Strictly Confidential

POLB 17(3rd)
POLB 17/18 – 17/33

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

Minutes of a meeting of the BOARD
held at 12.30pm on Tuesday 28th March 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)
Carla Stent	Non-Executive Director (CS)
Paula Vennells	Group Chief Executive (CEO)
Alisdair Cameron	Chief Financial and Operations Officer (CFOO)

In Attendance:

Victoria Moss	Deputy Company Secretary (DCoSec)
Jane MacLeod	General Counsel (GC) (Minutes POLB 17/22, 17/23 and 17/24)
Kevin Gilliland	Chief Executive Retail (KG) (Minute POLB 17/27)
Nick Kennett	Chief Executive Financial Services and Telecommunications (NK) (Minutes POLB 17/25, 17/26 and 17/30(part))
Jonathan Hill	Head of Financial Services Risk and Regulation (JH) (Minute POLB 17/25)
Gary Fitton	Managing Director, First Rate Exchange Services Limited (GF) (Minute POLB 17/26 (part))
Martin Edwards	Group Strategy Director (ME) (Minutes POLB 17/22 to 17/25)
Rob Houghton	Group Chief Information Officer (RH) (Minute POLB 17/28)
Christian Muir	POca Procurement Lead (CM) (Minute POLB 17/27)
Tom Wechsler	Government and Payment Services Director (TW) (Minute POLB 17/27)
Natasha Wilson	Reward, Pensions and Performance Director (NW) (Minute POLB 17/29 (part))

Apologies for Absence:

Ken McCall	Senior Independent Director (KM)
Alwen Lyons	Company Secretary (CoSec)

POLB 17/18 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.

(b) The Board noted apologies from KM and CoSec.

POLB 17/19 MINUTES OF THE PREVIOUS BOARD MEETING INCLUDING STATUS REPORT

(a) The minutes of the Board meeting held on 31st January 2017 and the extraordinary meeting held on 8 March 2017 were approved and the Chairman was authorised to sign them as a true record.

(b) **Action POLB 17/09(k): in regard to the technology strategy update and Fujitsu, RC reported that the Government had a satisfactory relationship with Fujitsu and that he would put RH in touch with the appropriate person in the Cabinet Office.**

ACTION: RC

(c) The actions status report was noted as accurate.

POLB 17/20 CEO REPORT

(a) The CEO introduced her report, focussing on the following key points.

Financial Performance – Period 11

(b) The CEO reported that the business was trading well to year end and that the target for 2016/17 of an EBITDAS of (£10m) would certainly be beaten. She was pleased to report this very positive position, the first time in 15 years that the Post Office would have an operating profit.

(c) The CEO gave thanks and credit to all GE members for this result but in particular commended the work of Martin Kirke who had become HR Director late in the financial year but who had delivered the necessary HR changes and set a high standard with his own team.

Funding Agreements

(d) The CEO stated that a full update would be provided under agenda items four and five but summarised that while a final position had yet to be reached, the team was working hard and hoped to be in a good position by the end of May. She gave thanks to RC and his team, particularly for the current good position with the documentation.

Network Transformation

(e) The CEO was pleased to report that with KG she had attended the opening of the 7,000th branch. The branch at Wheatley in Oxfordshire was a well performing branch, now in a good new location.

Banking Framework

(f) The CEO confirmed that the budget figures for 2017/18 included a full fee for the banking framework. The framework was growing year on year and Martin Kearsley, Banking Services Director, had recently given an interview for BBC radio. Increased media coverage of the banking framework was anticipated. The House of Lords had recently been extremely positive about the banking services provided by Post Office and recommended that these services be proactively promoted.

(g) BBC Tender

The CEO reported on progress with the BBC TV Licence tender, confirming that the final stage had been reached with the only other bidder being PayPoint, which currently held the contract. There was a potential issue with transition costs which could be around £3.5m if there were content changes.

(h)

The CEO continued that the contract was considered to be worthwhile even at a breakeven or small profit position. The scope for working the contract to become more profitable once won was marginal but the key consideration was how the contract would drive footfall.

(i)

The Board noted that for both the BBC tender and for POCA the main benefit was footfall and questioned whether there should be a reduction in what agents were paid for high footfall activities. The CEO confirmed that the current proposal was for between 7 and 12 pence per transaction, a reduction from 14 pence. There was potential to drop the per transaction payment to between 6 and 12 pence but currently in multiples PayPoint was paying between 14 and 16 pence so a drop down to 6 pence, for example, would be very unpopular and challenging to implement and manage.

(j)

The Board agreed that robust discussion would be necessary around what agents were paid, how to structure agents pay with high footfall activities and the benefit to the network.

ACTION: KG?

(k)

The CEO confirmed that the tender would be submitted before the end of the week with a final decision expected in May 2017. The Board expressed its support for the BBC TV Licence tender submission and noted that success with the tender would assist with funding conversations with the Government.

(l)

Supply Chain

The CEO confirmed that the restructure of Supply Chain had progressed well and was now entering its final phase. She commended the CFOO and his team for the success of the project. The Board acknowledged that the programme had been well executed and was encouraged by this demonstration of the business' ability to undertake such a project which would have enormous benefits. The CFOO reported some initial problems in London East for which a remedial plan was in place but that otherwise all was running well.

(m) Pensions
Regarding the closure of the deferred pension scheme, the CEO wished to formally thank VH for her assistance and to comment on the great work by NW and her team. The CFOO also thanked RC who had assisted with the engagement with HM Treasury.

(n) Industrial Relations
Regarding industrial relations, the CEO confirmed that there were no particular risks or concerns to report at the present time. Dave Ward had requested a meeting with the CEO with a view to ending the dispute and while PV was happy to have that meeting she had been clear that Post Office had no

(o) intention of a change in approach.

The Chairman stated that with Post Office in sight of reaching a position of profitability, there was a challenge to how the importance of that might be communicated to staff. Staff needed to be aligned to the idea that profitability was key not for its own sake but for necessary future reinvestment. The CEO confirmed that staff understood that reaching a position of profit was simply a point in the journey and while that point should be celebrated this would be balanced with an acknowledgement of the challenges remaining ahead.

(p) Mails
The CEO confirmed that further to the discussion at the previous meeting with KG and Mark Siviter, Managing Director Mails and Retail, they were now aligned on the matter of net

(q) discount.

Project Sparrow

(r) The CEO confirmed that JM would provide an update on Project Sparrow when she attended for a later item on the agenda.

The Chairman thanked the CEO for her report. The Board noted the report from the CEO.

POLB 17/21 **FINANCIAL REPORT**

(a) The CFOO presented the financial performance report for period 11 2016/17 and confirmed that financial performance had improved in the last few months with all forecasts now suggesting breakeven by the end of 2016/17 on a like for like basis. The profit share true up with Bank of Ireland had been received in period 11.

(b) The CFOO continued that accounting for the closure of the DB pension scheme had been discussed by the Audit, Risk and Compliance Committee on 28 March 2017. It had been agreed that this must not be taken below the line and that the supply chain benefits P&L should be stripped out. This was subject to audit but it was expected that the proposed approach would be accepted.

(c) The CFOO reported that all branches had hit targets, the organisation's cashflow was fine and close to forecast. It had been a poor year for mortgages with the propositions built on being price led which had not proved successful. Owen Woodley, Managing Director Post Office Money, had been reworking the online journey for mortgages which was seeing some success. New mortgage propositions would be launched in the near future.

(d) **The Chairman requested an additional KPI for the future, with full year forecast to be added alongside full year target.**

ACTION: CFOO

(e) The CFOO continued that three products which had performed consistently behind in 2016/17 were lottery, POca and telecoms. There was very little to be done about lottery as Camelot was aggressively driving sales online. POca was a product in decline and more detail was presented later on the agenda.

(f) Regarding telecoms, the CFOO reported that Ofcom had given a ruling on BT, enforcing a price reduction. Post Office currently priced 10 per cent below BT on home phone which was the most profitable product for telecoms. Strategic choices would be presented in the summer.

(g) RC commented that HM Treasury was likely to question why Post Office did not sell its telecoms business and care was needed around communication of the preferred position. While he supported proper exploration of all options he emphasised the need to consider the government position.

(h) CS stated that she had raised some concerns around the acquisition of New Call, approved by the Board by correspondence on 22 March 2017. Her concern had been primarily around whether it was a strategic move but she had reached a position of comfort after receiving further information. The Board had agreed that the acquisition added value and made the telecoms business more saleable.

(i) Regarding the presentation of the financial report, the CFOO confirmed to the Chairman that for most of the year results were against budget but for periods 11 and 12 that shifted to against forecast as end of year approached. **The Chairman requested that a comparison against prior year be added.**

ACTION: CFOO

(j) The Board <u>noted</u> the financial performance report for period 11 2016/17.

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POLB 17/22 2017/18 PLAN, FUNDING AND CASTLE UPDATE (INCLUDING 2017/18 INCENTIVES)

(a) The GC and ME joined the meeting.

(b) The CFOO introduced the paper which followed the Board's approval in January 2017 of an EBITDAS target of £28m for 2017/18. Following review and decision by the Remuneration Committee, STIP targets were now submitted to the Board for approval together with the below the line spend plan. The paper also provided an update on Project Castle and the potential implications for the 2017/18 Plan. The CFOO reminded the Board that its approval of the 2017/18 Plan was required to allow BEIS to release the £140m of network subsidy and investment funding due in April 2017. If funding was very different from what was expected there might be a need to amend the Plan.

(c) The CFOO explained that the organisation's change activities were not progressing as quickly as had been anticipated. Some of this delay was resource related, some concerned IT and some was the unintended consequences of establishing programmatic discipline. A 'drains up' review would be carried out to enable some re-planning. Whilst acknowledging these challenges, the Chairman stated that the overall shape of the Plan remained and he emphasised the need to get ahead of core contract costs faster than revenue contracts, until there was an improvement in financial services performance.

(d) The CFOO continued that the elements of the Plan which were easiest to stop were those elements which were needed for growth and why a fully funded Plan would take the Post Office to a position of sustainability. The Board emphasised that the Shareholder needed to decide whether it wished the Post Office to grow or shrink and consequently whether the strategy should be for long term growth or short term affordability. It was also noted that a sharp decline in the business after three or four years was inevitable without adequate investment. RC confirmed that those messages were being communicated and emphasised to government. Cross governmental buy in was required, ME confirmed that a meeting with the Secretary of State would take place later that day.

(e) Asked about the levers to keep revenues level, the CFOO commended the mails team for its outstanding job in keeping mails performance flat. While the financial services core business was currently not growing, the banking framework had made a significant difference. The major commercial opportunity over time was in identity services.

(f) The Chairman emphasised the need to monetise the value of the Post Office brand, for example with Bank of Ireland. He commented that it was challenging to understand how

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telecoms revenue could be increased.

(g) The Chairman sought clarification over why net income was provided as the profit figure. The CFOO explained that some business areas had cost of sales, while some did not, this meant that it was not possible to compare at a gross sales level. For mails rather than having a cost of sales, the payments to agents were operating costs.

(h) The Chairman questioned whether in Post Office's move towards more of a position of franchise manager there was an argument to say that each trading activity was a profit contributor rather than a fixed overhead. This approach might question the level of Postmaster share of value. CS also asked what value was attributed to ancillary sales. The CEO welcomed the Chairman's challenges and **ME committed to return to the Board in May or June 2017 with trading activity data for discussion.**

ACTION: ME

(i) The Chairman further questioned whether an assessment had been made around the value of each locality of having a Post Office versus not having one. He also wanted assurance that opportunities for better value from those with whom there were existing arrangements were not overlooked. It was important to have the right network structure and the right economics for each Postmaster.

(j) ME explained that granularity was required at a local level. Currently data was available for types of branches rather than on a branch by branch basis. The CEO noted the large amount of data available but that there was a need for a quality piece of work to digest and consider this data. As had been the approach with Project Peregrine, she proposed that **Macquarie be invited to complete this work to consider locality plans, related remuneration, valuation of the Post Office franchise and an understanding of the footfall equation.**

ACTION: ME

(k) The Chairman advised the need for greater consideration of income cost.

(l) The CFOO confirmed the plans for 37 directly managed branches (DMBs) to be franchised out in 2017/18. This was an internal planning figure used for costings and if a deal was established with Ryman this number would change.

(m) In relation to the growth fund, the CFOO reminded the Board of the discussions in January 2017 and confirmed that marketing money had not been spent well. If the franchising of the DMBs was pushed to 38 this would give £10m which might be needed for matters such as POca rather than for investment in growth.

(n) One area of growth was the insurance business delivered through the subsidiary company Post Office Management

Services Limited (POMS). POMS had intended to exercise in 2017 the option for early buy out of Junction, POMS' main general insurance supplier, but this had been postponed, largely due to an issue with renewals. Once this buy out was completed, now expected in 2018, this would move POMS further up the supply chain with a move into underwriting providing more flexibility. **The CEO committed to provide the Board with a further update on this long term intention for POMS**.

ACTION: NK

(o) The CFOO informed the Board that NK, as CEO of POMS, and the Chairman of POMS, Steve Ashton, had raised concerns that the marketing provision by Post Office to POMS through the Master Services Agreement had not been reaching the required standard. It was hoped that actions now put in place would bring improvements.

(p) VH raised a concern that Post Office remained slightly behind marketplace changes. She recognised that the financial services market was moving quickly, particularly Fintech, but market insight needed to be improved.

(q) Following robust discussion and consideration of the paper, the Board:

1. approved the financial and operating plans for 2017/18, confirming the proposed STIP targets; and
2. noted the uncertainties of funding and the potential implications for the plan, requesting a final review and assessment when funding details were available.

POLB 17/23 APPROVAL OF FUNDING AGREEMENTS

(a) ME introduced the paper which set out the current position with the funding documentation to give effect to the approval from BEIS of funding totalling £110m, comprising the network subsidy funding for 2018/19 and 2019/20 as well as the extension of the £950m 'working capital' facility through to March 2021. It was expected that these documents would be signed before 31 March 2017 which would assist the Board in satisfying the rolling 12 month look forward test for going concern for the purpose of the audited accounts and the view on the financial certainly of Post Office.

(b) ME reminded the Board of the telephone call on 8 March 2017 regarding the funding agreements. He thanked RC for his hard work and for the work of his team on the working capital and subsidy matters which had resulted in the current position of being ready to sign. ME continued that the requirements were mostly the same but additional flexibility now recognised funding uncertainty.

(c) Regarding the existing requirement for a minimum number of branches, this now became a shareholder expectation, for a

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minimum of 11,500, set out in a letter to the Chairman, rather than a contractual requirement.

(d) JM confirmed that the requirement for an update on mutualisation plans had been reworded.

(e) VH sought assurance that the resource was available to deliver the strategic plans. ME confirmed that the challenge would be significant if big changes were required but that directional output from HM Treasury in April 2017 would assist with this.

(f) Regarding the matter of Post Office being a going concern, CS confirmed this had been discussed in detail at the 28 March 2017 meeting of the Audit, Risk and Compliance Committee. She explained that the key was network funding and working capital of which there was sufficient, together with sufficient cash levels and therefore enough headroom. The CFOO continued that as more clarity emerged on investment funding there might be a need to reconsider the investment strategy.

(g) RC confirmed the Government's agreement to sign the funding documentation subject to minor final amendments. **He committed to email the Board to confirm when signing had taken place.** The Chairman thanked RC for his contributions.

ACTION: RC

(h) The Board:

1. noted the timetable for agreeing the Funding Documents;
2. approved the terms of, and the transactions contemplated by, the following draft documents:
   i. Funding Agreement between the Secretary of State and Post Office Limited contemplating a total of £110m network subsidy payments for 2018/19 and 2019/20 (the 'Funding Agreement');
   ii. Entrustment Letter being a letter from the Secretary of State for the Department of Business, Energy and Industrial Strategy addressed to Paula Vennells as Chief Executive Officer of Post Office Limited and headed 'Entrustment of Post Office Limited with the Delivery of Certain Public Services' (the 'Entrustment Letter'); and
   iii. the Deed of Amendment relating to the Post Office Limited £950m Credit Facility Agreement between Post Office Limited and the Secretary of State for the Department of Business, Energy and Industrial Strategy;

   (together: the ' Funding Documents')
3. noted the terms of the "Chairman's" letter being a letter from Mark Russell, Chief Executive of UK Government Investments addressed to Tim Parker as Chairman of the

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4. Board of Post Office Limited;
5. resolved to execute and perform each of the Funding Documents;
6. authorised any director or Authorised Signatory to execute each of the Funding Documents on behalf of Post Office Limited; and
7. authorised any director, Authorised Signatory or the Company Secretary to sign and/or dispatch all documents and notices to be signed and/or dispatched by it under or in connection with each of the Funding Documents.

POLB 17/24 **SPARROW UPDATE**

(a) The GC provided a verbal update on Sparrow.

(b) The GC explained that a group litigation order in January 2017 had begun the process with the order being signed in the week beginning 20 March 2017. An increase in noise from Postmasters was anticipated, together with the possibility of some adverse press. The action was progressing with the six month period for Postmasters to join ending in June 2017. The legal team was in the process of retrieving the files for the 81 individuals already confirmed, 197 had replied to date.

(c) At the case management conferences in October 2017 the court would determine how to go forward but it was expected to be late 2018 before anything was confirmed. Cases would be tested on particular themes and if enough Postmasters' claims were similar they would be grouped together. Many were around the nature of the contracts between Post Office and Postmasters. Claims were yet to be quantified but as Postmasters joined they were being told that should the matter go to court and any award be given against Post Office, the first £21m would go to pay legal costs and other expenses. This large expectation of claims value was highly inflated and what was legally enforceable would be much lower.

(d) The GC confirmed that she was pleased with current progress with the group litigation and welcomed the court process. She confirmed that a QC and a junior were working on the matter and looking at risk. The argument of implied contracts and a duty of good faith was not expected to be successful.

(e) The Board noted the verbal update on Sparrow and thanked the GC.

(f) The GC left the meeting.

POLB 17/25 **FS GROWTH AND UDATE ON PEREGRINE**

(a) NK and JH joined the meeting.

(b) NK introduced the paper which provided the Board with an update on the Post Office Money strategy, including the incubator activities and proposed approach.

New Normal

(c) NK reported that the 'new normal' customer positioning was in use for mortgages and for some of the insurance products delivered by Post Office Management Services Limited (POMS).

Peregrine

(d) NK confirmed that Peregrine negotiations had begun slowly but that recently Bank of Ireland (BoI) had come to recognise the importance of Post Office to its business and subsequently wished to explore how to build the mutual business. BoI was keen for Post Office to commit to investment in digital and therefore the commercials for building digital capability for both the savings and investments products were being explored.

(e) NK identified two potential challenges in the ongoing negotiations with BoI. The first being Gordon Gourlay's, Post Office's key contact with BoI, expected absences in the near future and the second being the recently announced retirement of Richie Boucher, BoI Group CEO, before the end of the year. Richie Boucher had been a long term supporter of BoI's relationship with Post Office.

Falcon

(f) In relation to Project Falcon, NK confirmed that the world of fintech was moving extremely fast. His team was taking a strategic check of all different models and options and it had been confirmed that Post Office building its own solution was not feasible. A number of fintech providers had been engaged with in the assessment of the range of solutions and options to deliver the 'Strong Integrator' model.

(g) There had been a good level of interest from those firms with whom there had been engagement, with particular enthusiasm for the brand and the scale which Post Office could bring. **Due diligence was being completed and NK would return to the Board with a concept for consideration, this was likely to be in May or June 2017.**

ACTION: NK

(h) NK continued that in considering the funding and partnership structure, preparatory work had begun to establish a subsidiary firm structure. He explained that in order to deliver the Post Office Money strategy, it was likely that regulatory permissions as a principal firm would be needed from the FCA and this would be better positioned via a regulated subsidiary, as with POMS, than for Post Office to become a regulated principal firm.

(i) POMS

In response to a question from the Board, NK confirmed the current figure for general insurance policies as 1.2 million, 50

(j) per cent of which were travel policies. NK confirmed that POMS had a long term option to move into underwriting (although not for the car product) which its FCA licence allowed on a profit share basis. Before this would be possible, there needed to be completion of the project to buy out Junction, POMS' main general insurance supplier, and the Post Office Board would need to approve the increase in risk appetite.

ACTION: NK

As part of the long term financial services strategy, this potential future move into underwriting activities would be brought to the Board away day for further discussion and update.

(k)

<u>Mortgages</u>
(l) NK confirmed that figures on mortgages had improved, with February 2017 being the best performing month in the financial year. However, February's numbers were still less than those seen 18 months previously and remained less than the level required. NK assured the Board that improvement was anticipated with the launch of the new product structures and with a focus on specific customer segments.

(m) The Board <u>noted</u> the progress with the Post Office Money strategy and:

1. <u>confirmed</u> a mandate on the business to engage fintechs on development opportunities, including potential investments/acquisitions and alternative funding models for the Strong Integrator platform; and
2. in anticipation of working with fintechs and others to deliver the Strong Integrator model, <u>agreed</u> that management should initiate the work to establish an enabling subsidiary,

ME and JH left the meeting.

POLB 17/26 FRES BUSINESS UPDATE AND STRATEGIC OVERVIEW

(a) NK introduced the FRES business update and strategic overview, explaining that GF, Managing Director of FRES for around three years, would be joining the meeting to present this item. NK reminded the Board that Post Office had a long standing relationship with FRES, which was a 50/50 Joint Venture with Bank of Ireland (BoI). However, the arrangement was proving to be more beneficial for BoI.

(b) The Chairman noted that FRES was a market leading business but stressed that if it was not making money for Post Office then the Board would need to consider what action it should take as one of the parent companies.

(c) GF joined the meeting.

(d) The Chairman welcomed GF to the meeting and noted apologies from Gordon Gourlay, FRES CEO.

(e) GF explained that his presentation would provide an update and review of FRES performance together with a strategic overview. Foreign exchange was what Post Office was known for after mails and he reminded the Board that trading had begun in the 1990s with the arrangement formalised with FRES in 2002 under a Joint Venture Agreement (JVA).

(f) In its first 15 years of operation, FRES had generated profits of £1.2bn and established a 24 per cent market share. The business had expanded to travel money online, the travel money card and international payments. FRES owned its value chain, starting with the wholesale business and the acquisition of the American Express wholesale currency business was due to complete in April 2017.

(g) GF gave the Board a demonstration of the new multi-currency travel money card, which could hold 13 different currencies on a single contactless card. The launch of this new card built on the investment in digital information. There were new banking and settlement arrangements for all currencies. The website had been built and was run in house and had migrated one million customers. Real time identification had been enabled, ahead of the fourth money laundering directive.

(h) Customers were able to top up their travel money cards via an app and this functionality had seen customers spend three times as much, since they were able to top up their cards whilst abroad, this changed the strategy. Customers with the multi-currency card were able to benefit from or to lose money, at a retail rate, on moving funds to different currencies within their wallet. There were very low levels of fraud on the travel money cards and commission was included in the margin.

(i) Referring to the market and competition slide, GF confirmed that the main competitors to FRES on the high street were the major supermarkets. Then Travelex had around 20 per cent of the market share, but in the UK it lost money due to the nature of its business model. Travelex was followed by Moneycorp and then Marks and Spencer (provided by HSBC).

(j) Referring to the key strengths slide, GF confirmed that the material point of canibalisation with the travel money cards had yet to be reached. It was acknowledged that over time the expected increased use of the cards would reduce foreign exchange footfall in branch. Currently, the same day ‘click and collect’ in branch was proving popular.

(k) The future developments for FRES included further digitisation and GF confirmed IT development was carried out in house with outsourcing of offshore capability to HCL. GF confirmed the need for FRES to have Post Office’s continued support to manage the network transformation impact on foreign exchange sales.

(l) The Chairman commended GF on FRES' performance but expressed the Board's concern over the low level of value share for Post Office, particularly since Post Office owned the brand. The CFOO added that it might be necessary for GF to run the business for more profit in the short term if it proved difficult to amend the JVA.

(m) The Board noted the update provided on FRES.

(n) NK and GF left the meeting.

POLB 17/27 **POCA**

(a) KG, CM and TW joined the meeting.

(b) KG introduced the paper which set out the current position with the procurement to select new POca suppliers and the current contingency recommendation to indefinitely extend the current contract and negotiate commercial terms under that contract.

(c) KG continued that the existing contract Post Office had with suppliers to provide POca was due to expire in April 2017 and no bank had expressed interest in becoming a supplier. JP Morgan (JPM) had obligations under the existing contract but did not wish to continue with the contract.

(d) [redacted]

(e) The Chairman noted the detailed negotiations and advised that KG and his team should be as firm as possible in pushing the Post Office's favoured position as negotiations continued. He questioned whether the amount paid to Postmasters could be reduced.

(f) KG advised there were a number of levers, for example, ATM functionality. Post Office was working with banks to push forward the option for customers to have basic bank accounts, rather than POca, reducing cost to both Post Office and the Department for Work and Pensions (DWP). KG continued that there was a need to take into consideration that if Libor increased, rates could increase again. Postmasters needed to be given an incentive to move from POca to basic accounts and as with bill payment accounts, for example, footfall was the main driver.

(g) The Board asked about the role of digital wallet developments and TW confirmed that HPE was keen to work in this space.

While the impact on branch footfall would need to be addressed, the DWP's aim was to migrate all POca customers to bank accounts. The team to take this forward was being stood up to engage in strategic conversations with the DWP. It was explained that the technical solution which involved holding deposits of other people's money had genuine complexities and there was also regulation and cash management to consider. CM added that while digital wallet could work well for transactional customers, it worked less well for pensioners, which highlighted the need for a blend of products to replace POca.

(h) The Board noted the update on POca and delegated authority to the Group CEO to give notice to extend the current POca contract with HP Enterprise Services indefinitely.

(i) KG, CM and TW left the meeting.

POLB 17/28 IT NETWORKS PROGAMME UPDATE

(a) RH joined the meeting.

(b) RH introduced the paper which provided an update on the IT networks programme and asked the Board to approve the changes to cost and savings as agreed at the ESG or Group Executive. He explained that Board submission was required as the scoping change fell outside the ten per cent tolerance level. He confirmed that there was no viable alternative to the proposal presented.

(c) The Board approved the changes to the IT transformation programme's changes to cost and savings as agreed at ESG or Group Executive, to bring the total investment spend to £31.9m with annual operational cost savings of between around £2.3m to £2.9m.

(d) RH left the meeting.

(e) The Board was pleased to note its confidence in RH and the great progress being made with the IT transformation programme.

POLB 17/29 BOARD COMMITTEE CHAIR VERBAL UPDATES

Audit, Risk and Compliance Committee (ARC)

(a) It was noted that all Board members other that VH had been at the ARC, and were therefore aware of the matters discussed. It was agreed that CS would brief VH separately.

(b) **It was agreed that going forwards VH should be provided with the ARC papers for her information.**

ACTION: CoSec

Remuneration Committee

(c) In KM's absence, NW joined the meeting to provide an update on remuneration.

(d) NW reported good progress with the executive remuneration strategy which KM had submitted to Margot James, Under Secretary of State for Business, Energy and Industrial Strategy. She thanked RC for his assistance and he confirmed that the remuneration arrangements for 2016/17 had been signed off.

(e) **The design principles for 2017/18 were in final stage and now required Remuneration Committee approval. Since the next meeting of the Committee was scheduled for May, the Board agreed that this approval could be sought be correspondence.**

ACTION: NW/ CoSec

(f) NW left the meeting.

POLB 17/30 **CONTRACT APPROVALS**

Fleet

(a) The CFOO introduced the paper regarding vehicle management contracts, which explained the proposal to move from a suite of ten legacy contracts to two new contracts. These new contracts would provide end to end vehicle management, one for commercial vehicles and one for cars. He explained that the new arrangement, bringing cost reductions and flexibility on volumes, was expected to be very beneficial.

(b) VH commented that the majority of private companies no longer provided cars as a perk and questioned the retention of this benefit. **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.**

ACTION: Martin Kirke

(c) The Board delegated authority to the CEO and the CFOO to contract with BT Fleet and Inchcape for all services (excluding fuel) associated with the provision and running of the commercial and company car fleets respectively for five years with the option of two one year extensions on the terms set out.

Multi-Currency Travel Money Card

(d) **Taken after minute POLB 17/25 while NK was present.** NK introduced the paper which explained that following the launch of the Travel Money Card in May 2011, an enhanced Multi-Currency Card had been prepared for launch. First Rate Exchange Services Limited would continue to be the programme manager with the new card but would replace Clydesdale Bank as card issuer.

(e) NK continued that while the maximum liabilities in the updated contract were unchanged from the existing contract, they exceeded the management delegation level of £5m. The maximum exposure was for third party intellectual property

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rights indemnity which was capped at £20m.

(f) The Board approved the level of liability for the new Travel Money Multi-Currency Card contract and authorised the execution of the contract.

POLB 17/31 RATIFICATIONS OF DECISIONS MADE BY CORRESPONDENCE

(a) The Board ratified the decision it had made by email correspondence on 22 March 2017, in accordance with Article 92 of the Company's Articles of Association, to:

1. note the reduced NPV in the proposed New Call customer acquisition;
2. resolve that the proposed acquisition be approved; and
3. delegate authority to the CEO and/or CFOO to execute.

POLB 17/32 ITEMS FOR NOTING

Committee Terms of Reference Reviews

(a) The Board noted that the Nominations, Remuneration and Audit, Risk and Compliance Committees had reviewed their performances against their respective Terms of Reference. No gaps had been identified and no changes were currently proposed.

Register of Sealings

(b) The Directors resolved that the affixing of the Common Seal of the Company to documents numbered 1483 to 1501 inclusive in the seal register was confirmed.

Health and Safety

(c) The Board noted the safety and wellbeing performance, risks and mitigating activity within the Health and Safety report.

(d) CS confirmed that the Health and Safety report had been discussed at the Audit, Risk and Compliance Committee (ARC). The ARC had noted that health and safety was well controlled and managed but had asked for the submission of benchmarking data for some areas such as robberies.

(e) **The Chairman requested that Directors be provided with a short briefing paper to clarity their personal liabilities in all areas.**

ACTION: GC

Meeting Dates and Forward Agenda for May 2017

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

(g) **The Chairman asked for the timing of the meetings of the Board and its Remuneration and Nominations Committees on 24 May 2017 to be amended. The committees to be held between 9.00am and 10.20am to allow for the Board to**

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ACTION: CoSec		**begin at 10.30 for a finish by 4.00pm.**
	(h)	Proposed Board and Committee Dates for 2018 The Board noted the proposed meeting dates for the Board and its committees in 2018.
ACTION: All/ CoSec	(i)	**Directors were asked to contact CoSec if any dates were not convenient and for CoSec to amend dates as necessary.**

POLB 17/33 **ANY OTHER BUSINESS**

(a) There being no further business the Chairman closed the meeting at 3.50pm.

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Chairman **Date**