows a net asset position assuming reversal of impairment accounting policy

Balance Sheet

£m	June 2017	Mar 2017	Variance
Fixed Assets	397	374	23
Debtors	317	335	(18)
Cash	804	680	124
Creditors	(640)	(583)	(57)
Pension surplus	1	1	0
Provisions	(67)	(88)	21
Other	8	8	(0)
Loan	(634)	(561)	(73)
Net Assets/(Liabilities)	185	166	19
Capital and Reserves	185	166	19

- As at P3 the balance sheet would be in a net liability position of £(84)m if the impairment accounting policy were reinstated.
- The increase in the cash balance since the year end is largely offset by the increase in creditor and loan balances.
- Increase in creditors driven by the government grant which is received in April, recognised on the balance sheet as a creditor and released to the income statement over the year.
- Reduction in provisions balance due to OSOP and agents compensation payments.



RCF borrowings have increased by £73m since March primarily to fund a higher network cash balance

(1) Where was our cash?

	£m	Branches	CViT	Cash Centres	Total
March		648	8	291	947
June		633	9	382	1,024
Variance		(15)	1	91	77

(2) How was it funded?

	£m	RCF	Clients	"Network Cash"	NRF	Total
March		561	130	691	256	947
June		634	150	784	240	1,024
Variance		73	20	93	(16)	77

(3) What was our facility headroom on the RCF?

	£m	Cap	Board Buffer	Net Limit	RCF	Facility Headroom
March		950	(200)	750	(561)	189
June		950	(200)	750	(634)	116

(4) What was our security headroom on the RCF?

	£m	Network cash	Other net assets	Total Security	RCF	Security Headroom
March		691	227	918	(561)	357
June		784	213	997	(634)	363

(5) What was our actual headroom?

Given we do not apply £200m buffer to Security headroom our actual headroom is £116m.
(lower of £116m facility and £363m security headroom)

- Increase in cash centres since the year end is largely due to higher cash in transit awaiting processing at the cash centres (Inward Rems). Inward Rems were £84m in March 2017, rising to £144m in June 2017.
- Initiatives are in place to reduce the level of Inward Rems, which have reduced to £110m since the period end.

FS&T – portfolio overview

Author: Nick Kennett

Meeting date: July 2017

Executive Summary

Context

At the Board strategy away day in June directors challenged whether Financial Services & Telecoms (FS&T) and POMS should focus on a fewer number of products and whether small product market shares are sustainable. This paper provides an overview of the strategic positioning of FS&T as a portfolio and should be read in conjunction with the product market overviews tabled in the Board Reading Room.

Questions addressed in this report

1. What is the shape of the FS&T portfolio and what are the areas of greatest value and opportunity and threat?
2. Is a portfolio approach still appropriate or should FS&T focus on fewer businesses?
3. Is market share a fundamental requirement in a digitising market?
4. IRRELEVANT
5. Can Post Office realistically grow its mortgage business?

Conclusion

1. FS&T is managed as a portfolio business and has grown overall income and profit, despite declines in certain longstanding products. While the greatest current DPC value is in BoI banking, without changes to the relationship this will decline; the significant growth opportunities are in POMS and banking framework and to a lesser extent Telecoms; areas that might have less focus are BoI banking, if Peregrine is unsuccessful, and motor insurance if this remains sub-scale. Exiting a product line will eliminate its contribution with limited cost savings opportunity.
2. In a digital world customer, rather than product, market share is key. Smaller niche players can derive greater returns than larger scale players.
3. Savings and mortgages are inextricably linked, both in the effective management of a bank's balance sheet and through the contractual exclusivity with BoI – it is not possible to demand additional capacity without mortgage growth, or realistic to seek an alternative provider.
4. The focus of mortgage growth will be through intermediaries, who account for c75% of the UK market. Through Peregrine, BoI has undertaken that Post Office will be its primary brand in this channel and therefore the mortgage growth numbers should be achievable.

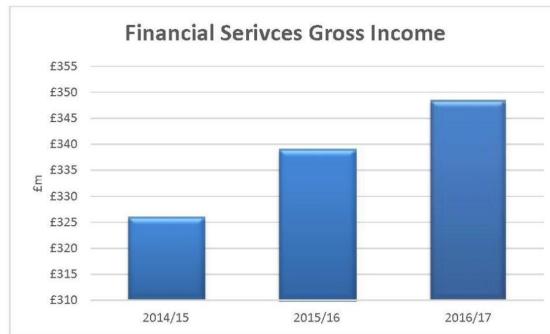
Input sought

The Board is asked to note the findings and reconfirm its support of the strategy.

The Report

FS&T portfolio overview

1. In 2016/17 FS&T generated gross income of [RELEVANT] million and a Direct Product Contribution (DPC) of [RELEVANT] million; a DPC margin of [RELEVANT]
2. FS&T comprises a wide range of retail customer businesses with varying product structures, market positioning and forecast growth rates, sales, commission and channel models, business focus and supplier relationships. Much of this variety results from historic contracts that in differing ways have locked Post Office into long term, distributor-focused arrangements; in these Post Office generally plays a limited added-value role in product or customer management and is paid on a commission-for-volume basis (with limited involvement in customer pricing).
3. Management strategies have focused on taking greater ownership and value from the customer value chain and relationship (e.g. insurance/POMS and Customer Hub) to derive value commensurate with the brand and customer relationship.
4. The business has been run as a portfolio, targeting overall income and contribution, with "ups and downs" being managed in aggregate to deliver overall growth.
 - a. From 2014/15-2016/7 FS¹ income rose by [RELEVANT] million from [RELEVANT] million to [RELEVANT] million²;



- b. This growth is despite the loss of income of [RELEVANT] million over the period from the termination by NS&I to distribute Premium Bonds [RELEVANT] million) and structural decline in bill payments [RELEVANT] million);
- c. Excluding the impact of NS&I and payments, underlying income grew by [RELEVANT] over the period, or [RELEVANT]
5. The FS&T portfolio is targeted to grow revenue from [RELEVANT] million in 2016/17 to [RELEVANT] million in 2020/21, with DPC rising from [RELEVANT] million to [RELEVANT] million, a CAGR of [RELEVANT]
 - a. POMS' income rises from [RELEVANT] to [RELEVANT];
 - b. Banking Framework's gross income grows from [RELEVANT] to [RELEVANT] (7.8%);

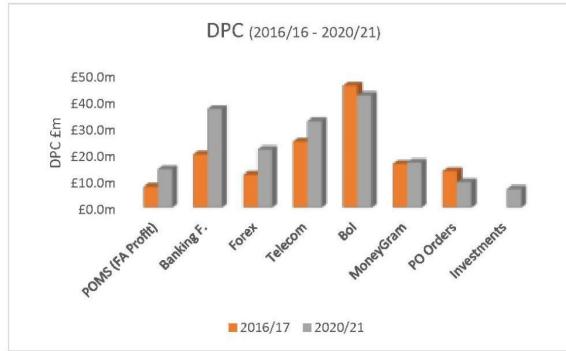
¹ Including Payments now part of Retail; excluding Telecoms.

² Reconciliation to FS&T 2016/17 outcome: £348.6m plus Telecoms (£130m) less Payments net of Postal Orders (£69.2m) = £409m

c. BoI products only increase from IRRELEVANT as savings decline from IRRELEVANT

d. Telecoms gross income rises from IRRELEVANT

6. The following chart highlights the drivers of growth. The appendix provides the detailed financial data.



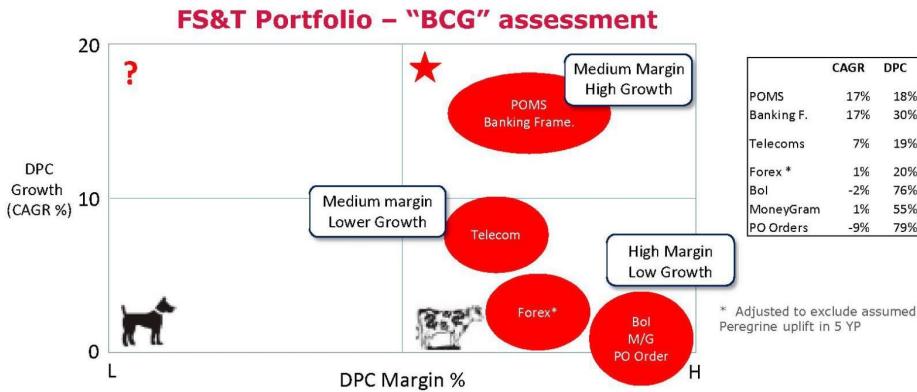
Source: 5 year Plan

Note: POMS is fully allocated profit, others are DPC pre-POL indirect costs and overheads; Forex includes share of FRES profit and assumed Peregrine value addition (as per 5YP)

7. All FS&T businesses contribute strongly, led by the BoI relationship; without the changes Peregrine is seeking to deliver this is forecast to decline to 2020/21. This decline is balanced by growth, particularly in banking framework and POMS.

FS&T – Growth and Value

8. As a portfolio, the different products generate varying rates of growth and contribution; below is a BCG-style assessment matching DPC growth (from the 5 year plan) against 2016/17 margins.



9. As illustrated, the business is characterised by three groups:

- High DPC growth potential (c17% CAGR 2017-21) and medium DPC margin, comprising POMS (fully allocated profit growth) and banking framework. These could be considered “star” businesses.
- Telecoms is a medium margin IRRELEVANT but lower growth business IRRELEVANT
- Zero or negative growth, but IRRELEVANT comprising IRRELEVANT These could be considered IRRELEVANT NB IRRELEVANT assumes that there is no transitional agreement on savings commissions after March 2018 (consistent with 5 year plan). IRRELEVANT

pa. FRES/Travel Money is also a [REDACTED] **IRRELEVANT** [REDACTED] and the [REDACTED] **IRRELEVANT** [REDACTED]

IRRELEVANT

10. From this analysis the standard actions would be:
 - a. Stars – invest and grow;
 - b. Telecoms – [REDACTED] **IRRELEVANT**
 - c. Cash-cows – “milk the products without killing the cow!” Subject to the outcome of Peregrine, we will invest in [REDACTED] **IRRELEVANT** [REDACTED] supported by the Customer Hub to support growth;
 - d. However with each product line generating a [REDACTED] **IRRELEVANT** exiting a product line will [REDACTED] with [REDACTED] **IRRELEVANT** [REDACTED] as Post Office is not the manufacturer and generally has low variable product costs.

11. These strategic intents are consistent with the various papers presented to the Board and/or strategies underway by management:
 - a. *POMS* – invest in growth (but challenged by in-year J-curve impact); looking at acquisitions to leverage business model and gain scale/capabilities.
 - b. *Banking Framework* – assessing opportunities to add services under the Framework and evolve to be the provider of transaction services for all banks and their face-to-face access to customers.

- c. [REDACTED] **IRRELEVANT** [REDACTED]
- d. *Telecoms* – the discussion at the June away-day confirmed the strategy to drive yield over the next two years and then decide whether to retain/divest; exit would not create a residual cost problem as operations are largely outsourced.

- e. [REDACTED]
- f. [REDACTED] **IRRELEVANT** [REDACTED]
- g. [REDACTED]
- i. [REDACTED] **IRRELEVANT** [REDACTED]

³ Later in 2017 we will present to the Board a strategic overview of the money-transfer business

ii.

IRRELEVANT

iii.

h. The investment in the Customer Hub discussed at the strategy away day supports the high growth areas of insurance, mortgages and potentially telecoms; it will also enable us to defend our market share in forex (particularly if linked to identity) and to enter into new growth areas such as investments and (possibly) energy.

12. The Peregrine strategy recognises the issues highlighted above, confirming that the current model is not generating sufficient growth and focuses on:

- Aligning interests in savings and mortgages – recognising that **IRRELEVANT** **IRRELEVANT**, our Peregrine proposal anticipated Post Office sharing value with **IRRELEVANT** on the growth and yield from the combined savings-mortgage businesses (rather than sales commissions), supported by an offer from **IRRELEVANT** **IRRELEVANT** **IRRELEVANT** would be Post Office branded. This approach would reduce the reliance on sales savings and flows and ensure that Post Office gains from stock value.
- Seeking to free credit cards and personal loans from the exclusivity provisions or at the least ensuring that BoI has market-leading capability to deliver a competitive product.
- Increasing the value generated from the forex business.
- Building and leveraging the Customer Hub to win and retain customers into Post Office, understand better their needs and behaviours and offer them targeted products from across the portfolio (see below and away-day papers).

FS Portfolio Overview Conclusion

13. FS&T is a portfolio business with each product delivering material contribution.

- The major growth opportunities are in **IRRELEVANT** and banking framework;
- Telecoms has yield opportunities over the next two years, followed by options;
- IRRELEVANT** banking generates strong value, but long terms attractiveness is dependent on the outcome of Peregrine;
- Forex is a low margin, low growth business but with strong market share – it is a core focus of Peregrine.

Is market share a fundamental requirement?

14. At the June strategy discussion the Board challenged as to whether effective competition and value-creation is dependent on having a certain market share, and will larger market share generate increased returns.

15. Post Office is the leading distributor of another bank's products; Tesco, Sainsbury's and Marks & Spencer have all established fully regulated banks (the latter in partnership with HSBC).
16. With the exception of forex and some insurance products, Post Office has a low/very low market share, reflecting the widely competitive market and the relatively low levels of brand and product marketing by Post Office – we are generally “not known” as a provider of these products, although our history in savings (including the association with NS&I) does belie a small market share.
17. In the FS&T portfolio with the exception of forex, we are not focused on market share as a core business driver or objective:
 - a. As a distributor Post Office does not generally gain/lose from the scale of the business written. In banking we have suffered from the lack of scale of BoI, in particular for the cost of platform builds and of balance sheet flexibility (e.g. risk appetite (RAS) limits on credit cards); however, with the exception of being out of market for a few weeks in 2015 when RAS limits were reached, the lack of scale has not unduly impacted business performance or competitive positioning. This will change the closer we approach the expiry of the FSJVA, hence the need to develop a future relationship beyond 2023;
 - b. In insurance the scale generally comes from the underwriter, although as discussed at the strategy away-day, if POMS is to build a motor book consistent with its longer term business model it is currently sub-scale.

PO Money Sales Market Share	
Forex	
Savings (stock)	
Credit Cards	
Mortgage (completions)	
Personal Loans	
Travel insurance	IRRELEVANT
Home insurance	
Motor insurance	
Over 50s Whole of Life	
Term Life assurance	

Sources: YouGov; Mintel; ebenchmarkers; BOE

18. The FS product markets are generally characterised by a few major players with 10%+ market share, followed by multiple smaller player targeting niches either based on specialism or brand. At these market share levels, Post Office is often amongst other recognised players.
19. With generally small market share, management has focused on leveraging the trust of the brand to offer a range of products/service to satisfy their wider financial needs. This is supported by small product teams driving value from the supplier relationship and will be augmented by the Customer Hub.
20. Below are overviews of the market dynamics and Post Office's positioning in selected key product markets. Fuller details of the core businesses are provided in the Reading Room:
 - a. **Forex** – at **IRRELEVANT** Post Office is the market leader:
At the highest level, competition is between debit/credit cards (which dominate overseas expenditure) and Travel Money (cash and pre-paid travel money cards), with customers usually holding a mix. Demand for

travel money is driven by general economic conditions, such as the value of Sterling and consumer confidence, but also by externalities such as terrorism and natural events (e.g. Icelandic ash cloud); as a result demand is volatile as seen before and after the Brexit referendum. Post Office's market position is driven by awareness (recognised as #1 player for travel money), supported by convenience (10,000 on-demand locations) and breadth of currencies available. Key competitors are the supermarkets and retailers who also leverage convenience, although their propositions are often tied to a loyalty programme, with travel money seen as a benefit; travel agents, who use it as an add-on to the sale of the holiday; and digital players, such as Transferwise and Revolut, with the former initially focused on bank-to-bank cross-border transfers. Post Office seeks to maintain its market leading position through convenience, strong marketing and an increasing focus on travel money card, which turns an otherwise single transaction into a long term relationship. The FRES board is focused on maintaining in-branch and on-line market share as a key focus to confirm that Post Office is maintaining its competitive position.

b. **Travel insurance** – POMS is #3 in market with [RELEVANT] share, ahead of Aviva, Tesco, AA and Saga.

Overall, the volume of Travel insurance policies has fallen over recent years from the increase of Added Value credit cards and bank accounts. Market profitability is "event" driven with underwriters posting profits most years. Profitability affects distributors' income as commercial arrangements (including POMS') tend to be on a 'net rate' basis where distributors pay a wholesale rate to the manufacturer covering the risk/manufacturing costs and apply their own margins to set the retail price. In general, the lower the net rate the higher the margin the distributor can take while maintaining competitive retail prices. There is good market awareness of Post Office TI on the back of travel money, but the growth in digital will drive new proposition development, marketing and channel management. [RELEVANT] of the market is digital, of which [RELEVANT] is through price comparison websites. The strength of our travel money business drives significant cross-sales opportunity through the network and digital channels. POMS will drive value by building direct capability and expanding presence on PCWs; enhancing pricing capability to optimize value/ volume; and developing specialist products for medically impaired customers.

c. **Home insurance** – POMS has a market share of [RELEVANT] while behind [RELEVANT] and [RELEVANT] it is closely positioned with [RELEVANT] [RELEVANT]

The market is a mix of price-driven PCWs, captive distribution (bancassurers such as HBOS and Lloyds), brand insurers such as Aviva and Legal and General and brand distributors such as AA, Saga, TESCO and Post Office. Profits derive from lifetime value, which is a function of retention rates and commission (driven by cost of net premiums), premium financing (instalment interest income) and from sales of add-on products (e.g. legal cover, home assist). POMS current retention rate is [RELEVANT] and is above market. PCWs drive negative distribution returns in year one; POMS' average lifetime value per policy is [RELEVANT] Well behind market leading [RELEVANT] POMS is seeking to improve returns by [RELEVANT] by moving from an outsourced broker/panel to a self-managed intermediary model with a *solus-plus* underwriter. We will take more control of the value chain, retaining a greater share of profit, supported by increased marketing investment.

d. **Car insurance** - POMS has a market share [REDACTED] [RELEVANT]

The market is price-driven with new business dominated by PCWs and direct insurers accounting for 7 of the top 10 providers. With negative returns in year one due to aggregator commissions, returns are derived from lifetime value - a function of premiums, retention and sale of add-on products (e.g. legal cover, breakdown cover, key cover). POMS' retention rate is [REDACTED] (target [REDACTED] [RELEVANT] Low profitability and high competition suggests that POMS should not build capability unless it is able to gain scale e.g., through acquisitions. In the meantime POMS is seeking to optimise returns from the existing broker/ panel model ahead of the expiry of that contract in 2019.

e. **Savings**, despite historic presence, Post Office is a small player with a stock market share of [REDACTED] [RELEVANT]

Large retail banks dominate the market, mainly derived from the strength of their current account base. New savings flows are however reducing as a result of ultra-low interest rates, reduced savings rates as real wages fall and possibly from customers switching to interest-bearing current accounts. In early 2012, new flows were consistently reaching [REDACTED] [RELEVANT] versus [REDACTED] more recently. While Post Office has an established association with savings (in part due to the former relationship with NS&I) volumes have tended to be based on best-market pricing rather than effective branch selling; the portfolio has become more heavily weighted to fixed rate products, with management seeking to move proposition development from a price-led to a value-led model. The recent focus has been to restructure the size and shape of the balance sheet reducing it from [REDACTED] billion to [REDACTED] billion and the Net Interest Margin to [REDACTED] [RELEVANT] this has been supported by the Value Share agreements with BoI. The strategic and market positioning has enabled Post Office to focus on "guerrilla" style market (coming in/out quickly) without attracting competitor reactions.

f. **Mortgages** - Post Office is a minor player in the market, with stock and flow share [REDACTED] [RELEVANT]

The market is dominated by intermediaries, with brokers/IFAs accounting for [REDACTED] of applications. This drives a model based on price, application service and in the mass-market, scale. A number of challenger banks including One Savings, Aldermore, Metro and Paragon outperform the market in terms of RoE on their balance sheet, while operating at <1% market share by pursuing niche segment strategies built on investment in customer proposition, innovation and high service. Post Office has tended to perform well in digital sales but has only had limited access to intermediaries through brokers affiliated to Legal & General. The future strategy is based on extending intermediary coverage to the majority of brokers and deploy innovative products into targeted segments (rather than mass-market positioning) – hence the Family-Link and Freedom mortgages discussed at the away-day.

Is targeting product market share the right approach?

21. There is a consumer-led revolution in banking, driven by three core factors:
 - a. The breakdown in trust of banks as a consequence of the banking crisis,
 - b. Advances in technology, with the ability of consumer to access vast information and communicate directly with businesses and other consumers (social media); and

- c. The experience that retailers/service providers such as Amazon, Apple and Google are giving their customers. This creates an expectation/demand from consumers on financial services and products.
- 22. The winners in this environment will be players that can:
 - a. Build on the trust they have from customers (or create it from scratch);
 - b. Adopt, adapt and apply the technology to communicate directly with customers and refresh the offering as technology evolves; and
 - c. Continually challenge to create a consistent, compelling, identifiable and dynamic customer experience focused, explicitly, on helping and improving our customers' lives.
- 23. To win one does not need to hold customers' money nor own the products – you can, but you then need to be a bank ("power" has switched to the customer and a "trusted partner" and away from the manufacturer). Product providers need access to a provider who has access to customers. The advent of PSD2/Open Banking makes this all the more important and, critically for Post Office, possible, as seen by the significant investment flowing into fintech and digital banks.
- 24. The key target, therefore, is to win market share in customer relationships not in individual product lines (unless you are a bank and are able to hold customers' money). The former will grow the latter if you give a great customer experience underpinned by good products. The Customer Hub is Post Office's key tool to delivery.

IRRELEVANT

- 25. **IRRELEVANT**
- 26. On a bank's balance sheet, savings and lending are intrinsically linked; liabilities (savings), which are a cost, are raised to support lending which is where the bank earns income. Savings without lending is unsustainable (and not permitted by the regulator). The lack of interest of a liability heavy book has been seen in the difficulty in finding an alternative provider able to accommodate the **IRRELEVANT** POCA portfolio.
- 27. In the financial crisis, liquidity was scarce, with banks (including BoI), seeking retail funds, and during Eagle Post Office was able to negotiate very favourable terms for liabilities raising. Favourable pricing, combined with our strong brand assisted the portfolio grow from **IRRELEVANT** to over **IRRELEVANT** in 2015. Most sales were customer driven, based on price, latterly on-line, rather than proactive branch selling.
- 28. This portfolio supports a Post Office derived lending book of **IRRELEVANT**. The remainder is used to support BoI's other lending, in particular closed commercial and residential books. We receive a weighted average of **IRRELEVANT** for all deposits.
- 29. The easing of the banking crisis from 2015, government intervention with various Funding for Lending schemes and the collapse of interest rates has reduced banks' need for liabilities, even with the recent counter-cyclical increased capitalisations demanded by the PRA. This has resulted in BoI reducing the cost, shape and size of its balance sheet; today BoI UK has Post

⁴ The suitability of BoI is covered in a separate paper to the Board.

Office liabilities of only **IRRELEVANT** and is **IRRELEVANT**
IRRELEVANT in 2016 compared **IRRELEVANT** in 2015. **IRRELEVANT**
IRRELEVANT

30. In conclusion, without a growth in assets, the bank will not be able to fund additional liabilities beyond the new lending, net of runoff, of existing loans – hence the criticality of building mortgage lending and the focus in Peregrine in a combined balance sheet.

Can Post Office realistically grow its mortgage business?

31. Post Office has three channels to market – in-house through mortgage specialists; on-line through www.postoffice.co.uk and via third party intermediaries.
32. While considerable focus has been made on the role of MSs, the significant growth will be intermediary based – this channel accounts for >75% of the UK market, and at present Post Office has limited exposure. BoI has confirmed its intent that Post Office will be the majority brand for this channel⁵. Fully entering the intermediary market represents a significant growth opportunity; it will require a competitive product pricing strategy from BoI, reinforcing the need for Post Office to raise liabilities efficiently to support asset growth.
33. BoI has historically demonstrated its ability to provide competitively priced mortgages (critical in the intermediary market). This is supported by Post Office's ability to raise cost effective liabilities – Macquarie analysis in 2016 identified a 20bps advantage relative to a peer average, reinforcing that savings and mortgages markets are intrinsically connected. Furthermore, BoI will see efficiency benefits from significant recent investment in their mortgage infrastructure.
34. If the intermediary strategy is realised, and combined with the targeted propositions discussed at the away-day, Post Office is well positioned to build a sustainable mortgage business – although this is clearly linked to a successful outcome in Peregrine. A growth in mortgages will then support a growth in savings.
35. As we finalise the joint mortgage strategy with BoI, we will undertake a further review to determine the role, volume and nature of the MS salesforce; as part of this, we will explore the opportunities for a more integrated distribution model with BoI, potentially leveraging their existing telephony advisory model in Bristol for remote advice to Post Office's customers.

Conclusion

36. From the assessments undertaken, including those set out in this paper, management strongly believe that:
 - There are significant opportunities within the consumer FS portfolio, however these are dependent on the success of Peregrine;
 - While the standout opportunities for FS&T are currently in POMS and Banking Framework, a portfolio approach remains the appropriate approach to ensure the overall growth of the business;
 - The future of retail banking is changing and Post Office is well-placed to succeed through the Customer Hub initiative;
 - The growth of savings is inextricably tied to growth in lending;

⁵ The exceptions being specialist lending (e.g., self-build and construction related).

- We are well positioned to grow mortgages through the broker channel;
- Whilst we are not targeting to be a top player in most markets, the growth we achieve will deliver greater income and profit.

Nicholas Kennett

Chief Executive, Financial Services & Telecoms
CEO, POMS Ltd.,

July 2017

Appendix

IRRELEVANT

Product line	Gross income				Direct Product Contribution				2016/17		2020/21	
	2016/17		2020/21		4 year CAGR	2016/17 outturn		2020/21 projection		4 year CAGR		
	£m gross income	% of total portfolio	£m gross income	% of total portfolio		£m DPC	% of total portfolio	£m DPC	% of total portfolio	DPC%	DPC%	
<i>Post Office branded 'relationship' products (direct to consumer):</i>												
Products provided by Bol												
- Savings												
- Mortgages												
- Credit Cards and Other lending												
Telecoms*												
Travel money (incl. FRES profit share)												
- Bureau & Travel Money Card												
- FRES profit share												
Investments												
Subtotal of the above												
Insurance (POMS EBITDA)												
Subtotal of the above												
<i>Transactional products on behalf of third parties</i>												
Banking services												
- Banking services framework												
- Banking services transactions												
MoneyGram												
Postal Orders and other income												
Subtotal of the above:												
Total portfolio												

Note: The Telecoms numbers for 2020/21 are Option 1 of the Telecoms Strategy presented to the Board in June, but are not included in the 5 Year Plan.

IRRELEVANT Update – what are the Options?

Author: Jonathan Hill

Sponsor: Nick Kennett

Meeting date: July 2017

Executive Summary

Context

The exclusive contract with Bank of Ireland for banking and related product manufacture and governed by the FSJVA expires in 2023; the closeness of this date is impacting BoI's treasury flexibility and thence ability to deliver cost effective products (especially savings). This combined with major concerns about the imbalance of commissions on savings and loans, the Parties agreed to renegotiate core components of the FSJVA; following Post Office Board approval in June 2016 of a negotiating mandate, the parties have been in dialogue.

At its strategy meeting in June 2017, Post Office board sought reassurance that the proposed strategy was still appropriate and whether there are viable alternatives.

Questions addressed in this report

1. Why are we negotiating now?
2. What are the negotiating mandate and objectives and are they still appropriate?
3. What are the consequences of not reaching agreement?
4. What is the current status of the negotiations and how will we complete them?
5. Is BoI the right partner and are there realistic alternative – today and post 2023?
6. What are our options in the event that negotiations are unsuccessful?

Conclusion

1. The unintended consequences of the high commissions Post Office receives for liabilities compared to assets, combined with the unbalanced portfolio heavily skewed to liabilities and increasing restrictions that BoI Treasury is imposing on product available ahead of 2023 expiry, encouraged the parties of the need to reset the commercial terms of the relationship. Post Office took the opportunity to add various other proposals.
2. The mandate approved in June 2016 proposed a new model that provided BoI greater operational certainty primarily through a significant extension to the contract and operational flexibility. In return Post Office would generate greater returns from FRES and flexibility in other products, including changes to exclusivity provisions. It is intended that a new agreement would provide the flexibility and alignment of interest that removes the need for further renegotiations in the future.
3. There have been no commercial or market developments to change the basis on which the Board mandate was proposed.
4. If we fail to conclude an agreement the FSJVA would continue to 2023 at which time Post Office would have the option of seeking alternative providers. We

estimate that no-deal will cost Post Office c£60 million in lost income to 2023 IRRELEVANT

5.

IRRELEVANT

6.

7. Management's preferred outcome remains an agreement with BoI that aligns interest, gives strategic certainty and increases value to Post Office, however it is nuanced against the uncertain opportunities potentially available in IRRELEVANT
8. While soundings from BoI executives and NEDs suggest that they are committed to reaching agreement, at this stage I think that the chances of concluding a satisfactory agreement are still at best, balanced.

Input sought

The Board is asked to note the position and reconfirm the existing mandate and negotiating approach.

The Report

Why are we negotiating now?

1. The renegotiations with BoI in 2011-12 (Eagle) significantly improved the value Post Office derives from the business, particularly in savings and risk protection; however it has also created unintended consequences that are increasingly hampering the development of the business to both parties. With the contract running to 2023 it was agreed that attempts should be made to renegotiate selected key commercial components.
2. Post Office's portfolio with BoI is heavily skewed to liabilities [REDACTED] to assets of [REDACTED] with the surplus funds used to support non-Post Office derived assets. Although this is a direct result of BoI's drive for liabilities during and after the global financial crisis, BoI Treasury is now facing difficulties as it manages the funding mismatch to and beyond 2023; notwithstanding the spirit and terms of the FSJVA, BoI is advising now that the imbalance will increasingly restrict its ability to offer Post Office customers a full range of competitive savings products. Furthermore as 2023 approaches (and the risk that the business would be transferred to another party) BoI is expected to attempt to rebalance its portfolio (e.g. by using BoI or Bristol & West brands). It is likely that BoI will seek to reduce balances to [REDACTED] significantly impacting Post Office's income¹.
3. Since 2015 Post Office has assisted BoI restructure its balance sheet, reducing liabilities from [REDACTED] to [REDACTED] today and the net interest margin down to [REDACTED] and a target of 55bps. Value share agreements compensated Post Office for the loss of income and ensured that the parties had aligned objectives. The latest agreement expires in March 2018, after which, without a subsequent agreement, our income will fall to match the balances held – [REDACTED] million in 2018/19 - this reduction has been included in the 5 year plan.
4. BoI and Post Office recognise that the current commission structure and divergent incentives is driving conflicting agendas; a key component of the negotiations is to align incentives by ensuring that Post Office gains value as balance sheet value is created, rather than focused on asset or liability sales alone.
5. The rationale for negotiations derived from the need to resolve the liabilities "problem"; waiting would only exacerbate it and summarised as:
 - a. Growth restrictions from BoI Treasury;
 - b. Misaligned interests and drivers based on the imbalanced portfolio, with Post Office compensation being weighted towards liabilities;
 - c. Post Office revenue cliff from March 2018 as the value share expires;
 - d. Additional balance sheet reductions as we approach 2023;
 - e. The FSJVA contained the option for the parties to review and change commissions, although there is no obligation on either side to agree.
6. The parties agreed that it would be important to resolve these problems now and re-establish the relationship based on a revised commercial and strategic basis.

¹ Appendix A provides a summary of BoI UK's balance sheet.

What are the negotiating mandate and negotiating objectives and are they still appropriate?

7. At its June 2016 meeting the Board approved the proposed negotiating mandate:
 - a. Significant extension to BoI beyond 2023 (assumed **IRRELEVANT** for balance sheet products (i.e. assets and liabilities but not unsecured lending) – this was seen as the main source of leverage (as both value and a threat);
 - b. More sustainable share of the value from BoI balance sheet, based around greater operational flexibility to BoI and a new commission structure that balances assets and liabilities;
 - c. Increased share of value to Post Office from FRES; and
 - d. Flexibility for Post Office to work with other providers outside of mortgages and savings (i.e. a dilution of the exclusivity provisions).
8. The Board also noted the potential EBITDAS **IRRELEVANT** from 2018 to 2023 **IRRELEVANT** if negotiations were not successful (see Appendix B).
9. The negotiation term sheet (Appendix C) sets out the key proposals, the conditions we are looking to put in place, possible concessions to BoI and red lines as well as the estimated value impact for both Post Office & BoI.
 - a. We would look to offer BoI a **IRRELEVANT** extension from **IRRELEVANT** for mortgages and savings, giving BoI significant value and long-term security for its UK business.
 - b. The proposal also gives BoI greater flexibility to manage the Post Office assets and liabilities book within the totality of its UK balance sheet, with Post Office actively supporting BoI achieve its margin and growth objectives.
 - c. A new commercial construct that reduces Post Office's risk from actions by BoI to manage its balance sheet (including a share of margin improvement, a blended commission for the whole book and collars on the size of the book).
10. In return Post Office would look for BoI to:
 - a. Remove the exclusivity terms for all products bar mortgages and savings or commit to significant investment in unsecured lending capabilities. This would enable BoI to focus on its core expertise and not have to commit significant investment in new products (e.g., current accounts);
 - b. Support the transition of newly non-exclusive businesses to new providers;
 - c. Commit to linking up to the Customer Hub platform;
 - d. Realign the commercial arrangement of FRES so that Post Office's commercial outcome is significantly improved, recognising the work we perform;
 - e. Agree the continuance of other key FSJVA matters (e.g., pro-rated marketing fund, termination clauses etc.);
11. It is intended that the flexibility and alignment anticipated in a new model should be able to "stand the test of time", therefore removing the requirement of further major renegotiations should market conditions or strategic priorities changes.
12. Management believes that the rationale and drivers on-which the mandate and negotiating strategy was built still apply, and as such, is not looking to the Board for any amendment.

What are the consequences of not reaching agreement?

13. If there is no agreement, the FSJVA will expire in **IRRELEVANT** and thereafter Post Office will be free to seek alternative product manufacturing arrangements, assuming new partners accept the transfer of the existing portfolio(s).
14. The consequences to Post Office would be:
 - a. Loss of value, estimated to be **IRRELEVANT** **IRRELEVANT** with no extension of the value share agreement and an expectation that BoI will restructure its balance sheet ahead of 2023;
 - b. Loss of momentum (and likely skills) in banking as a business for Post Office;
 - c. Deteriorating relationship with BoI that would be driven by firm adherence to the FSJVA terms;
 - d. Inability to make changes to unsecured lending propositions and customer interactions through the Customer Hub;
 - e. No increased value from FRES;
 - f. Uncertainty as to the options available in 2023, but the freedom to seek alternative partners.
15. The FSJVA is very clear as to the expectations and actions available to the parties at termination, but severely restricts Post Office's options before 2020:
 - a. On termination Post Office retains the business and has the option to move to a new provider(s); BoI must support this process;
 - b. The earliest Post Office can exit is **IRRELEVANT**, with two year's notice;
 - c. Post Office is forbidden from contacting or discussing opportunities with potential partners before March 2020 when it can initiate a tender process to identify potential new partner(s).
16. Post Office had internally assumed that our processes and decision points as to whether to terminate/migrate away from BoI in 2023 or remain with the Bank for some/all products would commence in early 2018.

What is the current status of the negotiations and how are we proposing to complete them?

17. Peregrine negotiations have been frustrated by BoI's slow response to our proposals and their initial unwillingness to engage formally. BoI has now agreed to develop with us proposals for a new savings and mortgages commercial model, which is a key to our proposal and feedback from the formal discussions and informally from NEDs reiterates their desire to conclude negotiations.
18. We have agreed to their request to hold discussions on the long term commercial opportunity in parallel (indeed slightly ahead) of the commercial negotiations. This should agree the "size of the prize".
19. The negotiations are therefore in two streams:
 - a. "Enablement workshops" led by Owen Woodley for Post Office and facilitated by E&Y to assess what the possible future could look like for our joint businesses and how we might manage them; and
 - b. A second stream focusing on the commercial negotiations, including contract term, exclusivity and financial levers. These are led by NK for Post Office and John Tudor for BoI. Both parties agree to limit contractual changes to avoid

lengthy and costly legal discussions. BoI is targeting to present a commercial proposal in the first week of September; this is in effect a response to ours of August 2016. Post Office is supported by Post Office Legal and Linklaters (who supported us in Eagle) and anticipate using KPMG again for financial analysis as required.

20. While the parties are focused on reaching an overall agreement in Q3 2017/18, we looking to accelerate this in readiness for the new CEO of BoI Group taking up her position in the autumn.
21. While we remain concerned as to whether BoI has rationalised our determination to rebalance the commercial terms, on receipt of their proposal we should have a view as to whether there is a deal to be done, or that we should commence building contingency plans ahead of a 2023 exit.

Is BoI the right partner and are there realistic alternative – today and post 2023?

22. This question can only be answered in terms of the potential options available in 2023 as the exclusivity provisions prevent Post Office discussing options with external parties today, and no product lines can be moved without BoI's consent.
23. In assessing potential partners we are balancing between a known partner today, but committing for 21 years, and an unknown partner(s) in six years times that may/may not provide a better solution. Post Office therefore has two options:
 - a. Negotiate a new deal consistent with the mandate, giving greater flexibility in certain areas, but extends others well beyond 2023; or
 - b. Continue under the existing arrangements to 2023 and seek to maintain the business in what would potentially be an "unhappy marriage". There is, unfortunately, no middle ground.
24. We have however scanned the market and assessed whether, if we were to go to market today, would there be players who see value in a partner such as Post Office with a strong UK branch and distribution coverage. In particular we assessed their balance sheet capacity and shape, and apparent brand/distribution strategy to determine potential strategic fit.
25. In assessing potential alternative partners it is critical to understand the strategic driver that a relationship with Post Office could satisfy, such as:
 - a. Is the bank seeking excess liabilities?
 - b. Is there a wider strategic fit?
 - c. Is the bank seeking to enter the UK market?
 - d. Could Post Office split the portfolio to multiple providers?
 - e. In additional we have considered whether Post Office should establish a bank?
26. *Are banks seeking liabilities?*
A new partner would need to take over the savings/lending books, thereby needing to absorb a liability surplus of over £7 billion. However, UK banks are fully (in some cases over-) funded and do not need additional liabilities (for example in 2016 TSB, Tesco Bank, Sainsbury's Bank and Virgin Money were all fully funded with a slight surplus of assets over liabilities).
27. This funding position has been seen in the inability to find a partner for the IRRELEVANT POCA book. With the PRA's focus on ensuring bank stability, including reduced reliance on wholesale funding, it is unlikely that there are banks who could

easily/willingly take on these additional liabilities (although a buyer could seek to acquire asset-only portfolios to balance the liabilities). Therefore, while liquidity demand may change by 2020/23, in the current market the attractiveness of Post Office needs to be strategic rather than balance sheet driven.

28. *Is there a strategic fit with any current players? Will there be new entrants?*
The Post Office brings a strong and trusted brand and access to customers throughout the UK via its network. However as the FS strategy highlights, the focus will be "digital first" and therefore strategic fit must also work online. An optimum partner profile would be one with little or no brand profile in the UK, thus giving Post Office its main focus and seeing the Post Office as "its brand" in the UK. There are no UK banks known to be seeking a major multi-product distribution partnership; one potential option could have been IRRELEVANT which lacks scale to compete effectively, however it has been acquired by IRRELEVANT Whilst the impact of Brexit remains uncertain there are unlikely to be overseas banks seeking to enter the UK market.
29. *Can Post Office split the portfolio between providers?*
In 2023 Post Office can parcel the portfolio of businesses to different providers, as long as BoI's balance sheet is left whole, although no provider is likely to want to work with Post Office for liabilities alone. If Post Office were to act as the regulated principal it could engage with multiple providers. Splitting the portfolio does provide an option in IRRELEVANT
30. *Are there opportunities with new banks and Fintech?*
At present none of the challenger banks would have the capacity to take over the balance sheet and in the medium term are likely to be more growth constrained than BoI.
31. *Should Post Office create a Bank?*
The Strong Integrator/Customer Hub model does not preclude Post Office becoming a bank, but the earliest contractual time to either establish from new or purchase a bank would be IRRELEVANT This strategy would require significant investment in people, systems, compliance and governance and would need to be done through a separate legal entity.
32. We would need to be able to finance the transfer of the balance sheet from BoI to the new Post Office bank, including handling the surplus liabilities at the same time as satisfying the prudential capital and liquidity regulations.
33. *Will the opportunities change by IRRELEVANT*
While the scan has not identified any domestic or international players who today could have the interest or capacity for a relationship with the Post Office, much could change by IRRELEVANT (including greater clarity over Brexit). We believe that with the strength of the brand and market reach, the Post Office would be an attractive banking partner, particularly if we were to split the portfolio and have the necessary time to engage with the market.
34. The FSJVA provides Post Office with clear options in IRRELEVANT – whether to remain partly/wholly with BoI under the existing or a new contract; move portfolios to a new partner(s); or even to exit the market. These options hold if we do not extend the relationship with BoI. If we were to continue to IRRELEVANT we would appoint an IB (probably in mid IRRELEVANT) to assist identify potential players and structures.

Is BoI the right bank for Post Office?

35. In contractual terms BoI is the only partner we can work with until [RELEVANT]. The question therefore is, will it likely to be the best partner after [RELEVANT] and should we be willing to give up optionality then for more certainty and value now?

- BoI is stable, with a solid capital and liquidity base, much of which has been provided through Post Office and its customers. It remains an unknown UK bank (except in Northern Ireland) and with limited channels to market. As such it gives Post Office a much greater influence on the management of its business.
- Outside NI, BoI does not have branches, therefore there is complete symmetry between a bank with no branches and a branch/brand with no banking license.
- The scale of the bank and the criticality of Post Office ensures that we get immediate and extensive access into executive management and board members as required, and can influence (but not dictate) strategies – it is uncertain that this closeness could be achieved elsewhere.
- In terms of capability, BoI is a strong mortgage provider based on the historic Bristol & West business and recent investment in the ROME² platform – this puts BoI at a market leading position. The access to Post Office liabilities also ensures that asset pricing is competitive. As discussed, BoI is less strong in unsecured lending.

36. The significant negatives are that BoI's balance sheet is so dependent on the imbalanced Post Office portfolio that it is curtailing growth opportunities; limited balance sheet, which can constrain fast growth ("J" curve effect); and its capability in unsecured lending.

- We believe that BoI has been constraining its ambitions for growing the balance sheet as it approaches the threshold at which "ring-fencing" rules apply [RELEVANT]. If this level is breached BoI would have to invest additional capital and provide greater regulatory oversight to protect the business – this threshold is seen in the wider market as being a constraint on challenger banks "breaking through".
- BoI has advised that, as part of establishing a new relationship, it has the appetite to exceed the threshold if the partnership exhibits the ability to deliver significant growth to justify the investment – hence the focus on enablement workshops. As part of the renegotiations, we will seek to ensure that BoI has the capacity to deliver such growth.
- In addition our proposal included applying collars on portfolio movements and to allow the Post Office to source capacity outside BoI if the bank is unable to support our growth ambitions (capacity or credit criteria).

37. With the limited other partner options open to Post Office and the uncertainty of options in 2023, BoI remains the best option for Post Office, at least for the main balance sheet products (savings and mortgages), so long as we are able to successfully achieve the large part of Peregrine.

² ROME is a specialist mortgage broking platform.

What are our options in the event that negotiations are unsuccessful?

38. If the negotiations fail the FSJVA gives key contractual rights, controls and protections for Post Office. While we have focused our relationship on building the partnership rather than enforcing terms rigidly, we would use these if the negotiations failed. These key levers could be pulled either as part of a negotiating strategy with BoI and/or to be the basis of the on-going relationship following a decision by Post Office to preserve full optionality for 2023. The key levers are:
 - a. **Require BoI to provide investment products to the specification** (including commissions) set out in our product proposal; Product provision is a quid pro quo for exclusivity. By unlocking this, we can drive growth without the limitations of BoI's balance sheet. BoI can only refuse for three reasons (not allowed by regulations, have no capacity/capability and is commercially unviable for BoI), in which case the product ceases to be exclusive and we can source from another party. In a disputed process we might be subject to subject to an independent expert (IE) process which could take 6-9 months (longer for current accounts).
 - b. **Product reviews:** Require BoI to enter into rolling 2-year product reviews to ensure that products remain fit for purpose. Products cannot just be sold on price alone all of the time. We can contend that BoI does not have effective systems and products to ensure the products are fit for purpose. This could force them to make changes, thus making products more attractive. BoI may say that this is unaffordable and/or that they do not agree. We can enact a dispute process, potentially again involving an IE.
 - c. **Challenge BoI's book limits on savings & lending:** Post Office & BoI are obliged to set targets aligned to product "Book Limits". BoI is required to take "reasonable steps to avoid the imposition of a Book Limit on the business" because of BoI actions outside of the joint business. While this is relevant as BoI would look to reduce liabilities, it is only "reasonable steps" (so will be hard to win a contractual fight), but it sets out the intent of the parties and is based on an agreed plan (which the parties are required to do annually);
39. Whilst the key terms of the agreement that drive value are more biased in Post Office's favour, BoI may also seek to enforce the terms of the agreement more rigidly and/or claim that Post Office has not met, in part or in full, its obligations (e.g., failure to meet the [REDACTED] branches open for face-to-face sales of FS products or a failure to meet the [REDACTED] annual Eagle investment, neither of which are anticipated).
40. From a portfolio perspective if negotiations failed we would look to "double-up" the focus in POMS and ensure that it has the opportunity and scope to develop and grow.

Conclusion

41. Overall management believes that it would be preferable to conclude negotiations satisfactorily with BoI, giving strategic certainty and alignment and increased value to Post Office. It would ensure that we continue to offer banking products to our customers, drive value and build the brand as an FS provider. However if we do not conclude negotiations the FSJVA gives us clear options in [REDACTED] Post Office will likely be of interest to the market as a potential partner.
42. At this stage we are not yet confident that BoI will respond sufficiently to our proposal and as a result we view the likely outcome of negotiations based on the mandate as, at best, balanced.

POST OFFICE

PAGE 10 OF 13

Nicholas Kennett
Chief Executive, Financial Services & Telecoms
July 2017

APPENDIX A - BoI UK balance sheet summary (as at December 2016)

BoI UK Balance Sheet (as at end 2016) - source BoI

Assets	2016	2015
£Ms		% share
Residential Mortgages <i>of which POL-branded</i>		
Cards & loans <i>of which POL-branded</i>		
Other (inc impairment provisions)		
Total Assets <i>of which POL-branded</i>		
Liabilities		
£Ms		
BoI-branded deposits		
POL-branded deposits		
AA-branded deposits		
Total savings		
Current account		
Total Liabilities <i>of which POL-branded</i>		

IRRELEVANT

APPENDIX B - Estimated POL EBITDAS impact should Peregrine negotiations fail

Existing modelled value

	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
Em (Excl. FRES)							
Total operating income							
Bol savings underpin income							
Total income							
Total operating expenses (excl FRES)							
EBITDAS (excl FRES)							
EBITDAS (excl FRES) / Net income							

IRRELEVANT

Adjusted modelled value

	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
Em (POL excl. FRES)							
POL operating income							
Bol savings underpin income							
Total POL income							
Total operating expenses (excl FRES)							
EBITDAS (excl FRES)							
Difference vs. existing model							
EBITDAS (excl FRES) / Net income							

IRRELEVANT

Adjusted Model (undiscounted)

- Mortgage flows assume gradual step down as percentage of existing model from 90% in 2017 (by 10 percentage point annual increments) to 30% by 2023, given challenge to Bol in shifting to other distribution channels
- No credit card or personal loans
- Bol other lending book remains the same with POL deposits reduced to fund POL mortgages and the other Bol assets
- POL margin assumed to remain static (Assuming fixed costs as per modelling drops POL value to £19m under above assumptions given large fixed MS/FS cost base)

Bol FSJVA PBT
(2017-23)

IRRELEVANT

POL FSJVA PBT
(2017-23)

Adjusted Mortgage and Deposit book

	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
Em							
Interest earning assets							
Mortgage flow							
Direct Mortgages							
Branch Mortgages							
Intermediary Mortgages							
Mortgage stock							
Roll off							
Total mortgage stock							
Interest paying liabilities							
Deposits							
Branch variable							
Online variable							
Fixed							
Total deposit stock							

IRRELEVANT

APPENDIX C - Post Office Term Sheet

POL Proposal		PEREGRINE TERM SHEET					
v2 21.07.2016 - FINAL		Item	Conditions	Possible concession	POL red line	Estimated value impact to POL	Estimated value impact to BoI
Extension of 15 years to exclusivity							
- This extension would be on top of existing run-off period							
- Extension to run from current FSJVA term date							
- BoI gains greater flexibility to manage the Post Office assets and liabilities book within the totality of its UK balance sheet.							
- Post Office will actively support BoI in achieving its margin objectives							
Moving existing books to new providers							
Marketing fund retained							
Eagle fund adjusted							
Rest of FSJVA retained							
BoI commitment to link into SI platform							
Realign FREs economics: Shareholders to retain 30% of dividend distributions after accounting for POL's FREs related costs							

IRRELEVANT

* Note difference between gain to POL and loss to BoI driven by tax effect on commissions. POL commissions shown pre-tax, FREs distribution after commissions (to both BoI and POL) post tax.

Retail Product Arrangement for DMBs

Author: Mark Siviter Sponsor: Kevin Gilliland Meeting date: 17 July 17

Executive Summary

Context

Packaging and other stationery is a core offer for Post Office. It generates IRRELEVANT income IRRELEVANT p.a. for Post Office through the Directly Managed (DMB) channel. The current contract with VOW Retail to supply this stock expires in January 2018 and we need to agree a new arrangement consistent with our strategic and commercial objectives before then. This paper asks the Board to delegate authority to the CEO and CFO to sign a new contract which will deliver this aim.

Questions addressed in this report

1. How important is our retail (packaging and stationery) offer to Post Office?
2. What is the current commercial situation and what options do we have now?
3. What are the next steps to secure a new agreement to supply stationery products?

Conclusion

1. Providing good quality packaging and stationery is a core offer for Post Office, particularly in DMBs, with a good income stream of IRRELEVANT a year.
2. Our current contract with VOW Retail ends in January 2018 and our recommended option is a new, agency-type arrangement for future sales.
3. We need to finalise negotiations with our two potential providers and get an agreement in place for August 2017 so we can be ready for customers during Christmas peak.

Input Sought

The Board is asked to endorse the recommended approach and delegate authority to the Post Office CEO and CFO to sign a contract consistent with what is set out in the paper.

Input Received

1. Retail
2. Procurement
3. Finance
4. Legal

The Report

How important is our retail (packaging and stationery) offer to Post Office?

1. Retail (defined here as the envelopes, packaging and paper stationery segment of the wider stationery market) is an important offer for us. Customers expect us to offer these complementary products and we make a significant profit on selling them. This sub-section of the overall market is worth [REDACTED] **IRRELEVANT**¹ from which Post Office secures income of [REDACTED] **IRRELEVANT**¹
2. We offer a packaging and stationery range in all DMBs. Sales are largely impulse or distress purchases by consumers already in a branch to complete a mails journey. These sales provide an additional income stream and increase branch space utilisation. From a brand and customer perspective, we believe having a good quality offer for these products is essential and want to ensure we continue to do so while maximising our financial return and complementing our broader retail strategy.
3. While Post Office's market segment is in long term decline, Post Office's priority remains to maximise the financial benefits from selling retail products to our customers in DMBs, noting that our network development strategy remains to reduce the size of our directly managed network. As such the scope for this offer is only a small proportion [REDACTED] of our total retail network, although DMBs remain our largest and most high-profile branches

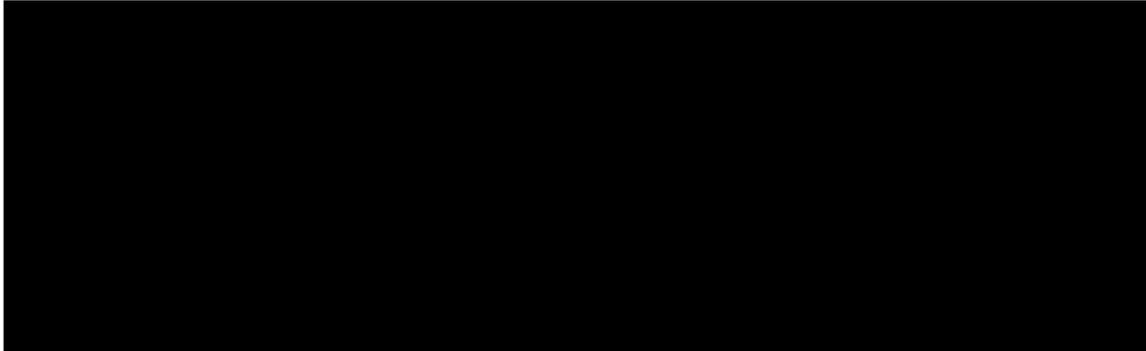
What is the current commercial situation and what is our recommended option?

4. The current contract with VOW expires in January 2018, having been extended from its original end date of March 2015. The contract is non-exclusive with a 4-month transition period for a new supplier. We therefore need a new arrangement in place no later than February 2018, and it would be beneficial to have this in our DMB branches in time for the Christmas peak which accounts for [REDACTED] of annual sales. We therefore want to implement the new arrangement by November 2017. Given the 4-month transition, this would require an agreement in August 2017
5. Our recommended option (see paragraph 6 below) is based on us having ruled out two other approaches: discontinuing the sale of retail stationery in DMBs; and procuring a supplier on the same basis as the current contract. The first option is discounted on customer grounds – we need to offer a quality product to meet their needs. The second is discounted following a recent (2016) public procurement which we did not complete after it became clear during dialogue that we could better service our customers in a simpler, lower risk way by adopting a new arrangement

¹ The UK stationery market is worth c£2bn. Future growth is principally driven by drawing and writing instruments and is expected to slow from 3.2% to 2.4% p.a. by 2021.

which is based on an agency model. In this model Post Office acts as the sales agent and makes available retail space in branch for a third party provider to sell its goods.

6.



7. We are confident this commercial deal complements our wider retail strategy, including our current work to explore options suggested at the June Away Day. From a wider retail perspective, stationery is a complementary offer for our large branches – WHS, Ryman and UOE (run by Elliot Jacobs) are all good partners with estates which match ours as the customer needs overlap significantly. And contractually:
 - We will require two important mitigations in the contract: a 6-month notice period and a 'carve out' of a small number of branches allowing Post Office to undertake a wider trial of a convenience retail or other offer; and
 - The contract only covers our DMBs, leaving over 11,200 other branches in our network (plus new 'whitespace' locations) in which we could conduct further trials.

What are the next steps to secure a new agreement to supply stationery products?

8. We started discussions over a possible retail arrangement with the two principal parties from the previous procurement exercise, VOW Retail and WH Smith, in May 2017. Both have submitted proposals for the right to manage the retail space in Post Office's DMB network for a five-year period, and potentially beyond on a rolling arrangement until terminated (see Appendix 1).
9. At time of writing we are concluding the evaluation process and will have identified a preferred provider by w/e 21st July 2017. We will continue discussions with the preferred provider with a view to concluding negotiations as soon as possible after the Board meeting (unless the Board chooses not to endorse this proposal). As part of this we will be ensuring that we have the right contractual protections in place to preserve our commercial interests and the quality of the offer (and therefore our brand reputation with customers). We will be able to expand on these and other points when we discuss this paper with the Board.

Appendix

1. Summary Financials of Proposals from Potential Providers

	Yr1	Yr2	Yr3	Yr4	Yr5	5Yr Total
VOW sales						
VOW income						
VOW POL DPC						
WHS sales						
WHS income						
WHS POL DPC						

IRRELEVANT

DN: Current POL annual sales £6.4m; DPC £2m

Resignation and Appointment of the Company Secretary

Author: Alwen Lyons

Sponsor: Alwen Lyons

Meeting date: 25th June 2017

Input Sought

The Board is asked to note the resignation of Alwen Lyons as Post Office Company Secretary, with effect from 30th August 2017.

The Board is asked to approve the appointment of Jane MacLeod as Post Office Company Secretary, with effect from 31st August 2017, and authorise Alwen Lyons to make the necessary filings at Company House.

Royal Mail Pension Plan

Author: Harpreet Singh Sponsor: Natasha Wilson Meeting date: 25/08/2017

Executive Summary

Context

The Royal Mail Pension Plan (the "Plan") was closed to future accrual on 31 March 2017 on the basis that Post Office could not take the future risk of the Plan falling into deficit. The Board agreed at a meeting in 2016 that its strategy was to have the Plan de-risked as much as possible to minimise the Plan's reliance on Post Office funding.

In order to do this, the Board agreed that it would request the Trustee to examine the validity of a "buy-out" of the Plan's liabilities once the Plan closed to future accrual. In response to the request the Trustee commissioned "Project Spitfire" to look at de-risking with their advisers, Mercers, from an investment perspective, LCP as "buy-in/buy-out" specialists and Oliver Wyman a specialist company to provide due diligence on the chosen insurer, which in this case is Rothesay Life Plc. Post Office signed a Letter of Reliance with Oliver Wyman over their advice to the Trustee, and we have validated their advice with our advisers AON Hewitt.

Questions addressed in this report

1. Does the transaction deliver the Board's de-risking strategy?
2. Is Rothesay a suitable provider for the transaction?
3. What are the risks to Post Office with a "buy-in"?

Conclusion

1. Post Office closed the Plan to mitigate the risk to the business of funding the Plan. The Board agreed to seek agreement with the Trustee to de-risk the liabilities as much as possible and provide greater protection to Post Office. The proposal put forward by the Trustee to transact a "buy-in" of the Plan liabilities satisfies the Boards de-risking strategy. The Trustee has also indicated that they seeking to pursue a "buy-out" of the Plans post-2012 liabilities, however this cannot happen until 1 April 2018 as there is a legal requirement for the discharge of liability and responsibility that cannot happen until this date.
2. Following advice received from LCP on the market and providers of "buy-in" and "buy-out" contracts, the Trustee agreed that Rothesay Life Plc ("Rothesay") provided the most competitive pricing for a "buy-in" contract and they had sufficient assets and capital to complete the transaction before 31 March 2018 with a view to exercising a "buy-out" transaction after this date (See Appendix 1).

In order to come to the conclusion that Rothesay was a suitable provider Oliver Wyman have looked at the following:

- i) Rothesay being regulated by Prudential Regulated Authority ("PRA").
- ii) Rothesay have sufficient capital to complete transaction and maintain the Plan under a "buy-out" contract.
- iii) The administration services provided by Rothesay can keep the level of expectation of a seamless service and interaction with the Royal Mail Statutory Pension Scheme ("RMSPS").

3. The main risk to Post Office under a "buy-in" is credit risk on the basis that Rothesay become insolvent and the compensation authority responsible for PRA regulated organisations, the Financial Services Compensation Scheme ("FSCS") fails to be able to cover the liability in full. If this was ever to occur, the liability of the Plan would revert back to Post Office. From the due diligence conducted by Oliver Wyman this scenario is highly unlikely, however not improbable. It should be noted that a substantial claim on the FSCS has never been made against an insurer providing bulk annuities and de risking contracts, therefore the implication of such an event is unclear. This means there needs to be a reliance on the financial strength of Rothesay is a vital consideration.

In accordance with the PRA requirement set under "Solvency II" regime, an insurance company has a Solvency Capital Reserve ("SCR") of 99.5% confidence interval, this equates to the ability to withstand a 1 in 200 year event. Rothesay has an SCR of 177% as at 31 December 2016.

AON Hewitt has advised that they are comfortable with the chosen provider Rothesay and see no reason why the Trustee should not transact with Rothesay (see Appendix 2).

Slaughter & May have reviewed the policy and contract terms and proposed amendments to the Trustee lawyer, Sackers LLP and Rothesay. Chris Hogg of the Trustee executive confirmed to Natasha Wilson on 7 July that the Trustee understands the concerns and will give the amendments consideration.

Input Sought

1. The Board is asked to consider and agree with the Trustee proposal to transact a "buy-in" policy with the proposed insure, Rothesay Life Plc, with a view to "buy-out" post-2012 Plan liabilities.

Input Received

2. Input has been received from:
 - i) RMPP Trustee Executive
 - ii) AON Hewitt, Post Office adviser
 - iii) Slaughter & May, Post Office Pensions lawyer
 - iv) Oliver Wyman, Due Diligence adviser for the Trustee
 - v) Willis Towers Watson, Post Office Actuary

The Report

Is the Proposal in line with de-risking strategy of the Board?

The Board of Post Office communicated to the Trustee of the Plan its strategy to de-risk as much as possible the liabilities in the Plan in order to provide greater security for the future viability to Post Office as a commercial business.

As part of the closure agreement with the Trustee of the Plan, Post Office agreed that it would not seek to claim any surplus that may exist in the Plan and any recognised surplus could be used for the benefit of members of the Plan who were most effected by the closure of the Plan. In order to determine what a recognised surplus is, it was agreed that it would be the level of assets above a "solvency" level of funding ie £1 of liability = £1 of asset. It was agreed that this would be akin at the minimum to a "buy-in" of the Plan's liabilities with clear "path" to "buy-out" of as much of the liabilities as possible before any "surplus" can be released to effect members of the Plan.

Since the closure of the Plan the Trustee has been investigating the de-risking of the Plan liabilities and have commissioned LCP to investigate the insurance market to initially look at transacting a "buy-in" of the liabilities before 31 March 2018 and set the "path" to a "buy-out" of post-2012 pension liabilities. Having reviewed the market, Rothesay provided the most competitive basis. In order to benefit from the "pricing lock" the Trustee is required to transact shortly and within 5 days of signing the policy they will need to transfer c£500m of assets to Rothesay. Under the Trust Deed & Rules that govern the Plan, a "buy-in" is classed as an investment decision, therefore whilst the decision to transact lies with the Trustee they have a duty to consult with Post Office before making a final decision. In this circumstance, the Trustee is acting in accordance to the Board's de-risking strategy and also complying with the Memorandum of Understanding signed in March 2017 so it can release a viable surplus to effected members of the Plan.

Elements for consideration?

Suitability of Rothesay

Rothesay Life is a PRA authorised UK insurance company specialising in the market for bulk annuity transactions and longevity insurance for defined benefit pension fund liabilities.

The main shareholders of Rothesay are as follows:

- The Goldman Sachs Group Inc – 32.7%
- The Blackstone Group – 26.5%
- Government of Singapore Investment Corp – 26.5%
- MassMutual Financial Group – 6.5%
- Management/EBT – 7.9%

In 2015 Rothesay transacted on a £1.6bn buy-in with the Civil Aviation Authority Pension Scheme, this is another Government backed organisation that had a funded pension arrangement like Post Office.

Financial Strength of Rothesay

An insurance company such as Rothesay is not permitted to write additional new business unless it can demonstrate to the PRA that it has sufficient capital resources to cover its existing business and fund the initial capital strain incurred in writing new business. The capital strain arises from the need to fund transaction costs, meet the regulatory requirements for the valuation of liabilities and hold additional capital on top of those liabilities.

Since January 2016, Rothesay has to comply with PRA Solvency II requirements as set by the EU.

Rothesay has provided the following information to Oliver Wyman to support its capital adequacy under Solvency II as at 31 December 2016:

- A. Assets
- B. Available Capital ("Own Funds")
- C. Solvency Capital Requirement ("SCR")
- D. Surplus (B - C)

Solvency II Coverage Ratio (B/C)

£m
IRRELEVANT
IRRELEVANT

The table shows that Rothesay was comfortably solvent under the Solvency II basis.

In the opinion of Oliver Wyman and verified by AON Hewitt, Rothesay has sufficient capital resources to support the proposed transaction whilst comfortably meeting its solvency requirements.

To reassure Rothesay, has a prudent investment strategy and the majority of its investments reflect the long term nature of the "buy-in" and "buy-out" market in that it operates in.

Risk to Post Office

The main risk to Post Office is the insolvency of Rothesay and the liability of the Plan returning Post Office whilst the "buy-in" contract is in place, however, the Trustee would first need to make a claim to the FSCS to compensate for the full value of the liability of the Plan which would be covered in full as they fall due. Since inception in 2001 no major claim has been made from an insurer in an insolvency position.

The FSCS is funded by levies on firms covered by the FSCS. The Government is intending to provide further surety on the FSCS by setting legislation to ensure that the FSCS has access to immediate liquidity through public borrowing from the National Loans Fund if necessary.

POST OFFICE

PAGE 5 OF 6

Should the FSCS not be able to fund liabilities as they fall due, the Trustee of the Plan would seek Post Office to provide funds for the liabilities to ensure members receive the benefits they are entitled to.

Appendix

1. LCP of best price from "buy-in" market paper.
2. Confirmation from Post Office Adviser AON Hewitt on suitability of Rothesay based upon Oliver Wyman Due Diligence.

1. LCP of best price from "buy-in" market paper

[Insert Appendix item 1]

2. AON Hewitt paper

[Insert Appendix item 2]



3303296

Project Spitfire

10 July 2017

Page 1 of 5

Response to questions raised by Post Office Limited (“POL”)

This note has been prepared by Lane Clark & Peacock LLP (“LCP”) for the Royal Mail Pension Trustee Limited as Trustee of the POL Section of the Royal Mail Pension Plan. It sets out a response to the questions raised by Post Office Ltd (“POL”) in respect of the proposed purchase of bulk annuity contracts with Rothesay Life (“Project Spitfire”). We are happy for this note to be shared with POL on a non-reliance basis.

This note comments on the following elements of the proposed purchase of BPA contracts by the Trustee with Rothesay Life:

- Details on the process undertaken by the Trustee to select Rothesay Life;
- Overview of the transaction structure; and
- Generic comments on the potential accounting implications of an insurance transaction.

If the Trustee decides to proceed with the transaction then it is expected to be signed with Rothesay Life before the end of July.

1. Insurer selection process

As part of considering the feasibility of insurance options, LCP approached Legal & General (“L&G”), Pension Insurance Corporation (“PIC”) and Rothesay Life to provide indicative full buy-out pricing on a monthly basis. Between them these three insurers are responsible for all completed full buy-out transactions of a similar size (£400m) or larger in the past 10 years. The indicative pricing was sought based on a number of provisional assumptions (including a provisional benefit specification, the member data available from the 2015 valuation and provisional estimates for possible reserves).

Following the decision by the Trustee to explore purchasing bulk annuity contracts, a project plan was drawn up with a target to complete a transaction in November 2017. This included detailed work to produce a final benefit specification, obtain up to date member data and to consider the appropriate reserves for expenses and other potential liabilities following a buy-out.

In late March 2017, Rothesay Life approached LCP stating that it expected to shortly obtain certain attractive long-dated assets which would allow it to improve its price to a materially lower level than under normal circumstances. Rothesay Life could put this



3303296 lower pricing forward for a number of transactions but chose to offer it to the POL Section, subject to agreeing an accelerated timeline to target completion by end June rather than the original target completion date of November 2017. Given that Rothesay Life's price was already materially ahead of the other insurers' prices this provided a potentially attractive offer.

Page 2 of 5

Following the go-ahead from the Funding Sub-Committee, LCP requested final "no regrets" prices from PIC and L&G. Both insurers put forward the lowest price they could offer for a transaction within the accelerated timescale and an estimate of further "aspirational" price reductions they may be able to provide if they were given a longer period to review their pricing. In addition, following a meeting between the Trustee Executive and Rothesay Life a further price reduction of £10m was negotiated.

The quotations considered at the Trustee Board meeting on 5 May 2017 showed that:

- Rothesay Life's price as at 31 March 2017 was materially lower (over £45m; c10%) than the next best price; and
- Even the "aspirational" prices put forwards by other insurers (reflecting further reductions that they may be able to provide if they were given a longer period to review their pricing) were c£20m (c4%) or more above Rothesay Life's price.

As a result, it was agreed to enter into exclusivity with Rothesay Life on an "accelerated timeline" targeting completion in mid-July, reflecting the significantly improved pricing that this would achieve. In addition, beneficial features had been negotiated with Rothesay Life including a price lock mechanism to a portfolio of the POL Sections' gilt holdings, significantly reducing the risk of adverse financial condition movements.

The accelerated timeline meant that a number of price adjustments would come through during exclusivity (rather than in advance of making an insurer selection) such as membership data, final benefit specification, due diligence on the data and benefits and any changes from reviewing the appropriate provisions for expenses and salaries. The exclusivity agreement with Rothesay Life therefore included a number of break clauses if there were material changes in the terms or the costs.

In addition to the three insurers who provided updated quotations, we also considered the possibility of other insurers who might be able to put forward a competitive quotation:

- Aviva had previously provided an indicative price for insuring the POL Section, which was significantly behind the other insurers' prices at that time.
- Scottish Widows has recently begun to quote on deferred liabilities and had expressed an interest in quoting in late 2017. Their focus has been on older deferred populations, as part of a buy-in covering predominately pensioners. We therefore do not believe Scottish Widows could, at this time, put forward a credible proposal for insuring the POL Section, given the very long dated liabilities.
- All other insurers in the market either quote for transactions comprising pensioners only, or do not quote on transactions of the size of the POL Section.

3303296 Since 31 March 2017, there has been a number of adjustments to the price and other provisions. However, we wouldn't expect these adjustments to change the conclusion on the selection of Rothesay Life.

Page 3 of 5

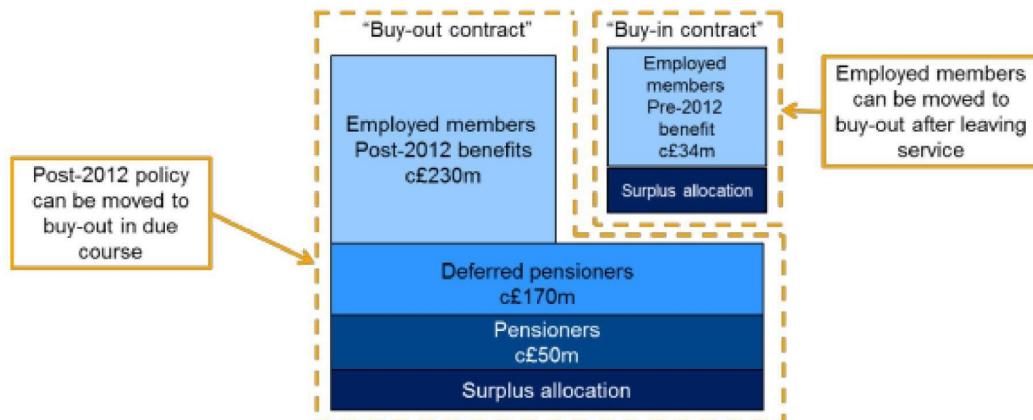
As part of their due diligence process, the Trustee commissioned an independent report on the financial strength of Rothesay Life from Oliver Wyman.

2. Structure of the transaction

The transaction with Rothesay Life will consist of two bulk purchase annuity ("BPA") contracts:

- The "Post-2012 Buy-out contract", which will cover current deferred and pensioner members as well as any benefits accrued from 1 April 2012 for current POL employees. This is designed to meet the requirements of the MoU, and will include provisions to allow additional benefits to be purchased for members from surplus, should the Trustee decide to do so. This contract will initially act as a buy-in contract, with the Trustee having the option to move it to buy-out in the future; and
- The "Pre-2012 Buy-in contract" which will cover the "margin" benefit for current POL employees which has resulted from promotional salary increases granted to members' pre-2012 benefit. This policy is designed to remove, where practicable, the mis-match risks relating to the residual benefits (which due to the salary link cannot be moved to buy-out). There will be triennial exercises to adjust the insured benefits for members who have left service to ensure they match the Plan benefits precisely. A reserve will be held within the POL Section to cover the salary mis-match risk. The Trustee will have the option to move members to buy-out once they have left service and a triennial exercise has been completed.

The following diagram sets out the structure of the transaction:



By entering into the two transactions together, the Trustee matches the benefits in the POL Section closely so that the risk of further liabilities arising in future is significantly, if not fully, reduced. This also provides a route to eventual buy-out and wind-up of the POL Section through the BPA contracts.



3303296 **3. IAS19 accounting treatment of an insurance transaction**

Page 4 of 5 POL will need to obtain advice from its actuarial advisers in relation to the IAS19 accounting treatment of the purchase of BPA contracts and agree the treatment with its auditors.

POL's actuarial advisers will need to consider a range of points including:

1. Whether the purchase of a BPA contract is a "settlement", where a loss will be recognised as a charge to the income statement (broadly equal to the price paid less the IAS19 value of the liabilities). Whether it is a settlement will normally depend on the extent to which there is an intention to move the insurance policy to individual policies and remove the liabilities from the balance sheet.
2. If the purchase of a BPA contract is not a settlement then it will normally be considered an investment. Any loss is then treated in the same way as any other asset loss, and the loss is recognised in Other Comprehensive Income ("OCI") outside of the income statement.
3. If the purchase of a BPA contract is not a settlement, the company directors then need to decide the appropriate IAS19 asset valuation for the insurance policy. Where the payments from the insurance policy exactly match the cashflows underlying the liabilities, it is normal to set the valuation equal to the IAS19 liabilities. Where there is not an exact match then other valuation approaches are possible. If the asset valuation for the insurance policy is less than the price paid then this will result in an asset loss.

The comments above are based on a generic situation and we have not considered the specific situation of the POL Section. We note that the interpretation of the accounting treatment is a matter of judgement and different auditors can have different views. For the POL Section, there are two BPA contracts being purchased which could each be subject to different accounting treatments.



3303296 I hope this note is useful. Please contact me if you have any questions or would like to discuss any of the points raised in more detail.

Page 5 of 5

+ Prepared as an attachment to an email
at 19:18 on 10 July 2017

Charlie Finch FIA

Partner

10 July 2017

GRO
Email: GRO

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The use of our work

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Aon Hewitt
Retirement & Investment

Post Office Ltd

Date: 12 July 2017
Prepared for: Harpreet Singh, Head of Pensions
Prepared by: Dominic Grimley

Bulk annuity purchase – Comments on due diligence advice

Background

As discussed on the telephone, we have reviewed the Oliver Wyman due diligence report and believe it provides clear reassurance that Rothesay Life ("Rothesay") are an appropriate counterparty for the bulk annuity transaction. The overall opinion is summarised in section 1.3.1-1.3.2 of the report.

Business model and risks borne

Rothesay is a mono-line insurer, having built up a substantial annuity back-book specifically through transfers from companies' final salary pension schemes and from other insurance companies' existing annuity books. This leaves it bearing specific risks, such as interest rate, inflation, longevity and credit spread risk, without the diversification from other business lines. However, Rothesay acts to address these risks through:

- Substantial hedging of each of these risks, including hedging of credit risk (unlike some of its peers), and passing on most of its longevity risk to the reinsurance market. Section 7.4.1 of the Wyman report shows that spreads on investments and residual longevity exposure are the biggest risks retained, reflecting the extent to which Rothesay has eliminated interest rate and inflation exposure through hedging;
- Maintaining an operating solvency margin range significantly in excess of regulatory requirements. To date Rothesay has always reported a substantial cushion over the required reserves, even in periods of rapid growth, because it has been able to raise capital from investors to support larger transactions. The buffer in Rothesay's reserves over required solvency margins is shown in section 5.1.1 and in the company's reporting in all previous years. It actively seeks to maintain an additional buffer of at least 30% of required margins, as an extra safeguard on top of the regulatory regime. Sections 8.2-8.3 confirm that the key assumptions used to determine the required reserves are in line with peers or more conservative.
- Close monitoring of its asset and liability position.

Their professed focus is on gaining a more predictable level of return and more stable solvency position, compared with peers, from their approach to risk management.

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Aon Hewitt
Retirement & Investment

Ownership

The investors are predominantly four large private institutions (shown in section 3.2 of the Wyman report, with debt issuance shown in section 4.7.6) and at some point this may change to a full or partial listing.

Asset strategy

Unlike some rivals such as Aviva and L&G, Rothesay does not have an internal source of assets to invest in, and so has taken a relatively innovative approach to designing its asset portfolio. As shown in section 10.3 the assets are invested across a range of bond-like investments, with substantial holdings in gilt or similar quality stocks and hardly any bonds rated below A. A further 40% of the portfolio was allocated to secured lending, including collateralised asset loans to investment banks and investment in residential property developments, or to infrastructure. This left only 8% invested in normal corporate bond stocks at the end of 2016, much lower than would apply to most annuity books. This will reflect Rothesay's views of relative risk-adjusted long-term returns available. The remaining 4% is held in cash.

Administration

The report does not cover Rothesay's administration services, which are outsourced to a ring-fenced team at Willis Towers Watson subject to oversight by a team at Rothesay that monitor performance and manage administration transfers. The trustees are likely to hold information on this from presentations by Rothesay, and administration is generally regarded as a strong point in the Rothesay service. Rothesay also has a historically acquired administration service with JLT, but we assume this would not be used here – this should be, and probably has been, confirmed to the trustees.

Action

Please let us know if you have any questions on this.

**Signed on behalf of
Aon Hewitt Limited**

GRO

Dominic Grimley

GRO

GRO

Post Office Limited Sealings

Author: Alwen Lyons Meeting date: 25 July 2017

Executive Summary

Context

The Directors are invited to consider the seal register and to approve the affixing of the Common Seal of the Company to the documents set out against items number 1522 to 1543 inclusive in the seal register.

Input Sought

For the Directors to resolve that the affixing of the Common Seal of the Company to the documents set out against items numbered 1522 to 1543 inclusive in the seal register is hereby confirmed.

POST OFFICE LIMITED
Register of Sealings

Date
25.07.2017 **Company Number**
21554540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1522 / Deed of variation	22/05/2017	27/04/2017	POL and VOW Retail Limited. Deed of variation relating to agreement for supply of goods for resale through the Crown network and associated services to extend contract until 31 January 2018. (x2)	Alwen Lyons, Company Secretary	CoSec Contract Depository
1523 / Deed of Variation	22/05/2017	27/04/2017	POL and VOW Retail Limited. Deed of variation relating to agreement for the supply of goods for wholesale and online sales and associated services to extend contract until 31 January 2018. Deed of variation to amend contract terms (reduce POL liability cap from £7m to £2m and other amends). (x2)	Alwen Lyons, Company Secretary	CoSec Contract Depository
1524 / Deed of Variation	22/05/2017	27/04/2017	POL and VOW Retail Limited. Deed of variation relating to agreement for the supply of goods for wholesale and online sales and associated services to extend contract until 31 January 2018. Seal no 1524 x2	Alwen Lyons, Company Secretary	CoSec Contract Depository
1525 / Deed of Variation	22/05/2017	27/04/2017	POL and VOW Retail Limited. Deed of variation relating to agreement for the supply of goods for wholesale and online sales and associated services to amend contract terms (reduce POL liability cap from £7m to £2m and change of supplier name from ISA Retail Limited to Vow Retail Limited). Seal no 1525 x2	Alwen Lyons, Company Secretary	CoSec Contract Depository
1526 / Renewal of counterpart lease	26/05/2017	26/05/2017	Renewal of counterpart lease between GIB Properties Limited and Post Office Limited relating to Ground Floor and Basement, 111 Baker Street London W1U 6SG. £220K per annum for a term of five years from completion.	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1527 / Licence to Assign	01/06/2017	30/05/2017	Licence to assign relating to Parkstone MSP, 27 Bournemouth Road, Poole, BH14 0EL between Post Office Limited, Arti Hiren Modi and Tejas Shah.	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1528 / Rent Deposit Deed	01/06/2017	30/05/2017	Rent Deposit Deed relating to Parkstone MSP, 27 Bournemouth Road, Poole BH14 0EL between Post Office Limited and Tejas Shah.	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1529 / Agreement for Sale	08/06/2017	02/06/2017	Agreement for sale relating to 65 High Street Lewes BN7 1AA between Post Office Limited and The Foundation Stage Forum Limited.	Alwen Lyons, Company Secretary	Jean Reynolds
1530 / Transfer of Whole Reg Title	08/06/2017	02/06/2017	Transfer of whole registered title in respect of 65 High Street Lewes BN7 1AA between Post Office Limited (Transferor) and The Foundation Stage Forum Limited (Transferee).	Alwen Lyons, Company Secretary	Jean Reynolds
1531 / Lease	08/06/2017	31/05/2017	Lease renewal by reference to the Original Lease in respect of title number MS270806 the property known as part ground floor and basement India Buildings Water Street Liverpool.	Alwen Lyons, Company Secretary	Jean Reynolds
1532 / Transfer of Whole Reg Title	08/06/2017	07/06/2017	Transfer of whole registered title in respect of 2 - 3 Henley Street between Post Office Limited (Transferor) and Hawridge Properties Limited (Transferee).	Alwen Lyons, Company Secretary	Jean Reynolds
1533 / Agreement for Sale	08/06/2017	07/06/2017	Agreement for sale relating to 2 - 3 Henley Street Stratford-upon-Avon CV37 6PU subject to leases between Post Office Limited and Hawridge Properties Limited.	Alwen Lyons, Company Secretary	Jean Reynolds

POST OFFICE LIMITED
Register of Sealings

Date
25.07.2017

Company Number
21554540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1534 / Deed of Assignment	08/06/2017	07/06/2017	Deed of Assignment of Arrears relating to 2 - 3 Henley Street Stratford-upon-Avon CV37 6PU between Post Office Limited and Hawridge Properties Limited.	Alwen Lyons, Company Secretary	Jean Reynolds
1536 / Written Undertaking	08/06/2017	08/06/2017	Letter to Daisy Wholesale Limited from New Call Telecom Limited and Post Office Limited. Related to Project Jaguar - Acquisition of New Call Telecom Limited customer base. Sealed as 1535x2	Alwen Lyons, Company Secretary	Stephenson Harwood LLP
1535 / Deed of Appointment & Removal	12/06/2017	09/06/2017	Deed of Appointment and Removal relating to the Post Office Health Trust between Multiplex Financial Trustee Limited (continuing trustee) and Natasha Wilson (new trustee) and Harpreet Singh (new trustee) and Charles Colquhoun (outgoing trustee) and Keith Murdoch (outgoing trustee) and Post Office Limited (Appointor). Contract number 773	Alwen Lyons, Company Secretary	Bond Dickinson
1538 / Notice of an Election	19/06/2017	19/06/2017	Notice of an election to use an alternative apportionment in accordance with section 198 Capital Allowances Act 2001 in respect of 65 High Street Lewes BN7 1AA.	Alwen Lyons, Company Secretary	Jean Reynolds
1537 / Deed of Adherence	20/06/2017	14/06/2017	Deed of Adherence to the Post Office Healthcare Trust between Post Office Limited (Company) Natasha Wilson, Harpreet Singh and Multiplex Financial Trustees Limited (Trustees) and Post Office Management Services (Employer) to admit the Employer to the Trust with effect from 10 September 2015. Contract number 774	Alwen Lyons, Company Secretary	CoSec Contract Depository
1539 / Notice of an Election	20/06/2017	19/06/2017	Notice of an election to use an alternative apportionment in accordance with section 198 Capital Allowances Act 2001 in respect of 2-3 Henley Street, Stratford Upon Avon CV37 6PU.	Alwen Lyons, Company Secretary	Jean Reynolds
1540 / Deed of Amendment	21/06/2017	15/05/2017	Extension for a fully managed service for the manufacture, supply and return of Post Office Careerwear and Workwear and supporting services. Executed as a deed - contract number 776.	Alwen Lyons, Company Secretary	CoSec Contract Depository
1541 / Deed of Surrender	28/06/2017	27/06/2017	Deed of Surrender relating to lease of Post Office Premises Threshold House, Shepherds Bush Green London between NEWCO 8915 LIMITED and Post Office Limited (Tenant).	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1542 / Licence to Occupy	14/07/2017	12/07/2017	Licence to Occupy between Derwent Holdings Limited and Post Office Limited relating to Totem Signage, Walkden Town Centre, Walkden, Greater Manchester.	Victoria Moss, Deputy Company Secretary	Jean Reynolds
1543 / Transfer of Whole Reg Title	14/07/2017	14/07/2017	Transfer of whole registered title between Post Office Limited (Transferor) and CN Anderson Ltd (08022092) CV Anderson Ltd (08022088) DS Anderson Ltd (08022135) and RD Anderson Limited (08022162) (Transferee) in respect of Adwalton House, Leeds 27 Industrial Estate LS27 0SS. TR1 executed by seal. Related to same transaction but executed by signature are Notice of an Election to use an Alternative Apportionment in Accordance with Section 198 Capital Allowances Act 2001 (in duplicate) and Agreement for the Sale.	Victoria Moss, Deputy Company Secretary	Jean Reynolds

Performance Review – Health and Safety

Authors: Martin Hopcroft

Sponsor: Al Cameron

Meeting date: 25th July 2017

Executive Summary

Context

- 1.1 Keeping our employees healthy and safe is fundamental to Post Office success. This is reflected in the Post Office Board's legal responsibilities and members of the board have both collective and individual responsibility for health and safety.
- 1.2 Our Health & Safety performance has improved significantly in the past 6 years and we have a rolling 3-year plan to drive health and safety compliance, targeting a reduction in four key safety metrics: accidents; lost time accidents; days lost; and personal injury claims. Our H&S reporting and safety management system is measured against the externally recognised standard, OHSAS 18001. We also recognise the importance that wellbeing can play in creating engaged and motivated employees.

Questions this paper addresses:

- 2.1 What is going well across health and safety and what are the current activities?
- 2.2 What are we doing to mitigate the key risks, including driving and robberies?
- 2.3 Are there any significant emerging risks?

Conclusion:

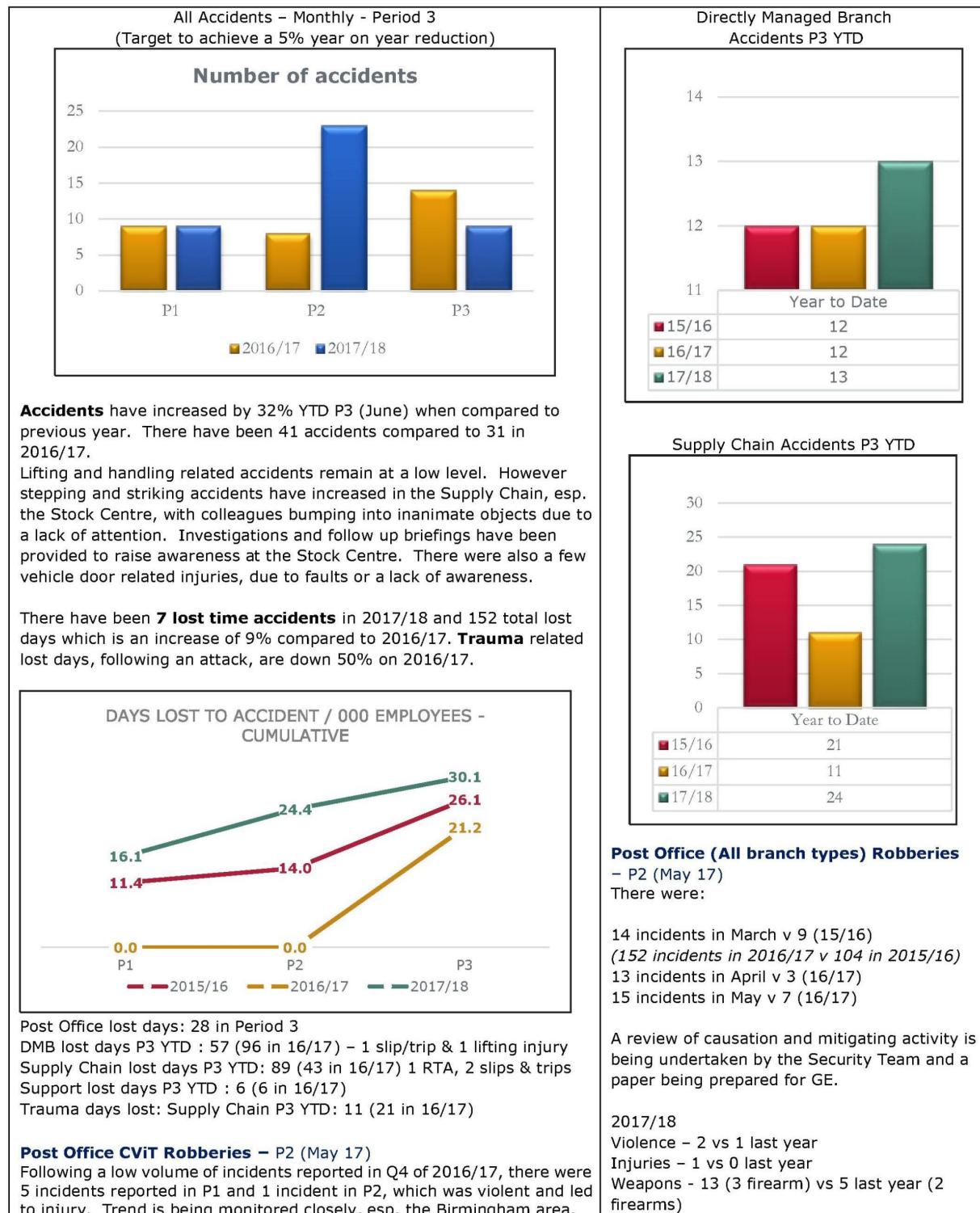
1. Accident Performance, including absence accidents and lost days, increased over Q1, however, volumes returned to normal in June (see Report-H&S Metrics). A recent increase in the number of accidents reported in May has been investigated and remedial action taken with ongoing monitoring and support provided. **Benchmark data** has been requested from suppliers for ARC in September.
2. Mitigating action has reduced **road risk** which remains at a low level. The Road Risk Policy is being reviewed and an overarching policy will be developed for all business drivers (including those using personal cars)
3. There was one CVIT attack in May, and Post Office robberies remain higher with a review being undertaken by the Security team.
4. Property H&S **training workshops** have been delivered to Persons in Control of Directly Managed branches and coaching provided to Supply Chain Managers.
5. We have undertaken an annual deep dive review of safety and agreed a number of areas for focus in 2017/18 including a review of road policy, guidance for lone workers, safety of vacated buildings, competency and statutory compliance.
6. A number of initiatives have been implemented to raise awareness of mental health resources. From August we aim to train and introduce up to 60 Mental Health First Aiders to provide proactive support to colleagues across the business.

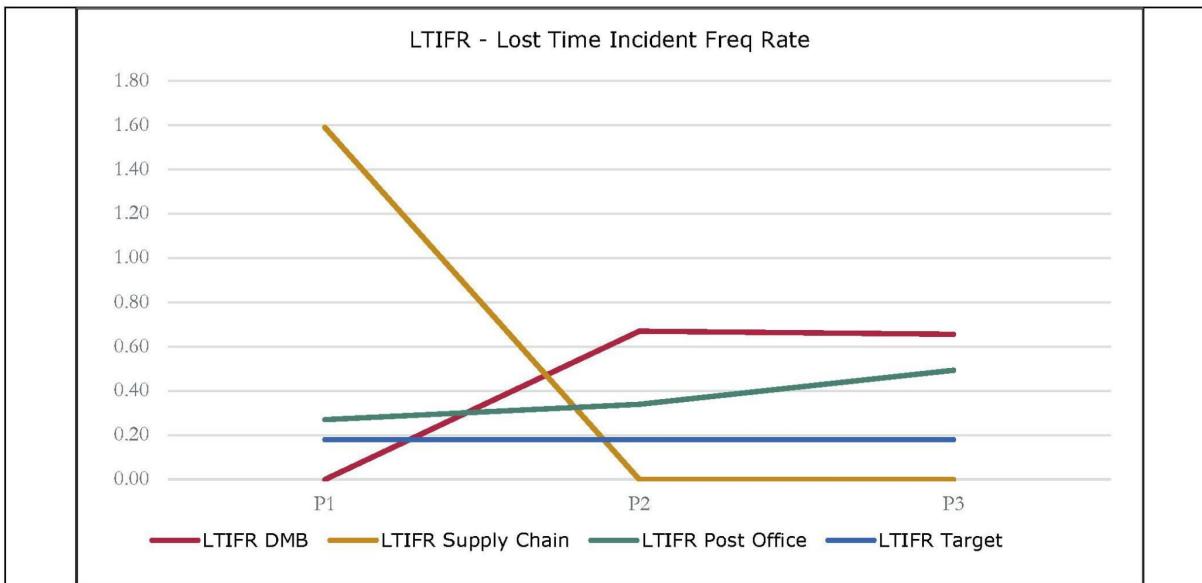
Input Sought

The Post Office Board are requested to **note** the current health safety performance and content of this report.

The Report – H&S Metrics

Summary of Safety Performance - YTD Period 3 (June 2017)





Lost Time Injury Frequency Rate (LTIFR) – Period 3 YTD

Supply Chain

YTD P3 – 0.592
2016/17 out turn – 0.586
2017/18 target – 0.500

All Post Office – Employee

YTD P3 – 0.357
2016/17 out turn – 0.168
2017/18 target – 0.180

Road Risk

P3 YTD Road Traffic Collisions

- 23 RTC's – YTD.
- 7 at fault, 6 not at fault
- 11 minor RTC's, 2 major.
- Some additional analysis is being done regarding fleet size, staff hours and headcount for future reporting.

Comparing 2016 v 2017

- There were 61 RTCs YTD in 2016/17 v 23 this year (17/18), a 62% reduction YTD.
- At fault RTC's were 34 in 2016/17 and have reduced to 12 in 2017/18, a 64% YTD improvement

New providers have been confirmed for maintenance and accident management for Commercial fleet and for provision, maintenance and accident management of Business Car fleet. Enhanced MI and accident analysis can be expected later in 2017/18.

An overarching Road Risk Policy, with improved training and compliance checks is being developed by the Fleet Management team to cover Commercial, Business Cars and Personal Car use.

Road Traffic Incidents - Cumulative

Summary of Wellbeing Performance - YTD Period 3 (June 2017/18)

- The overall attendance level remains stable at 96.8% YTD P3 (June 2017/18). Short Term absence is 0.9% YTD and long term absence is 2.2% YTD. Supply Chain LTS is reducing to 2.3% and DMB LTS increasing to 2.7%
- Mental health related absence remains the most common cause of long term absence and there is an increase in lost days in Directly Managed Branches. Some additional analysis is being undertaken by our Occupational Health and HR Service Providers to understand trends and areas of concern to target intervention.
- Proactive activity across the business, includes 'positive mental health awareness' sessions for colleagues, additional awareness training being piloted for line managers and the introduction of Mental Health First Aid initiatives. The recruitment approach for MHFA is being developed with the HR Business Partners and OH Assist™ and training courses planned for August and September.

Business Area Absence Performance v Target – P3 YTD 2017/18

2017/2018	Sick Absence %age				
	Period 01	Period 02	Period 03	Y.T.D Totals	Gross Hours Target
CENTRAL	0.0%	0.0%	5.0%	1.5%	0.3%
STRATEGY OFFICE	0.0%	0.0%	0.0%	0.0%	0.2%
CHIEF FINANCE & OPERATIONS OFFICE	3.4%	3.3%	3.2%	3.3%	3.4%
FIN: FINANCIAL CONTROL MI	0.2%	2.3%	3.7%	1.9%	3.3%
FIN: SUPPLY CHAIN	4.0%	3.7%	3.9%	3.9%	3.6%
FIN: HRSC	0.8%	3.6%	1.1%	1.8%	3.3%
FIN: NO CONTACT CENTRES	3.7%	1.9%	2.3%	2.8%	4.2%
FIN: NETWORK OPERATIONS	2.1%	3.6%	2.0%	2.6%	3.3%
FIN: FSC	4.0%	1.7%	2.1%	2.7%	3.4%
RETAIL OFFICE	3.4%	3.1%	3.4%	3.3%	3.3%
RO: DMB SALES	3.8%	3.3%	3.7%	3.6%	3.7%
RO:CS: NETWORK AGENCY SALES, SVCES & TRANSFORM	5.0%	5.1%	4.0%	4.7%	3.3%
RO: NETWORK DEVELOPMENT	0.7%	0.9%	1.2%	0.9%	3.3%
COMMUNICATIONS & CORPORATE AFFAIRS	0.0%	0.0%	0.0%	0.0%	0.3%
HUMAN RESOURCES	0.0%	0.3%	1.8%	0.6%	1.2%
HR: ENGAGEMENT	0.0%	0.6%	3.5%	1.3%	
GENERAL COUNSEL	0.1%	0.0%	0.0%	0.0%	1.5%
GC: INFORMATION, SECURITY & ASSURANCE	0.0%	0.0%	0.0%	0.0%	
GC: SECURITY & FINANCIAL CRIME	0.4%	0.0%	0.0%	0.2%	1.0%
FINANCIAL SERVICES & TELECOMS	3.0%	2.3%	1.7%	2.4%	1.9%
FST: PO MONEY PRODUCTS	6.0%	4.5%	3.2%	4.7%	3.7%
CHIEF INFORMATION OFFICE	2.7%	3.1%	5.2%	3.6%	3.5%
CIO: IT CHIEF TECHNOLOGY OFFICE	20.0%	24.0%	40.0%	27.4%	
Post Office Ltd	3.3%	3.0%	3.2%	3.2%	3.3%

The Report

- 2.1 What is going well across health and safety and what are the current activities?
- 2.2 What are we doing to mitigate the key risks, including driving and robberies?

SAFETY and ENVIRONMENT

Performance remains strong across many key health & safety metrics, including road risk and CiT related robberies (see Report-H&S Metrics). The number of accidents reduced in June, following the spike in May. Current activities include:

1. **Person in Control (PiC) Training** - Refresher PiC training and Property H&S workshops have been delivered to all Supply Chain and DMB Managers. This is being extended to all Support Centres and satellite offices. A Team Talk session is also being developed for all colleagues in DMBs to ensure minimum awareness and support for H&S and will be issued in July.
2. **Property related risk (As reported in the Property Compliance Report)**
 - The overall level of risk remains low with property compliance 95.5%.
 - Current activities include 'Fabric inspections', shipment of the site log books and the re commencing of site audits. Vacant property inspections are currently being reviewed on a monthly basis.
3. **Health & Safety Activity Calendars** - To ensure Health & Safety activities are undertaken, H&S calendars have been updated and launched for 2017/18. H&S BPs are attending Lead Team meetings to help raise awareness and compliance and this is being extended across all areas of the business during July - September.
4. **Road Risk** - The volume of road traffic incidents continues to reduce. The Fleet Management Team and H&S Team are creating an overall driver policy to provide additional guidance and training to all commercial and business drivers including those using own vehicles.
5. **Security / Robbery Risk** - A report is being developed by Security Manager to support a GE discussion, due to the recent increase in Post Office robberies. CViT related incidents have remained relatively low.
6. **Hosted Directly Managed branches** - Post Office and WHSmith H&S Managers and Property Compliance Managers are working closely to share processes and documentation and to resolve any local property related issues. Guidance for Post Office Managers has been issued by Health & Safety Business Partners.
7. **Environment** - The Environmental Tactical Group is currently reviewing policy and plans and checking energy, recycling and carbon data for year-end reporting with the Facilities Management suppliers, CBRE and Servest.
Guidance has been provided to 'Persons in Control' for the management of waste and to raise awareness of the risk of receiving fixed penalties/enforcement notices.

HEALTH & WELLBEING

1. The Health & Safety team are raising awareness of resources that are available to colleagues at Support Centre, Supply Chain & Directly Managed team meetings.

2. Mental Health awareness 'Time to Talk' sessions are being rolled out to all areas of the business, including use of the Team Talk session to encourage the conversation at Directly Managed Branches and Supply Chain sites.
3. The Occupational Health provider has provided guidance for 'Mental Health First Aid' training for volunteers across the business (approx 60) and selection criteria which has been considered by the HR Directors and BPs in June. The preferred approach has been agreed to invite applications, endorsed by line managers and HR BPs to undertake short video interviews. Training is being scheduled for Aug / Sept.
4. A new MH Awareness training product is being piloted for line managers in July.
5. Health Checks will continue to be offered to all employees (either Kiosk or Mobile)
6. The range of available OH services has been extended and current activity includes:
 - o Launch of the Post Office Wellbeing Portal in July, enabling access (externally and internally) to all services and resources through one landing page.
 - o Extension of the absence 'case management' pilot, OH Assist™ Advice Plus.
 - o Training provided to Support Centre call advisers and team leaders for 'difficult' and traumatic calls to be extended to Contract & Security Managers.

What additional activity has been undertaken to address specific risks?

1. Compliance to Driving and Mobile Phone Policy

A policy check has been incorporated into the local risk assessment undertaken by all line managers who have staff who drive for work. This will be incorporated into a new online training module that has been developed and will be issued in August via Success Factors.

2. Environmental Policy

The Property Compliance and H&S teams are working closely with Legal, Servest and IT to minimise risk associated with waste, especially hazardous. Guidance has been issued to Persons in Control to minimise the risk of waste reaching landfill sites.

3. Security and lone working in Support Centres

H&S, Property and Security Managers are reviewing personal security arrangements in place at all Support Centres and satellite offices. A report will be discussed at the GE Safety Board in July, following the current review of Security at Finsbury Dials.

4. Trauma Support and Self Harm / Suicide Policy

Additional training has been provided to call handlers in Chesterfield and the HR Service Centre to help them manage 'difficult calls', including threats of suicide. Similar appropriate training will be extended to their team leaders, contract advisers and field advisers who may also benefit. This is being planned for August - September.

5. Fire Training and Evacuation Plans – Finsbury Dials

Additional Fire Wardens and First Aiders have been identified for Finsbury Dials and are receiving training as a priority. Additional Persons in Control are also being trained. Communications have been issued to remind all staff of the evacuation plan. Online Fire Training has been issued in July via Success Factors to employees.

2.3 Are there any significant emerging risks for 2017?

1. Change Programmes

- H&S Business Partners are monitoring absence, accident causation and working closely with lead teams, providing training and improving the focus on safety, attendance management and wellbeing across the business.
- The Induction Programme, including H&S content, has been reviewed and updated to ensure line managers of new employees complete the checklist.
- Support and training has been provided to upskill Supply Chain Shift Managers, ensuring records brought up to date to meet OHSAS 18001 audit requirements.

Property / IT – Disposal of hazardous waste - Previous concerns on how we dispose of IT hazardous waste, in particular Horizon printer cartridges are being addressed by IT. **Current Objectives** include: Closure of outstanding remedial actions from previous '5 Year Electrical Inspections', further fabric inspections and site audits to review the risk of vacant buildings and quality of building fabric. Our CRC submission will be completed for 16/17 by CBRE in July.

2. An annual Health & Safety 'deep dive review' has been undertaken by the GE H&S Sub Committee (Safety Board).

Areas carrying a higher risk of fatality or serious injury were reviewed including:

- a. Property (Fire, Electrical, Fabric and Asbestos, Legionella, behaviour)
- b. Security (ATMs, Agents robberies, Supply Chain attacks)
- c. Road Risk for Commercial and Business Drivers (maintenance, fatigue and distraction, alcohol and drugs, mobile phone use, working hours and travel policy, lone working).

A review of H&S in Supply Chain, Directly Managed branches and Support teams also took place. GE Committee members and senior leaders for each function discussed and reviewed the risks and considered the current controls, agreeing areas for prioritisation and attention during 2017/18. These include:

- a) Implementation of a single road risk policy for all business drivers and to monitor its application, including document checks and risk assessments
- b) Identifying and then providing guidance and training to all lone workers
- c) Improving safety of our vacated buildings, to include surveys of external fabric
- d) Review and reissue personal security guidance for agents and consider best ways to share guidance for H&S and Business Continuity related matters.
- e) Improve H&S competency of new line managers and PiCs across the business
- f) Monitor compliance to H&S Activity Calendars and procedures and provide reports to GE, Safety Board and Senior Leaders to enable them to support and satisfy their business areas are compliant.
- g) Consider an external audit of H&S governance, procedures and compliance during the second half of the year.
- h) Urgently increase the number of Fire Wardens and First Aiders at Finsbury Dials and review provision at all largely populated sites.
- i) Summarise and review the business crisis plan updates and evacuation plans.
- j) Review Stay Calm manuals, update contents, simplify instruction and guidance and develop a consistent process that is fit for purpose.

An action plan has been developed and an update will be provided to the GE in August

Post Office Limited Board Meetings

Author: Alwen Lyons Meeting date: 25 July 2017

Executive Summary

Context

The Directors are requested to note the future meetings dates scheduled in respect of Post Office Limited Board meetings.

Input Sought

The Board is requested to note the future meeting dates.

The Report

2017

	Date	Time	Notes
Tuesday	26 September 2017	09.30 – 14.00	
Tuesday	31 October 2017	09.30 – 14.00	
Thursday	23 November 2017	13.30 – 17.00	

2018

	Date	Time	Notes
Thursday	1 February 2018	11.45 – 16.30	
Tuesday	27 March 2018	11.45 – 16.30	
Thursday	24 May 2018	11.15 – 16.00	
Tuesday	26 June 2018	TBA	Board Away Day
Wednesday	27 June 2018	TBA	Board Away Day
Tuesday	31 July 2018	11.45 – 16.30	
Tuesday	25 September 2018	11.45 – 16.30	
Tuesday	30 October 2018	11.45 – 16.30	
Tuesday	27 November 2018	11.45 – 16.30	



Post Office Board Agenda - Draft

Date		Present	In Attendance	Apologies
26 th September 2017		<ul style="list-style-type: none"> Tim Parker (Chairman) Richard Callard Tim Franklin Virginia Holmes Ken McCall Carla Stent Paula Vennells Alisdair Cameron 		None
Start Time	Finish Time			
10.30hrs	14.45hrs			
Comments				
Papers are due 19 th September 2017				

Agenda Item	Action Needed	Purpose	Lead	Timing
1. Minutes of previous Board and Committee meetings including Status Report	Decision	Minutes formally agreed.	Alwen Lyons	10.30 – 10.35
2. CEO Report Including IR update	CEO report noted	CEO to update the Board on the report.	CEO	10.35 – 10.55
3. Financial Report	For noting	CFO to update the Board on the report	CFO	10.55 – 11.15
4. POMS strategy			Steve Ashton / Nick Kennett	11.15 – 11.45
BREAK				11.45 – 11.55
5. Performance Report – FS&T	For information and input	To review performance of FS&T.	Nick Kennett	11.55 – 12.25
6. Performance Report - Retail	For information and input	To review performance of FS&T.	Kevin Gilliland	12.25 – 12.55
7. Retail Acquisition			Kevin Gilliland / Martin Edwards	12.55 – 13.25
LUNCH				13.25 – 14.00
8. Board Committee Chair updates (verbal)	For noting	To update Board		14.00 – 14.15



Post Office Board Agenda - Draft

Agenda Item	Action Needed	Purpose	Lead	Timing
9. Ratifications of decisions made by correspondence				14.15 – 14.25
10. Items for noting				14.25 – 14.35
10.1 Sealings	For noting	Board aware of the affixing of the seal		
10.2 Health & Safety	For noting	To update Board		
10.3 Meeting dates and forward agendas				
11. AOB				14.35 – 14.45
CLOSE				14.45