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Reclaim Fund Ltd, Registered number: 07344884
Reclaim Fund Ltd

Directors' report

The directors present their report and financial statements for the 72 week period ended 31 December 2011.

Business review

**Principal activities**
The principal activity of Reclaim Fund Ltd (the Company) is that of management of dormant account monies. The Company was incorporated on 13 August, 2010. The Company began actively trading on 28 March 2011 after obtaining FSA approval, having previously been dormant.

The Company was established as a direct result of the Dormant Bank and Building Society Accounts Act 2008. The Act enables banks and building societies, that choose to participate (Participants), to transfer money from their dormant bank and building society accounts into the Company for ongoing distribution for the benefit of the community. It also ensures that the right of account holders to reclaim their money is protected in perpetuity by transferring the individual’s right against the bank or building society to the reclaim fund.

**Review of the period**
On 16 November 2010, the Company authorised and issued 100 ordinary shares of £1 at par to Co-operative Banking Group Limited.

During the period, the Company accepted £369m of dormant account monies from nine financial institutions. Given the lack of reclaim experience, cautious provisions for future reclaims of £147m were made, resulting in a profit for the period of £74m after setup and running costs of £5m.

The Company is run on a not for profit basis. The profit for the period represents surplus funds after costs, retained by the Company in order to establish the necessary capital base to ensure the long term viability of the organisation. Net assets at the balance sheet date amounted to £74m. The only distributions the Company can make are to the Big Lottery Fund in support of good causes.

On 2 August 2011 a distribution of £30m was made to the Big Lottery Fund. This was followed by £6.5m on 13 October 2011 and £11.1m on 22 December 2011, taking the total distributions for the period to £47.6m.

Additionally, provisions for future distributions of £95m have been recorded.

**Future outlook**
During 2011 the Company evolved from a ‘start-up’ operation into a fully fledged reclaim fund. In 2012 the scale and sophistication of operations will continue to develop, as more dormant account balances are received and as reclaim experience continues to emerge.
Reclaim Fund Ltd

Directors’ report (continued)

Principal risks and uncertainties

The Company operates in regulated markets and is subject to legislative and regulatory requirements, with the main regulator being the FSA. Within the context of the Dormant Bank and Building Society Accounts Act 2008, the Board is responsible for strategy and for overall corporate governance, which includes ensuring that there are adequate systems of risk management and that the level of capital held is consistent with the risk profile of the business.

Risks specific to the Company are disclosed in the risk management section on pages 21 and 22.

Key performance indicators

During the period, the Company managed its performance through key performance indicators (KPIs) which reflect a balance between its participants, stakeholders, processes and financial strength.

The KPIs monitored during the period reflect the age of the company and the nature of the business. The KPIs are expected to evolve as the Company becomes more established. The specific KPIs for the Company include:

- **Participants**: Level of participation in the scheme by banks and building societies.
- **Stakeholders**: Outsourced service providers meeting agreed service level agreements on quality, cost and timeliness.
- **Processes**: Compliance with regulations and contracts with external parties.
- **Financial strength**: Reclaim rates, funds committed, cost management, capital adequacy, liquidity and distributions.

**Going concern**
The directors have considered the Company’s business activities together with its financial position and the factors likely to affect its future development and performance.

Consequently, after making enquiries, the directors are satisfied that the Company has sufficient resources to continue in business for the foreseeable future and have therefore adopted the going concern basis in preparing the financial statements. When making this assessment, the directors act within the principles of the Financial Reporting Council’s ‘Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009’ report.

**Dividend**
The Dormant Bank and Building Society Accounts Act 2008 prevents the distribution of dividends.
Directors
The directors of the Company during the period were:

Non-executive directors:
- David Anderson (Chair) (appointed 16 November 2010)
- Keith Alderson (appointed 13 December 2010)
- Paul Chisnall (appointed 28 March 2011)
- Adrian Coles (appointed 28 March 2011)
- Tim Franklin (appointed 16 November 2010, resigned 30 November 2011)
- Jane Hanson (appointed 7 October 2011)
- John Hughes (appointed 16 November 2010)
- James Mack (appointed 22 December 2011)
- Bob Newton (appointed 13 December 2010)

Executive directors:
- Paul Mills (appointed 16 November 2010)
- Adrian Smith (appointed 16 November 2010)

To ensure the successful delivery of our strategy we have established a strong Board of Directors with a comprehensive range of relevant skills, knowledge and experience. Further details are provided in the Board report on page 6.

Employees
The Company employed two persons at 31 December 2011. The average number of persons was two and their aggregate remuneration for the 72 week period was £353k. The Company operates learning and development initiatives as part of a continuous improvement programme, supporting its approach to performance management, personal development, talent and succession planning.

Administrative expenses include a management charge for the services of a group service company at cost. This recharge includes an amount for individuals who work on a full time basis for the Company, but who are employed by a fellow Co-operative Banking Group subsidiary. The average number of employees recharged from the date of FSA authorisation was three.

Diversity
The Company welcomes diversity and actively promotes a policy and practice of equality of opportunity in employment for all employees, regardless of age, disability, ethnicity, gender, religion or belief, or sexual orientation.

Financial statements
So far as the directors are aware, there is no relevant audit information of which the Company’s auditors are unaware; and the directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company’s auditors are aware of that information.

A statement by the directors as to their responsibilities for preparing the financial statements is included in the statement of directors’ responsibilities on page 8.

Supplier payment policy and practice
Most supplies and services are sourced through a group service company at cost.
Reclaim Fund Ltd

Directors' report (continued)

**Distributions**
During the period £47.6m was paid to the Big Lottery Fund for onwards distribution to good causes across the UK.

No distributions were made to the parent company (Co-operative Banking Group Ltd) as under the Dormant Bank and Building Society Accounts Act 2008, the Capital reserve cannot be distributed.

**Charitable and political donations**
No charitable and political donations were made during the period.

**Subsequent events**
No significant events have occurred since the conclusion of the financial period.

**Auditors**
On 20 December 2010 KPMG Audit Plc were appointed as auditors.

Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office.

On behalf of the Board

Adrian Smith
Director

28 March 2012
Reclaim Fund Ltd

The Board

Non-executive directors:

David Anderson (BA, MA) (Chairman)
Joined the Board in 2010. Has spent his career in financial services and currently serves as a non-executive director with NFU Mutual Assurance Ltd, the John Lewis Partnership and the mutual think tank Communicate Mutuality Ltd, which trades as Mutuo. Former CEO of Co-operative Financial Services, Yorkshire Building Society and Jobcentreplus.

Keith Alderson
Joined the Board in 2010. Member of the Co-operative Banking Group Executive. Managing Director of Corporate and Business Banking at Co-operative Banking Group. Director of a number of Co-operative Banking Group subsidiaries. 33 year career in Banking, most of which spent in Corporate Banking activities.

Paul Chisnall (BA (Hons), Dip IoD)
Joined the Board in 2011. An executive director of the British Bankers' Association and in this capacity headed up the BBA's preparatory work on dormant accounts and took part in the introduction of the 'mylostaccount' central tracing service.

Adrian Coles (BA, MA)
Joined the Board in 2011. Director-General of the Building Societies Association since 1993. Non-executive director of Communicate Mutuality Ltd, which trades as Mutuo, and Housing Securities Ltd and its subsidiary. Has previously held a variety of non-executive directorships and has also been a pension scheme trustee. Awarded an OBE in 2011 for services to financial services.

Jane Hanson (JP, BA (Hons), FCA)
Joined the Board in 2011. Chair of Audit and Risk Committee. A Fellow of the Institute of Chartered Accountants with over 20 years working in financial services. Previous executive director roles including Risk and Governance Director at Aviva Life. Non-executive director at Direct Line Group (formerly RBS Insurance), Independent Member of the Fairness Committee - ReAssure and Chair of Audit and Risk Committee at Calderdale and Huddersfield Foundation Trust.

John Hughes (MA, PhD)
Joined the Board in 2011. Led the work undertaken by Co-operative Banking Group to establish Reclaim Fund Ltd in 2010. Director of Retail Banking at Co-operative Banking Group, and director of several CBG subsidiaries. Also non-executive director of Payments Council, UK Payments Administration Ltd, and member of BBA Council and Retail Committee.
Reclaim Fund Ltd

The Board (continued)

Non-executive directors (continued)

James Mack (BA (Hons), ACA)

Bob Newton (BSc, FIA, CDir)

Executive directors:

Paul Mills (BSc (Hons), ACA)
Joined the Board in 2010 as Executive Director. Also a non-executive director of Portillion Limited. Over 25 years experience in financial services, including Director of Corporate Governance at Britannia Building Society.

Adrian Smith (DipMS)
Joined the Board in 2010 previously a senior leader at Britannia Building Society, Bank of Ireland and Bristol & West Building Society and a former non-executive director of Mutual Plus Ltd. Responsible for leading the project to establish Reclaim Fund Ltd during 2009/10 and subsequently appointed as Chief Operating Officer.
Reclaim Fund Ltd

Statement of directors’ responsibilities in respect of the directors’ report and the financial statements

The directors are responsible for preparing the directors’ report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company’s transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information on the company’s website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.
Independent auditor’s report to the members of Reclaim Fund Ltd

We have audited the financial statements of Reclaim Fund Ltd for the 72 weeks ended 31 December 2011 set out on pages 11 to 28. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors’ responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s (APB’s) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB’s web-site at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company’s affairs as at 31 December 2011 and of its profit for the 72 weeks then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors’ report for the financial period for which the financial statements are prepared is consistent with the financial statements.
Independent auditor’s report to the members of Reclaim Fund Ltd (continued)

Matters on which we are required to report by exception

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

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

Jonathan Holt, Senior Statutory Auditor
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
St James’ Square
Manchester
M2 6DS

28 March 2012
Reclaim Fund Ltd

Income statement
For the 72 week period ended 31 December 2011

Notes  £000s

Amounts received in respect of dormant accounts  3  368,563
Interest income  4  700
Interest expense  4  (135)
Net income  369,128
Setup costs  5  (4,075)
Administrative expenses  2  (1,018)
Dormant accounts reclaim provision*  10  (147,425)
Operating result before distributions  216,610
Distributions to Big Lottery Fund*  6  (47,630)
Provision for future Big Lottery Fund distributions*  11  (95,267)
Profit before taxation  73,713
Taxation**  7  -
Retained profit for the period *  1  73,713

*The purpose of Reclaim Fund Ltd is to distribute surplus monies for the benefit of good causes across the UK and always hold sufficient funds to meet reclaims in perpetuity.

*The Company is run on a not for profit basis. The retained profit for the period represents surplus funds after costs, retained by the Company in order to establish the necessary capital base to ensure the long term viability of the organisation.

**The Company is subject to corporation tax. In accordance with tax legislation, any profits arising from the Company’s continuing activity of receiving dormant account monies and making distributions to the Big Lottery Fund are non taxable. Any profits remaining from investment income, after deduction of operating expenses are taxable.

Retained profit is attributable to the equity holders of the Company. The Dormant Bank and Building Society Accounts Act 2008 prohibits the capital reserve being distributed to the parent company.

The notes on pages 16 to 28 form part of these financial statements.
Reclaim Fund Ltd

Statement of comprehensive income
For the 72 week period ended 31 December 2011

£000s

Retained profit for the period 73,713

Other comprehensive income for the period, net of taxation -

Total comprehensive income for the period 73,713

Total comprehensive income is attributable to the equity holders of the Company. The Dormant Bank and Building Society Accounts Act 2008 prohibits the capital reserve being distributed to the parent company.

The notes on pages 16 to 28 form part of these financial statements.
Reclaim Fund Ltd

Balance sheet
As at 31 December 2011

<table>
<thead>
<tr>
<th>Notes</th>
<th>£000s</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>8</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>9</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>Provision for reclaims of dormant account balances</td>
<td>10</td>
</tr>
<tr>
<td>Provision for future distributions to Big Lottery Fund</td>
<td>11</td>
</tr>
<tr>
<td>Amounts due to other Co-operative Banking Group undertakings</td>
<td>15</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>12</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Capital and reserves</strong></td>
<td></td>
</tr>
<tr>
<td>Share capital (£100)</td>
<td>14</td>
</tr>
<tr>
<td>Capital reserve</td>
<td></td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities and equity</strong></td>
<td></td>
</tr>
</tbody>
</table>

The notes on pages 16 to 28 form part of these financial statements.

Approved by the Board of directors on 28 March 2012 and signed on its behalf by:

Adrian Smith
Director
# Reclaim Fund Ltd

## Cashflow statement

For the 72 week period ended 31 December 2011

<table>
<thead>
<tr>
<th>Notes</th>
<th>£000s</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
</tr>
<tr>
<td>Amounts received in respect of dormant accounts</td>
<td>368,563</td>
</tr>
<tr>
<td>Net interest received</td>
<td>565</td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
</tr>
<tr>
<td>Dormant accounts reclaim provision</td>
<td>(5,093)</td>
</tr>
<tr>
<td>Provisions for future Big Lottery Fund distributions</td>
<td>(147,425)</td>
</tr>
<tr>
<td>Distributions to Big Lottery Fund</td>
<td>(95,267)</td>
</tr>
<tr>
<td><strong>Net cash flows from operating activities</strong></td>
<td>(47,630)</td>
</tr>
<tr>
<td><strong>Retained profit before tax</strong></td>
<td>73,713</td>
</tr>
<tr>
<td>Adjustments for non-cash items:</td>
<td></td>
</tr>
<tr>
<td>Increase in trade and other receivables</td>
<td>(2)</td>
</tr>
<tr>
<td>Increase in trade and other payables</td>
<td>461</td>
</tr>
<tr>
<td>Increase in provision for reclaims of dormant account balances</td>
<td>147,425</td>
</tr>
<tr>
<td>Increase in provision for future distributions to Big Lottery Fund</td>
<td>95,267</td>
</tr>
<tr>
<td>Adjustments for cash items:</td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td>(700)</td>
</tr>
<tr>
<td>Interest expense</td>
<td>132</td>
</tr>
<tr>
<td>Payments made in respect of participant reclaims</td>
<td>(1,507)</td>
</tr>
<tr>
<td>Taxation</td>
<td>7</td>
</tr>
<tr>
<td><strong>Net cash flows from operating activities</strong></td>
<td>314,789</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities</strong></td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td>700</td>
</tr>
<tr>
<td><strong>Net cash flows from investing activities</strong></td>
<td>700</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities</strong></td>
<td></td>
</tr>
<tr>
<td>Issue of share capital</td>
<td>-</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(132)</td>
</tr>
<tr>
<td><strong>Net cash flows from financing activities</strong></td>
<td>(132)</td>
</tr>
<tr>
<td><strong>Net increase/(decrease) in cash and cash equivalents</strong></td>
<td>315,357</td>
</tr>
<tr>
<td>Cash and cash equivalents at the beginning of the period</td>
<td>-</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at the end of the period</strong></td>
<td>315,357</td>
</tr>
</tbody>
</table>

The notes on pages 16 to 28 form part of these financial statements.
Reclaim Fund Ltd

Statement of changes in equity
For the 72 week period ended 31 December 2011

<table>
<thead>
<tr>
<th></th>
<th>Share capital £000s</th>
<th>Capital reserve £000s</th>
<th>Total £000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital issued</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total comprehensive income for the period</td>
<td>-</td>
<td>73,713</td>
<td>73,713</td>
</tr>
<tr>
<td>At 31 December 2011</td>
<td>-</td>
<td>73,713</td>
<td>73,713</td>
</tr>
</tbody>
</table>

The notes on pages 16 to 28 form part of these financial statements.
Reclaim Fund Ltd

Notes to the financial statements
For the 72 week period ended 31 December 2011

Basis of preparation

Reclaim Fund Ltd is a limited liability company, incorporated in Great Britain and registered in England and Wales.

The financial statements have been prepared under the historic cost convention. The company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards (IFRSs) in issue that are endorsed by the European Union (EU) and effective at the beginning of the period.

In preparing these financial statements, the Company has adopted the following standards and interpretations that are new or revised and became effective during the period:

Standards and interpretations issued and effective

There were no standards or interpretations that became effective during the period that are relevant to the Company’s operations.

Standards and interpretations issued but not yet effective

The following amendments, standards and interpretations which have been issued but are not yet effective are considered relevant to the Company’s operations:

- IFRS 9 (Financial Instruments: Classification and Measurement)

  The objective of this new standard is to gradually phase out IAS 39 Financial Instruments: Recognition and Measurement. Phase one of this process specifically requires financial assets to be classified as at amortised cost or at fair value.

  Early adoption is permitted, once endorsed by the EU. The impact of IFRS 9 is likely to be immaterial to the Company once it becomes effective as of 1 January 2015.

- Amended IAS 1 (Presentation of financial statements on the statement of comprehensive income (2010))

  This amendment proposes to split the presentation of other comprehensive income into two sections. The different sections will distinguish between items which may or may not be recycled in to any future profit or loss.

  Early adoption is permitted, once endorsed by the EU. The impact of IAS 1’s amendment is likely to be immaterial to the Company once it becomes effective as of 1 July 2012.
Reclaim Fund Ltd

Notes to the financial statements (continued)
For the 72 week period ended 31 December 2011

Going concern

The directors have considered the Company’s business activities together with its financial position and the factors likely to affect its future development and performance.

Consequently, after making enquiries, the directors are satisfied that the Company has sufficient resources to continue in business for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements. When making this assessment, the directors act within the principles of the Financial Reporting Council’s ‘Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009’ report.

Significant accounting policies

(a)  Revenue recognition
(i)  Amounts received in respect of dormant accounts

Amounts received in respect of dormant accounts represents receipts from other UK based financial institutions of dormant account monies and are recognised in accordance with IAS 18 (Revenue) where there is a probability that future economic benefits will flow to the Company and these benefits can be measured reliably.

(ii)  Interest income

Interest income is recognised on an effective interest rate (EIR) basis, inclusive of directly attributable incremental transaction costs and fees, and discounts and premiums where appropriate. The EIR spreads the interest income over the expected life of the instrument. The EIR is the rate that, at inception exactly discounts expected future cash payments and receipts through the expected life of the instrument to the initial carrying amount. When calculating the EIR, the Company estimates cash flows considering all contractual terms of the instrument (for example, prepayment options), but does not consider future credit losses.

(b)  Provisions

A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Upon transfer of dormant accounts monies from UK financial institutions to the Company, the right of individual account holders to reclaim their money is also transferred from the financial institution to the Company.

The Company therefore records a provision for future repayments of dormant account balances. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate, based on actual reclaim experience. The directors regard this provision as a key accounting judgment.
(b) **Provisions (continued)**
The calculation of the provision for future repayments of dormant account balances is inherently complex, with significant amounts of uncertainty. The directors have applied a cautious level of stress within the calculation of the provision which they believe implicitly accounts for the long term nature of the provision.

The Company also records a provision for future distributions to the Big Lottery Fund. This represents amounts which the Company intends to pay over to the Big Lottery Fund in future periods. The provision is recognised as a result of the uncertainty in respect of the timing of when these payments will be made. The directors regard this provision as a key accounting judgment.

(c) **Distributions to Big Lottery Fund**
The Dormant Bank and Building Society Accounts Act 2008 dictates that the Company is obliged to pay over the excess of dormant account monies received, after deduction of running costs to the Big Lottery Fund for ongoing distribution to the benefit of the community.

Distributions to the Big Lottery Fund are recognised in the Income statement when a constructive or legal obligation exists for payment.
Significant accounting policies (continued)

(d) Taxation
The Company is subject to corporation tax. In accordance with tax legislation, any profits arising from the Company’s continuing activity of receiving dormant account monies and making distributions to the Big Lottery Fund are non taxable. Any profits remaining from investment income, after deduction of operating expenses are taxable.

Corporation tax can consist of both current tax and deferred tax. Corporation tax is recognised in the income statement except to the extent it relates to items recognised directly as other comprehensive income, in which case it is recognised in the statement of comprehensive income.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided for is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be released or realised.

(e) Cash and cash equivalents
Cash and cash equivalents comprise cash balances and balances with a maturity of three months or less from the acquisition date, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(f) Capital reserve
The capital reserve represents surplus funds after costs, retained by the Company in order to establish the necessary capital base to ensure the long term viability of the organisation.

Under the Dormant Bank and Building Society Accounts Act 2008, the capital reserve is not distributable to the parent undertaking. This reserve however, is distributable to the Big Lottery Fund.
Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described within the significant accounting policies above.

Significant areas of estimation uncertainty that have the most significant effect on the amounts recognised in the financial statements relate to the provision for reclaim of dormant account balances (£145.9m) and the provision for future distributions to Big Lottery Fund (£95.3m).

**Provision for reclaim of dormant account balances**
Upon transfer of dormant accounts monies from UK financial institutions to the Company, the right of individual account holders to reclaim their money is also transferred from the financial institution to the Company.

The Company therefore records a provision for future repayments of individuals balances. To the extent that actual reclaims are different to those provided, additional charges or income are reflected in future periods.

There is limited historical experience and industry data available for use in calculating this provision. The Company has therefore used estimates of future events based on information provided by Participants, in order to calculate the provision.

The provision is the directors cautious best estimate at the balance sheet date and is based on the estimated percentage of individuals who will reclaim their dormant accounts monies.

For every 1% increase in the dormant account reclaims provision, the impact on the operating result before distributions would be a reduction of £3.7m.

As further data becomes available in future years, the Company will continually assess the reasonableness of the provision.

**Provision for future distributions to the Big Lottery Fund**
The Company also records a provision for future distributions for payments to the Big Lottery Fund. This represents amounts which the Company intends to pay over to the Big Lottery Fund in future periods.

Due to the limited historical data available for the number of individuals who are expected to reclaim their dormant account monies, not all the surplus funds are paid over to the Big Lottery Fund immediately. The exact timing of these future payments is uncertain and depends on the value and timing of reclaims made.
Risk management

Our approach to risk management
The Board is responsible for overall corporate governance, which includes ensuring that there are adequate systems of risk management and that the level of capital held is consistent with the risk profile of the Company.

The Audit and Risk Committee oversees and challenges the risk management process, identifying the key risks and assessing the effectiveness of planned management actions.

The principal risks facing the Company are:

Reclaim risk
Reclaim risk is the risk that the Company does not retain sufficient funds to meet future reclaims in perpetuity. The Company’s policy is to maintain cautious provisions for future reclaims. The level of reclaims are rigorously monitored on an ongoing basis.

Market risk
The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest income may decrease as a result of such changes. The risk is mitigated by adherence to a strict, low risk, investment mandate.

Liquidity risk
Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. Operationally, this is the risk that unexpectedly high levels of reclaims are received and the Company does not have sufficient liquid assets to meet this obligation.

The Company’s policy is to ensure it has sufficient funds to fulfil liabilities as they fall due. Liquidity risk is mitigated through effective cash management. The Company operates to a strict investment mandate which dictates that the Company must hold a significant proportion of highly liquid assets at all times.

Credit risk
Credit risk is the risk of financial loss from a counterparty’s failure to settle financial obligations as they fall due. Credit exposures arise in the normal course of the Company’s business, principally from cash deposits. Cash deposits are currently held only with fellow Co-operative Banking Group undertakings (£0.9m) and the Bank of England (£314.5m). The Company therefore considers its credit risk to be minimal.

The maximum exposure to credit risk at the balance sheet date is £315.4m.
Risk management (continued)

Business risk
Business risk arises from changes to the Company’s business, specifically the risk of not being able to carry out the business plan and desired strategy. In a narrow sense, business risk is the risk that the Company suffers losses because income falls or is volatile relative to the fixed cost base. However, in a broader sense it is the Company’s exposure to a wide range of macro-economic, geo-political, industry, regulatory and other external risks.

Regulatory risk
The Company operates in regulated markets and is subject to significant legislative and regulatory requirements, with the main regulator of the Company being the FSA. Regulatory intervention is an ongoing feature of UK financial services.

Operational risk (unaudited*)
Operational risk is defined within the Company as the risk of loss resulting from inadequate or failed internal processes, people and systems, or external events. This encompasses the effectiveness of risk management techniques and controls to minimise these losses. Examples of such include internal and external fraud, loss of key personnel, system capacity issues or program failure and external events over which the Company has limited controls such as terrorist attack and floods.

Capital management

The Company’s primary objective in respect of capital management is to ensure that it has sufficient capital now and in the future to support the risks in the business. The directors are responsible for ensuring capital is managed appropriately on an ongoing basis to meet this objective.

The Company is required by the Financial Services Authority to hold regulatory capital in respect of its activities as a reclaim fund and capital consists of the excess of assets over liabilities. The Company has, at all times during the period under regulatory supervision, held sufficient capital to meet its regulatory capital requirement.

The Company’s capital resources are its capital and reserves per the financial statements of £73.7m.

Fair values

No fair value assumptions are made in the valuation of assets and liabilities in the financial statements.

* The information provided within the Operational risk section relates to non-financial data which it is not possible to audit. This section is therefore marked as unaudited.
Reclaim Fund Ltd

Notes to the financial statements (continued)
For the 72 week period ended 31 December 2011

1. Retained profit

Retained profit for the period is stated after charging:
  Auditor’s remuneration
  - audit of these financial statements 30
  - other non-audit services (including £746k for provision of services during set up of the Company) 761

2. Administrative expenses

The Company has two employees. Administrative expenses include a management charge for the services of a group service company at cost. This recharge includes an amount for individuals who work on a full time basis for the Company, but who are employed by a fellow Co-operative Banking Group subsidiary. The average number of employees recharged from the date of FSA authorisation was three.

Directors’ emoluments

Details of the aggregate directors’ emoluments for the 72 week period ended 31 December 2011 are shown below.

The basic salary column presented includes only those non-executive directors for whom the Company incurs the cost. Keith Alderson, John Hughes, Tim Franklin, James Mack and Bob Newton were remunerated by The Co-operative Banking Group for services rendered to all companies in the Group, including this company and are therefore excluded from the below.

<table>
<thead>
<tr>
<th></th>
<th>Basic salary £000s</th>
<th>Performance related pay £000s</th>
<th>Benefits in kind £000s</th>
<th>Total emoluments £000s</th>
<th>Annualised salary £000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-executive directors</td>
<td>94</td>
<td>-</td>
<td>-</td>
<td>94</td>
<td>110</td>
</tr>
<tr>
<td>Executive directors</td>
<td>311</td>
<td>30</td>
<td>12</td>
<td>353</td>
<td>229</td>
</tr>
</tbody>
</table>

(1) Performance related pay refers to bonus amounts earned in respect of 2011 based on financial and non-financial performance targets.

(2) Benefits in kind are in respect of travel and accommodation.

(3) The basic salary column represents salary earned from the date of appointment. The date of appointment varied for each individual director (as shown on page 4) therefore an annualised salary column is presented.
Reclaim Fund Ltd

Notes to the financial statements (continued)
For the 72 week period ended 31 December 2011

3. Amounts received in respect of dormant accounts

During the period, £368.6m in respect of dormant accounts funds was received. A detailed analysis of receipts by UK financial institution is provided below:

<table>
<thead>
<tr>
<th>Institution</th>
<th>£000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barclays Bank plc</td>
<td>59,616</td>
</tr>
<tr>
<td>Co-operative Banking Group</td>
<td>5,299</td>
</tr>
<tr>
<td>HSBC Bank plc</td>
<td>26,041</td>
</tr>
<tr>
<td>Lloyds Banking Group</td>
<td></td>
</tr>
<tr>
<td>Lloyds TSB Bank plc</td>
<td>116,297</td>
</tr>
<tr>
<td>Bank of Scotland plc</td>
<td>3,200</td>
</tr>
<tr>
<td>Nationwide Building Society</td>
<td>32,323</td>
</tr>
<tr>
<td>Northern Bank Limited</td>
<td>3,917</td>
</tr>
<tr>
<td>Northern Rock plc</td>
<td>1,485</td>
</tr>
<tr>
<td>Royal Bank of Scotland</td>
<td></td>
</tr>
<tr>
<td>Adam &amp; Company plc</td>
<td>3</td>
</tr>
<tr>
<td>Coutts &amp; Co</td>
<td>53</td>
</tr>
<tr>
<td>National Westminster Bank plc</td>
<td>52,257</td>
</tr>
<tr>
<td>The Royal Bank of Scotland plc</td>
<td>5,472</td>
</tr>
<tr>
<td>Ulster Bank Limited</td>
<td>504</td>
</tr>
<tr>
<td>Santander UK plc</td>
<td>62,096</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>368,563</strong></td>
</tr>
</tbody>
</table>

4. Interest income and expense

<table>
<thead>
<tr>
<th>£000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
</tr>
</tbody>
</table>

Interest expense:
- Interest payable on subordinated liabilities | 132 |
- Interest payable on dormant account balances reclaimed | 3 |

<table>
<thead>
<tr>
<th><strong>Total</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>135</td>
</tr>
</tbody>
</table>

On 1 March 2011, Co-operative Banking Group Ltd issued £6m of subordinated debt to the Company. The subordinated debt was repaid in full on 9 August 2011.

5. Setup costs

One off costs of £4.1m were incurred during the period in order to establish the Company ready for the commencement of trade. The setup costs consisted of legal, regulatory and professional service fees of £2.7m, resource costs of £1.3m and a number of other sundry costs. Setup costs were paid by a fellow Co-operative Banking Group subsidiary and subsequently recharged to the Company.
Reclaim Fund Ltd

Notes to the financial statements (continued)
For the 72 week period ended 31 December 2011

6. Distributions to Big Lottery Fund

During the period, £47.6m of surplus funds were distributed to the Big Lottery Fund. Furthermore, provisions of £95.3m were recorded for future distributions.

7. Taxation

The Company is subject to corporation tax. In accordance with tax legislation, any profits arising from the Company’s continuing activity of receiving dormant account monies and making distributions to the Big Lottery Fund are non-taxable. Any profits remaining from investment income, after deduction of operating expenses are taxable.

In accordance with IAS12: Income taxes, a reconciliation between accounting profit and tax charge for the period is provided below:

<table>
<thead>
<tr>
<th>Income statement</th>
<th>£000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current tax</td>
<td></td>
</tr>
<tr>
<td>Reconciliation of effective tax rate</td>
<td></td>
</tr>
<tr>
<td>Profit before tax</td>
<td>73,713</td>
</tr>
<tr>
<td>UK corporation tax at 26%</td>
<td>19,165</td>
</tr>
<tr>
<td>Non taxable income</td>
<td>(95,826)</td>
</tr>
<tr>
<td>Non allowable provision for reclaim repayments</td>
<td>38,331</td>
</tr>
<tr>
<td>Non allowable payments and provision for future distributions to Big Lottery Fund</td>
<td>37,153</td>
</tr>
<tr>
<td>Expenses not deductible for tax purposes</td>
<td>1,060</td>
</tr>
<tr>
<td>Excess expenses incurred in the period</td>
<td>117</td>
</tr>
<tr>
<td>Tax charge for the period</td>
<td>-</td>
</tr>
</tbody>
</table>

There is no tax payable for the period due to the Company having an excess of expenses over net interest income.

No deferred tax asset has been recorded in relation to the excess of expenses over net interest income. It is not probable that the Company will generate sufficient taxable profits in the future to utilise these amounts and therefore no deferred tax asset has been recognised in the financial statements.

8. Cash and cash equivalents

<table>
<thead>
<tr>
<th>Cash at bank</th>
<th>£000s</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>315,357</td>
</tr>
</tbody>
</table>
Reclaim Fund Ltd

Notes to the financial statements (continued)
For the 72 week period ended 31 December 2011

8. Cash and cash equivalents (continued)

Cash and cash equivalents consist of £0.9m held on behalf of the Company by The Co-operative Bank plc and £314.5m with the Bank of England. The carrying value of cash and cash equivalents equates to fair value.

9. Trade and other receivables

<table>
<thead>
<tr>
<th>£000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepayments</td>
</tr>
</tbody>
</table>

10. Provision for reclaims of dormant account balances

<table>
<thead>
<tr>
<th>£000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>At the beginning of the period</td>
</tr>
<tr>
<td>Additional provisions created in the period</td>
</tr>
<tr>
<td>Utilised in the period</td>
</tr>
<tr>
<td>At the end of the period</td>
</tr>
</tbody>
</table>

During the period, £1.5m of the provision for reclaims of dormant account balances was utilised. The table below shows the total value of reclaims, categorised by the UK financial institution at which the individual’s account was previously held:

<table>
<thead>
<tr>
<th>Institution</th>
<th>£000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barclays Bank plc</td>
<td>408</td>
</tr>
<tr>
<td>Co-operative Banking Group</td>
<td>-</td>
</tr>
<tr>
<td>HSBC Bank plc</td>
<td>3</td>
</tr>
<tr>
<td>Lloyds Banking Group</td>
<td>-</td>
</tr>
<tr>
<td>Lloyds TSB Bank plc</td>
<td>349</td>
</tr>
<tr>
<td>Bank of Scotland plc</td>
<td>-</td>
</tr>
<tr>
<td>Nationwide Building Society</td>
<td>3</td>
</tr>
<tr>
<td>Northern Bank Limited</td>
<td>10</td>
</tr>
<tr>
<td>Northern Rock plc</td>
<td>99</td>
</tr>
<tr>
<td>Royal Bank of Scotland</td>
<td>-</td>
</tr>
<tr>
<td>Adam &amp; Company plc</td>
<td>-</td>
</tr>
<tr>
<td>Coutts &amp; Co</td>
<td>-</td>
</tr>
<tr>
<td>National Westminster Bank plc</td>
<td>-</td>
</tr>
<tr>
<td>The Royal Bank of Scotland plc</td>
<td>-</td>
</tr>
<tr>
<td>Ulster Bank Limited</td>
<td>-</td>
</tr>
<tr>
<td>Santander UK plc</td>
<td>635</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,507</strong></td>
</tr>
</tbody>
</table>
Reclaim Fund Ltd

Notes to the financial statements (continued)
For the 72 week period ended 31 December 2011

11. Provision for future distributions to Big Lottery Fund

£000s

At the beginning of the period -
Additional provision created in the period 142,897
Utilised in the period (47,630)

At the end of the period 95,267

12. Trade and other payables

£000s

Accrued expenses 268

13. Parent undertaking

On 5 September 2011 the Co-operative Financial Services group, which includes this company, was renamed the Co-operative Banking Group.

The Company is a wholly owned subsidiary of Co-operative Banking Group Limited, which is incorporated in Great Britain and registered in England and Wales. Their financial statements are available from 1 Balloon Street, Manchester, M60 4EP.

The ultimate parent undertaking is Co-operative Group Limited, which is incorporated in Great Britain and registered in England and Wales under the Industrial and Provident Societies Acts 1965 to 2002. Their financial statements are available from New Century House, Corporation Street, Manchester, M60 4ES.

14. Share capital

£

Allotted, called up and fully paid
100 ordinary shares of £1 100

Each shareholder has one vote per share.

On 16 November 2010, the Company authorised and issued 100 ordinary shares of £1 at par to Co-operative Banking Group Limited.
Reclaim Fund Ltd

Notes to the financial statements (continued)
For the 72 week period ended 31 December 2011

15. Related party transactions

The Company has not entered into any transactions with directors of the Company or their immediate relatives.

A number of transactions are entered into with fellow Co-operative Banking Group subsidiaries in the normal course of business. The volumes of related party transactions, balances payable/receivable at the period end, and related income and expense for the period are as follows:

<table>
<thead>
<tr>
<th>£000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transactions taking place in the period with related parties:</td>
</tr>
<tr>
<td>Parent undertaking</td>
</tr>
<tr>
<td>- Interest expense</td>
</tr>
<tr>
<td>Other Co-operative Banking Group undertakings</td>
</tr>
<tr>
<td>- Amounts received in respect of dormant accounts</td>
</tr>
<tr>
<td>- Administrative expenses</td>
</tr>
<tr>
<td>- Setup costs (see note 5)</td>
</tr>
<tr>
<td>At the balance sheet date, related party balances:</td>
</tr>
<tr>
<td>Other Co-operative Banking Group undertakings</td>
</tr>
<tr>
<td>- Cash and cash equivalents</td>
</tr>
<tr>
<td>- Amounts due to other Co-operative Banking Group undertakings</td>
</tr>
</tbody>
</table>

All transactions are conducted on an arm’s length basis and under standard commercial terms.

Most of the administrative expenses are recharged from a group service company.