Reclaim Fund Ltd

Enhancing communities

Reclaim Fund Ltd

Annual Report and Accounts

2018

Reclaim Fund Ltd makes it possible for money in dormant bank and building society accounts to be used to help good causes

Reclaim Fund Ltd ('RFL') commenced operations in 2011, following the enactment of the Dormant Bank and Building Society Accounts Act 2008 and its receipt of regulatory authorisation to act as a reclaim fund.

The Co-operative Group was approached by HM Treasury in late 2009 to support the Government and industry efforts by establishing a reclaim fund to enable dormant account monies to be used for good causes.

CONTENTS

ABOUT US

For the benefit of good causes

Our purpose

We unlock the potential of dormant assets to enhance communities and enrich lives

Our mission

We safeguard the rights of dormant asset holders while optimising the financial benefits for good causes

2008

Dormant Bank and Building Society Accounts Act 2008 is enacted.

2009

Co-operative Group is approached by HM Treasury to establish a reclaim fund.

2010

RFL is incorporated on 13 August 2010 as a wholly owned subsidiary of Co-operative Banking Group Limited (now known as Angel Square Investments Limited), itself a wholly owned subsidiary of Co-operative Group Ltd.

2011

RFL commences operations on 28 March 2011 following regulatory authorisation. RFL receives in excess of £300m from 10 financial institutions.

2012

RFL holds its first Annual Event bringing participants and beneficiaries of dormant account monies together. Total amounts received since inception exceed £500m.

2013

RFL appoints an Investment Manager and Custodian to manage its newly established investment portfolio, in line with its investment mandate.

Our participants

Our participants continue to contribute significant transfers of dormant balances to the scheme. Some of the participating firms are included below:

see more on page 52

Our key achievements

DORMANT ACCOUNT TRANSFERS TO 2018 (YTD)

Capital	£74M
Good causes*	£651M
Reclaims	£484M

*Of the £651m set aside for good causes £515m has been paid to Big Lottery Fund.

3x growth

£1.2BN RECEIVED SINCE INCEPTION IS 3 TIMES AS MUCH AS THE £400M STOCK OF DORMANT MONIES IDENTIFIED EARLY IN THE DEVELOPMENT STAGE OF THE SCHEME.

27

PARTICIPATING FIRMS

Our values

Integrity
Honesty in everything we do

Collaboration
Supporting each other by being stronger together

Responsibility
Fulfilling our obligations, ensuring accountability

Agile
Continually enhancing our knowledge and competence

2014

Cumulative distributions to Big Lottery Fund since inception for onward distribution to good causes pass £220m.

2015

RFL relocates to offices in Crewe. Total amounts received since inception exceed £850m.

2016

RFL distributes £105m to Big Lottery Fund. Three new participants join the scheme, taking the total number of participants to 20. Total amounts received since inception exceed £980m.

2017

Transfers received from participants since inception exceed £1bn in April. Amounts committed for distribution to good causes since inception exceed £0.5bn.

2018

RFL distributes £153m to Big Lottery Fund. Total amounts received since inception exceed £1.2bn, this being three times as much as the £400m stock of dormant monies identified early in the development stage of the scheme.

From dormancy to distribution

About the Dormant Assets Scheme

The principal activity of RFL is the receipt and management of dormant account monies.

The Dormant Bank and Building Society Accounts Act 2008 ('The Act') enables those banks and building societies, that choose to participate ('participants'), to transfer money from their dormant accounts to RFL, where surplus funds, deemed as being amounts in excess of what is required to meet future reclaims, can be distributed by RFL to Big Lottery Fund* and then onwards to good causes across the UK. The Act also ensures that the right of account holders to reclaim their money, at any time, is protected in perpetuity by transferring the individual's claim against the bank or building society to RFL.

The strategy of the Company is wholly aligned to the operational activities authorised by The Act, which permits only those activities set down in The Act. Along with the activities above, the Company is permitted to invest funds and defray administrative costs and other reasonable expenses.

The diagram on page 5 shows the organisations that support the scheme and displays the key activities and the flows of dormant balances. All activities are underpinned by The Act; an agency agreement is held between RFL and the participating bank or building society that establishes the contractual framework between each participant and RFL.

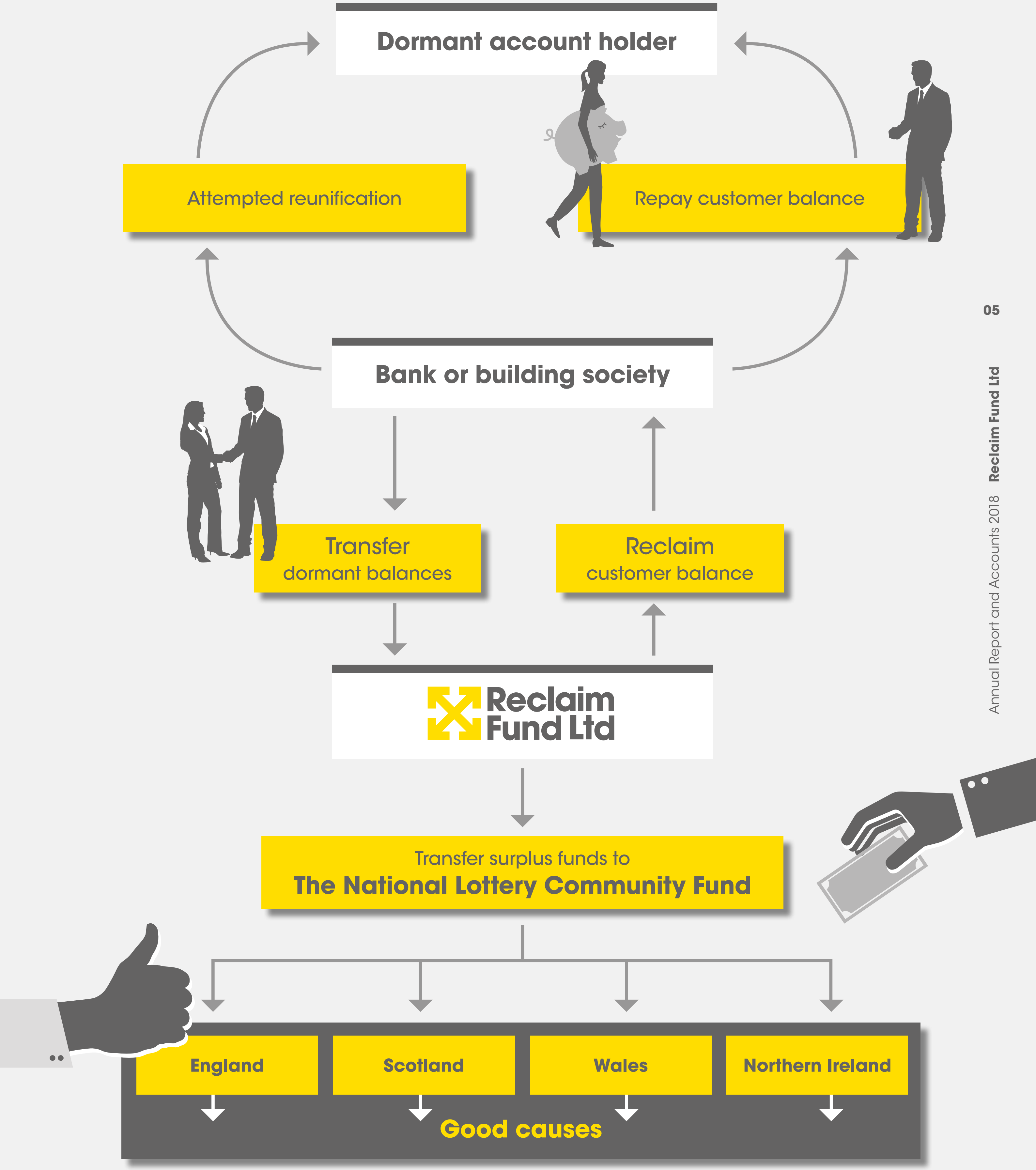
Prior to transfer to RFL, banks and building societies make attempts to reunify dormant account holders with their funds. Where this proves unsuccessful, balances that meet the criteria of the Act are eligible to be transferred to RFL.

If a dormant account holder subsequently makes a reclaim, the bank or building society reunites them with their funds prior to making a reclaim from RFL.

If you think you have unclaimed monies in a bank or building society account
Please contact the bank or building society concerned or visit mylostaccount

mylostaccount.org.uk

* Big Lottery Fund changed its name to The National Lottery Community Fund on 29 January 2019. Both names are referenced in the document.


Dormant account holder
Attempted reunification
Repay customer balance
Bank or building society
Transfer
dormant balances
Reclaim
customer balance
Reclaim Fund Ltd
Transfer surplus funds to
The National Lottery Community Fund
England
Scotland
Wales
Northern Ireland
Good causes

Enhancing communities

RFL's annual 'Enhancing Communities' event took place on 16 October 2018 marking its 7th year, with over 100 attendees from financial institutions and other stakeholders across the UK.

The agenda encompassed a variety of presentations including those from: Tracey Crouch MP, then Minister for Sport and Civil Society; UK good causes; Citizens Theatre and SambaYaBamba, in addition to RFL Chairman Jane Hanson and CEO Adrian Smith. Once again attendees praised the inspirational impact of the good cause speakers, and the organisation of the overall event as being a great opportunity to learn more of the life enhancing changes possible through the use of Dormant Account monies.

Citizens Theatre

The YOUNG Co. are based at the Citizens Theatre, an iconic venue and theatre company in the Gorbals area of Glasgow.

The Citizens Learning team is committed to enhancing the lives of people of all ages, and from a wide range of backgrounds in Glasgow and beyond, by mounting community productions and delivering a pioneering range of creative participatory projects across varied communities and the education sector.

Alongside the many artists, writers and actors they work with, their ambition is to continue to provide unique cultural experiences that bring lasting benefit to everyone involved.

The YOUNG Co. is an inclusive theatre company for 18-22 year-olds. During the 15 years it has been running, it has helped many young people gain experience, confidence and explore their identities, as well as helping them establish careers in the theatre profession.

citz.co.uk

SambaYaBamba

SambaYaBamba Youth Street Band is a carnival style, brass and drums project that was born in 2016, welcoming young folks aged 11-25 of different backgrounds from all over Glasgow and beyond.

In less than three years, the 40-strong collective of percussion and brass have gone from strength to strength, performing extensively in public, from street busks to showcasing at The Encontro Street Band Festival and collaborating with other youth groups from Edinburgh, Manchester, France and Brazil.

The group is fully inclusive, with no previous music experience being necessary, just a love of making fun music together. There is no charge to participate; costumes and instruments are provided along with leadership opportunities for those keen to further their skills.

sambayabamba.com

SAMBA YABAMBA YOUTH STREET BAND

Chairman's review

Jane Hanson
Chairman

2018 has been a year of good progress and preparation for the future. We have now released over £500m of funding for good causes since 2011, while also ensuring RFL's continuing operational resilience.

In parallel, we have been working closely with Government and the wider Financial Services industry to plan for a larger Dormant Assets Scheme.

Overview

This year has been characterised by greater collaboration, deeper partnerships and strengthened strategic alliances. RFL has played a key role working with Government and industry participants in designing and shaping how the Dormant Assets Scheme could be expanded in line with the Ministerial recommendations. I am also pleased to report that the Company has completed several business improvement initiatives including an IT transformation and a strategic review of our investment portfolio, alongside our work to help Government and industry plan for the future.

RFL has now received over £1.2bn in dormant assets from banks and building societies participating in the Scheme. This has in turn enabled us to distribute over £500m to good causes since inception. The Company continues to retain the balance of monies against potential future reclaims from account holders.

The Board

I would like to thank my fellow Board members for their continued oversight and guidance, ensuring the business remains well run and 'match fit' for the future.

The Board remains a highly skilled and collaborative team overseeing the continued delivery of the current Scheme, while providing great insight and guidance as we evolve our business for the future.

We regularly review the Board constitution to ensure appropriate rotation of Directors and to refresh skills. As part of this approach I am delighted to report that two new Non-Executive Directors have recently been appointed to the Board. Katherine Garner brings considerable insurance experience while Jenny Watson has had a career communicating public policy and regulation.

Both are welcome additions to our capable team. We have timed their appointment to overlap with the retirement in mid-2019 of two of our current Directors.

Governance

RFL continues to maintain strong governance, systems and controls. Managing significant funds entrusted to us for distribution to good causes and making sufficient provision for reclaims comes with significant responsibility.

We continue to review, maintain and test our internal controls and have made further progress this year to identify and manage the emerging risks our business faces.

The Expanded Dormant Assets Scheme

We have continued to enjoy a collaborative relationship with Government during the year in relation to expanding the Dormant Assets Scheme. 2018 saw significant activity in the development of this proposed expansion, which will potentially include a wider range of financial asset classes and, as a result, would increase the funds available for good causes.

We welcome the Government's engagement of four Industry Champions, one from each of the sectors in the proposed Expanded Scheme (insurance and pensions; banks and building societies; investment and wealth management; and securities). The coming year will see more detailed planning work and development of a framework to assist with the development of an Expanded Scheme. The benefits of doing so, both in terms of making more money available for good causes and assuring the right of dormant asset holders to reclaim in perpetuity, will be significant.

Ownership

Following recommendations for a revised RFL corporate structure in the 2017 Commission on Dormant Assets report, we have looked at a number of possible options, and are now moving into a more detailed planning stage working with our parent and Government.

> The Dormant Assets Scheme remains a powerful testament to how effective public, private and social sector collaboration can be and I am looking forward to watching it go from strength to strength.
>
> Mims Davies MP
> Minister for Sport and Civil Society

I would particularly like to thank the Co-operative Group, our current owners, for their ongoing helpful, productive and progressive input to this process, and for their support since RFL's creation. Their advice continues to be invaluable as we seek to evolve our corporate structure.

Enhancing Communities

I am very pleased and privileged to chair an organisation that continues to improve people's lives in very demonstrable ways. Every year I have the honour to host our Enhancing Communities event which brings together Financial Services industry participants, Government and some of the charities that benefit from distributed funds to celebrate what can be achieved collectively. Each year I am moved by the stories we hear about how people's lives have been helped, and the difference this collaboration makes. It is only possible because of the strong relationships maintained with all parties engaged within the Scheme.

Closing remarks

I would particularly like to thank Tracey Crouch MP for her unwavering support during her time as Minister for Sport and Civil Society. We are already working with the new Minister, Mims Davies MP, and look forward to a continued constructive partnership with her in future.

I would also like to thank our Chief Executive, Adrian Smith for his continued leadership of a capable and high performing team at RFL during the year. At a time when we are enhancing our productive working relationships in the context of an expanding Scheme, the focus and professionalism of Adrian and the team continues to support our strategic development.

It remains a pleasure both for me and my fellow Board members to work with the team and our stakeholders in helping so many good causes access funds that otherwise would remain unused. The Company is well positioned and prepared for a future Expanded Dormant Assets Scheme, and we look forward to making an even greater difference to people's lives in the future.

Jane Hanson
Chairman
21 March 2019

Chief Executive's review

Adrian Smith
Chief Executive

2018 was a successful year for RFL, achieving our key business objectives, continuing to mitigate operational risks while also evolving to stay relevant to the changing external environment. Considerable progress has also been made in shaping our future, working closely with Government and industry on the proposals for an Expanded Dormant Assets Scheme.

This year is one of business improvement and progress for RFL. Our business is running well; we have significantly de-risked our day to day operations and refined our investment processes. We have also developed solid foundations for the Expanded Scheme through a very positive partnership with Government and the broader financial services industry.

The proposed Expanded Scheme, as outlined in the Government's Response to the Commission on Dormant Assets report in 2018, seeks to include several new asset sectors including insurance and pensions; investment and wealth management; and securities as well as an increased role for banks and building societies. We welcome the active involvement of Industry Champions for each sector, who during 2018 have been heavily involved in designing the foundations of the proposed Expanded Scheme.

A fundamental part of our role is to be able to meet reclaims in perpetuity and we continue to do this as expected by our Scheme participants, which include many of the UK's banks and building societies. We continued to experience a very stable reclaim pattern in 2018, as anticipated, which has allowed us to distribute over £500m in cash to go to good causes since 2011. We have received over £1.2bn in qualifying dormant assets during the same time period.

Operations developments

I am pleased to report that we have refreshed and improved our current business operation this year, including a strategic review and upgrade of our IT system to make it more robust, with additional layers of security and greater resilience. We also refreshed our brand, purpose, mission and values to reflect our growing prominence within the sector, while consolidating our investments into a single portfolio to increase efficiency.

RFL is fully compliant with General Data Protection Regulation ('GDPR') and we also reviewed our entire supply chain risk profile against different Brexit scenarios, and made plans accordingly to ensure business continuity. While we are highly aware of the impact Brexit may have on the wider business and political environment, it is less likely to directly affect RFL and its operations. However, we believe the organisational improvements we have made across all areas of operations will stand the company in good stead whatever the impact may be. Notwithstanding the work that has been done, the Board will continue to consider the impact on RFL's strategic objectives from any potential Brexit outcome.

During 2018, the RFL Board reconfirmed that the Company's strategic priorities remained appropriate for the future - with a focus on working closely with Government, improving our reclaim modelling, refreshing our purpose and values for the organisation and significantly upgrading our IT systems.

During the year, we also progressed detailed discussions with potential Alternative Scheme participants (aimed at financial service entities with group balance sheet values below £7bn). This will enable them to directly support good causes within their local communities or those that they have an affinity with, rather than via, The National Lottery Community Fund. We look forward to advising on the progress of these discussions during the coming year.

Reclaim modelling

Reclaim risk modelling is fundamental to our business. It will, in time, help us to be much more secure in determining how much money we keep invested and how much we are able to give to good causes.

Key highlights of 2018

- Banks and building societies participating in the Scheme transferred a further £110.6m to RFL in 2018, bringing the total to over £1.2bn since we started.
- During the year, we paid over £152m and committed a further £71m to Big Lottery Fund for reinvestment in the community.
- The Board has worked in close and constructive collaboration with the Department for Digital, Culture, Media & Sport and the four Industry Champions representing: insurance and pensions; securities; banks and building societies; investment and wealth management; to shape and develop an Expanded Dormant Assets Scheme.
- All those involved enjoyed an inspiring day at the Enhancing Communities event, bringing together contributors to, and the recipients of, funds from RFL. Participants and beneficiaries were amongst the largest audience to date attending this year's event.
- Following a review of Board skills, and with a view to longer term succession, two new Non-Executive Directors have been appointed.
- RFL was pleased to receive a 'Highly Commended' Corporate and Financial Award for its 2017 Annual Report and Accounts.

However, the challenge is that there is no precedent for predicting these reclaim rates – we have no industry peer group and there is no established wisdom as to what rates might be.

As a result, we determined a few years ago that we needed to develop our own financial risk reclaim model but recognised that it would take time given the low data input each year. We have made good progress in 2018, discussing reclaim modelling with stakeholders and our Board on a regular basis, while talking with participants about increasing the amount of data we can access. However, until we have greater data and surety in our developing model, we will maintain our provisioning requirements at the same prudent level as they have been in recent years.

Key relationships

Maintaining and growing key stakeholder relationships is one of most important roles RFL plays in pursuit of its objectives, both strategically and operationally. I am pleased to say that we have made great strides this year, working even more closely with Government and industry on both the current and proposed future Schemes, and with our various outsourced suppliers who support critical parts of our business operations.

We have made particular progress in partnering closely with the wider financial services industry and Government to develop the right structure and meet the challenges of expanding the Scheme into several new asset classes. While there is much still to do, we are greatly encouraged by the degree of goodwill, expertise and willingness to work together that has been shown, in particular from the nominated Industry Champions for each sector.

I welcome the constructive relationship we have developed with Government as we seek to build on the basis for an Expanded Scheme, and the strength of our relationship with our existing scheme participants. This partnership is a critical part of making the Scheme work for the benefit of good causes.

We also have a strong relationship with and have received considerable support from our parent, the Co-operative Group Ltd, as discussions over new ownership have progressed this year. We are very hopeful that these matters will continue to progress in the coming year.

CHIEF EXECUTIVE'S REVIEW continued

Making a difference

During the year we have continued to pass monies to good causes. We were delighted to welcome a number of charities and their representatives to our annual Enhancing Communities event, who shared their stories about how such funds are able to change lives.

Find out more on pages 6 and 7

We were also excited to hear from Government about the establishment of two new organisations to sharpen its focus on social inclusion. The Government has announced that £145m from dormant bank accounts will be allocated to two new organisations, both of which will be independent of Government:

- Fair4All Finance, which launched in February 2019, will use £55m to improve vulnerable groups' access to and use of fair, affordable and appropriate financial products and services. It will have a particular focus on increasing access to affordable credit and alternatives to credit; and
- A new youth focused organisation, which will help young people facing barriers to work meet their full potential. It will have a particular focus on addressing racial disparities in employment outcomes and creating a solid evidence base for interventions which support the most disadvantaged young people.

Governance

We were delighted to be highly commended at the 2018 Corporate Finance Awards for our corporate reporting during the year, which highlights the focus we have on ensuring our governance is maintained at the highest level. We feel this is entirely appropriate for an organisation whose role is to manage and allocate significant funds for the benefit of others.

Our team

I would like to put on record my thanks to the highly competent team of professionals I work with for their hard work and commitment to our purpose. I would also like to acknowledge their significant contribution to running what is a very efficient business, while also supporting the Board and myself in strategic development initiatives.

The work done by the RFL team during the year has helped lay the foundations for our organisation to take on and manage a significantly increased range of assets in future, enabling us to do more for good causes and make more of a difference to people's lives. We will report more on this in future years as this work progresses.

Business review

Principal activities

The principal activity of RFL is the receipt and management of dormant account monies. The Company has been actively operating since 28 March 2011.

The Company was established as a wholly owned subsidiary of the Co-operative Group Ltd via its financial services subsidiary Co-operative Banking Group Limited (now known as Angel Square Investments Limited), following the introduction of the Act. The Act enables banks and building societies, that choose to participate, to transfer money from their dormant accounts to the Company for surplus funds to be distributed to Big Lottery Fund and then onwards to good causes across the UK. It also ensures that the right of account holders to reclaim their money, at any time, is protected in perpetuity by transferring the individual's claim against their bank or building society to RFL.

The strategy for the Company is aligned to the operational activities authorised by the Dormant Bank and Building Society Accounts Act 2008, which permits only those activities set down in the Act. Along with the activities above, the Company is permitted to invest funds and to defray administrative costs and other reasonable expenses. The Board held a strategic review during October 2018, the outcomes of which are explained in further detail in the Corporate governance report.

Review of the year

During the year, the Company accepted £110.6m (2017: £117.9m) of dormant account monies from 17 of the 27 participating UK banks and building societies (2017: 21 of 27). A number of reclaims from participants were received during the year, amounting to £13.8m (2017: £15.7m). Given the limited reclaim experience to date, provisioning for future reclaims remains in line with previous years, with an additional provision recorded in the year of £44.2m (2017: £47.2m).

The Company is run on a not-for-profit basis and, accordingly, profit after tax was £nil (2017: £nil). Net assets at the balance sheet date were £73.7m (2017: £73.7m). The only distributions the Company is permitted to make are to Big Lottery Fund ('BLF') in support of good causes.

Distributions for the year were £152.8m (2017: Nil). The Company has approved a further amount of £71.8m, which is available for immediate distribution to BLF.

Key performance indicators

During the year, the Board and its sub-committees have reviewed the Company's performance through key performance indicators ('KPIs'), the results of which provide an overview of its participants, stakeholders, processes and financial strength.

Non-financial KPIs

Participants Level of participation in the Scheme by banks and building societies.	During the year, amounts were received in respect of dormant accounts from 17 of the 27 (2017: 21 of 27) participating banks and building societies.
Stakeholders Agreements with outsourced service providers set service level standards on quality, cost and timeliness.	All outsourced services were provided to the Company at agreed costs and all services were delivered to standards set out in service level agreements.
Processes Compliance with regulations and contracts with external parties.	There were no breaches of any regulations or contracts with external parties during the year.

Financial KPIs

Amounts received from participants
2018

£110.6M

(2017: £117.9M)

In 2018, transfers are in line with forecast, taking total transfers since inception to more than £1.2bn.

Liquidity – cash held
2018

£338.7M

(2017: £393.9M)

We predominantly hold cash balances with the Bank of England, which provides a highly liquid, secure position.

Capital and reserves
2018

£73.7M

(2017: £73.7M)

The Board has determined that RFL holds sufficient capital to run the business in the long term.

Investment securities held
2018

£280.0M

(2017: £278.6M)

With our highly liquid secure position, maturing bonds and coupons generated from the investment portfolio were re-invested, thereby increasing our Funds.

Operating costs
2018

£2.4M

(2017: £2.3M)

Operating costs have remained consistent in 2018. Annual budgets are reviewed and approved by the Board, with costs being regularly monitored.

Distributions to Big Lottery Fund
2018

£152.8M

(2017: £NIL)

Distributions of £152.8m were paid in the year, taking cumulative distributions made to date to £515.2m. An additional £71.8m was also approved for immediate distribution.

Risk management

Principal risks and uncertainties

The Company operates in a regulated environment and is subject to legislative and regulatory requirements, with the sole regulator being the Financial Conduct Authority ('FCA'). Within the constraints 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.

The Board is responsible for setting the Company's risk appetite and ensuring that appropriate risk management systems are in place. The Board reviews the Company's principal risks throughout the year as part of its rolling agenda, adopting an integrated approach to risk management and regularly assessing the principal risks. It should be noted that participants continue to retain in-house dormant account holder details, where available, and the relationship with them, thereby limiting RFL's conduct risk. Throughout the year, RFL has managed its risks to ensure that it complies with the Act.

Whilst the Board retains oversight of risk management, day-to-day responsibility is delegated to the Executive, including the identification, evaluation and monitoring of key risks facing the Company and the implementation of Company-wide risk management processes and controls.

The Executive is supported in this by the Executive Risk Committee ('ERC'), which keeps the effectiveness of the Company's risk management systems under review and reports to the Board regularly on the results of its review. The occurrence of any material control issues, serious accidents, major commercial, financial or reputational issues, or any new emerging risks is reported to the Board and/or Audit & Risk Committee ('AARC') as appropriate on a timely basis.

How the Company manages risk

The Company has three lines of defence through which it manages significant risks, overseen by the Board and AARC:

1st line: Risk ownership and control by the business is part of day-to-day operations under the direction of the Executive.

2nd line: The Company's Risk and Compliance function, under the direction of the Chief Risk Officer ('CRO'), monitors adherence to the procedures set out by the Executive, assesses risk across the business on a regular basis and provides guidance to the business on the application of best practice risk management. It reports on a regular basis to the Board and AARC and the CRO has direct access to the Chairman of the AARC at any time.

3rd line: Independent assurance over the Company's risk management, control and governance processes is provided by the Company's internal audit service provider, which has a direct reporting line to AARC.

Enterprise risk management

The Company's enterprise risk management ('ERM') framework facilitates a common, Company-wide approach to the identification, analysis, and assessment of risks and the way in which they are managed, controlled and monitored.

The principal risks facing the Company are:

1. 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 prudent provisions for future reclaims to reflect the longevity of the risk of reclaim. The level of reclaims is rigorously monitored on an ongoing basis.

2. Strategic and business risk

Strategic and 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 broader sense, strategic risk is the Company's exposure to a wide range of macro-economic, geo-political, banking, regulatory and other external risks, particularly relating to dormant accounts. 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. The Board and Executive continually consider the impact on RFL's strategic objectives from any potential Brexit outcome.

3. Regulatory risk

The Company operates in a regulated environment and is subject to significant legislative and regulatory requirements, having a unique classification of `Dormant Account Fund Operator'. It is regulated by the FCA.

4. Operational risk

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 include internal and external fraud, loss of key personnel, IT system or software failures and external events over which the Company has limited control such as terrorist attacks and floods. These considerations include the risk of cyber crime, although exposure is limited as RFL retains no customer data.

5. Liquidity and funding risk

Liquidity and funding risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Company's policy is to ensure it has sufficient funds to fulfil liabilities as they fall due. Liquidity and funding risk is mitigated through effective cash management. The Company operates within a strict investment mandate, which ensures that, at all times, a substantial proportion of the Company's assets are held in a highly liquid form.

6. 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, and from the Company's investments. Investment decisions are made in line with a strict investment mandate in order to manage the Company's exposure to credit risk. Investments comprise fixed income investments, with initial purchases being restricted to investments graded no lower than A.

7. Market risk

Market risk is the risk that the Company takes through 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 Company has limited exposure to market risk as its fixed income investments are held until they mature.

Future outlook

The Company continues to develop and maintain relationships with its current and potential participants and looks forward to furthering participations in future years.

Work is ongoing towards the operational launch of the Alternative Scheme, developed to facilitate donations to the preferred good causes of small banks and building societies.

The Company has actively engaged with the four Industry Champions' working groups, established following the publication of The Commission on Dormant Assets report. RFL continues to play an active role in supporting the Scheme's expansion, working with Government and industry bodies within the financial services sector. We look forward to supporting any future Government activity as to how an Expanded Scheme might operate.

The Strategic report on pages 8 to 15 is approved by the Directors.

Adrian Smith
Chief Executive
21 March 2019

Governance

Introducing our Board

A diverse, knowledgeable Board of Directors.

Our Committees and Committee Chairmen

The Board has delegated certain responsibilities to the four Committees below, each of which has written terms of reference covering the authority delegated to it by the Board. Each of these Committees has a role in ensuring the effectiveness of the Company.

The Audit and Risk Committee assists the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of control, risk management, the internal capital adequacy process, and internal and external audit. Its remit also includes matters relating to whistleblowing and compliance with applicable regulations and legislation, including the Dormant Bank and Building Society Accounts Act 2008.

The Investment Committee supports the Board and the Chief Executive in the development and implementation of the RFL Investment Strategy. It also provides assurance to the Board with regard to the ongoing performance and compliance of the nominated Investment Manager and Custodian, with the Board agreed investment mandates and requirements.

The Nomination Committee leads the process for Board appointments, ensuring a rigorous search and selection process based on its evaluation of the balance of skills, knowledge and experience required on the Board.

The Remuneration Committee considers and approves the remuneration arrangements for the Chairman, the Executive Director and Senior Management.

Find out more on page 20

Governance framework Board of Directors

Audit and Risk Committee
The Audit and Risk Committee is chaired by Glyn Smith.

Investment Committee
The Investment Committee is chaired by James Hardie.

Nomination Committee
The Nomination Committee is chaired by Jane Hanson.

Remuneration Committee
The Remuneration Committee is chaired by Adrian Coles.

The Board

Board diversity

7 MALE

3 FEMALE

Committee membership key

- Committee Chair
- **A** Audit and Risk Committee
- **I** Investment Committee
- **N** Nomination Committee
- **R** Remuneration Committee

Jane Hanson

JP, BA (Hons), FCA

Chairman

Appointed: 7 October 2011
Experience: Jane joined the Board in 2011 and served as Chairman of the Audit and Risk Committee prior to being appointed as Board Chairman on 18 August 2014. A Fellow of the Institute of Chartered Accountants with over 25 years' experience in financial services. Jane is also a Non-Executive Director and Chairman of the Board Risk Committee at Direct Line Insurance Group plc and Independent Member of the Fairness Committee at ReAssure UK. Jane is also the Honorary Treasurer at the Disasters Emergency Committee. Her previous executive roles include Risk and Governance Director at Aviva's Life Business. Jane is also a Magistrate.

Committees: **N** **R**

Adrian Smith

MBA

Chief Executive

Appointed: 16 November 2010
Experience: Adrian joined the Board in 2010. He was 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. Adrian was responsible for leading the project to establish Reclaim Fund Ltd during 2009/10 and was subsequently appointed as Chief Executive. Adrian is also a member of the Dormant Assets Advisory Board.

Paul Chisnall

BA (Hons), Dip IoD

Non-Executive Director

Appointed: 28 March 2011
Experience: Paul joined the Board in 2011. He is a Director of UK Finance and has led industry work on dormant accounts including the provision of the 'mylostaccount' central tracing service. Paul also heads up UK Finance's work on strategic reporting and corporate governance.

Committees: **A** **N**

Katherine Garner

BSc (Hons), FIA

Non-Executive Director

Appointed: 19 December 2018
Experience: Katherine joined the Board in 2018. A Fellow of the Institute of Actuaries since 1997, she is currently the Chief Executive Officer of Sun Life Financial of Canada in the UK and a member of its Board of Directors. Katherine started her employment with Sun Life Financial of Canada in 2008 and held various positions before taking the role of Chief Executive Officer in 2013. Prior to this Katherine was employed by HSBC, where her roles included, Head of Operations, Head of Life Insurance and also Finance Director of the Dublin life company and Deputy Head of Investments in the UK.

Adrian Coles

OBE, BA, MA

Senior Independent Director

Appointed: 28 March 2011
Experience: Adrian joined the Board in 2011 and was appointed Senior Independent Director in 2014. Adrian was Director General of the Building Societies Association between 1993 and 2013 and now holds a number of Chairmanships and Non-Executive Directorships. He is Chairman of the Housing Securities Ltd group, a member of the Financial Services Commission (Gibraltar) and a Non-Executive Director of Progressive Building Society, BSA Pension Trustees Ltd and The Funding Network, the crowd funding charity. He is also Chairman of the Fairer Finance Consumer Advisory Board, and a member of the Corporate Governance Research Group Advisory Board at Cardiff Business School. Adrian was awarded an OBE in 2011 for services to financial services.

Committees: R I N

Glyn Smith

MA, FCA

Non-Executive Director

Appointed: 4 February 2015
Experience: Glyn joined the Board in 2015 and is Chairman of the Audit and Risk Committee. A chartered accountant with over 40 years' experience in financial services, Glyn held a number of senior executive positions at Barclays Bank and was Group Finance Director of Portman Building Society. He is currently also a Non-Executive Director and Chairman of the Audit Committee of The Co-operative Bank plc and Chairman of the West Bromwich Building Society Pension Trustees. He has held a number of public and private sector non-executive directorships, including Domestic & General Group, Coventry Building Society and Stroud & Swindon Building Society. He was also a member of the ICAEW examinations team.

Committees: A N R

Robert Newton

BSc, FIA

Non-Executive Director

Appointed: 13 December 2010
Experience: Robert joined the Board in 2010. He is an actuary with over 40 years' experience in the financial services industry. His executive career included periods as Chief Executive of the general insurance businesses of General Accident (now part of Aviva) and NFU Mutual and he has since held a number of non-executive positions including Chairman of CIS Insurance Ltd. He is currently a Non-Executive Director and Chairman of Silentair Group Ltd.

Committees: A I

James Hardie

MA (Hons), MBA

Non-Executive Director

Appointed: 2 July 2015
Experience: James joined the Board in July 2015 as an independent Non-Executive Director and is Chairman of the Investment Committee. James is Director of Investment Management and Treasury at Direct Line Insurance Group plc.

Committees: I A

Mark Summerfield

BA (Hons)

Non-Executive Director

Appointed: 24 April 2015
Experience: Mark joined the Board in 2015 as a Non-Executive Director nominated by Angel Square Investments Limited (formerly Co-operative Banking Group Limited). Mark is Chief Executive of CIS General Insurance Ltd and previously carried out executive roles for Sesame, Prudential and Fleming before joining the Co-operative Group in 2004.

Jenny Watson

CBE, BA, MA

Non-Executive Director

Appointed: 3 January 2019
Experience: Jenny joined the Board in 2019. She is Chair of the House of St. Barnabas, a social purpose business in London's Soho and of GamStop. A previous Chair of the Electoral Commission and Equal Opportunities Commission, she started her early career in the not for profit sector. She is currently a Non-Executive Director on the Boards of both the Financial Reporting Council and the Financial Ombudsman Service.

Corporate governance report

The Company voluntarily follows the spirit of the UK Corporate Governance Code ('the Code') as a way of providing assurance to stakeholders around our operations and control framework. Technically, the Code only applies to premium listed companies but the Board firmly believes in the benefits of good governance practices.

We are aware that a new Code was published in July 2018 and we will undertake a review of the new Code to determine whether any changes to our own corporate governance framework will be required. Reporting against the revised Code will be incorporated into the 2019 Annual Report and Accounts on a proportionate basis and where relevant.

Roles and responsibilities of the Board

To ensure the successful delivery of the Company's strategy, the Board and its Committees have been established with an appropriate balance of relevant skills, sector knowledge, experience, independence and diversity to enable the Directors to exercise their duties and responsibilities effectively. The Board continues to work to develop further the skills and diversity of the Board in the medium term and is proud to have announced the recent appointments of Katherine Garner and Jenny Watson.

The Directors are committed to leading and controlling the Company effectively. The Board is responsible for the success of the Company within a framework of controls, which enables risk to be assessed and managed. It is responsible for setting strategy, maintaining the policy and decision making framework in which this strategy is implemented, ensuring that the necessary financial and human resources are in place to meet strategic aims, monitoring performance against key financial and non-financial indicators, overseeing the system of risk management and setting values and standards in governance matters.

The Board is accountable for the careful direction of the Company's affairs, in particular the safe stewardship of funds held to meet future reclaims by dormant account holders and the optimisation of payments to Big Lottery Fund for good causes.

Under the Company's governance arrangements, certain key decisions can only be made by the Board and may not be delegated to management. The matters reserved to the Board are set out in a formal Schedule of Matters Reserved to the Board, detailing the specific responsibilities of the Board.

The Board manages these matters at its regular Board meetings. It met six times during 2018 including one Board strategy review meeting. A sub-committee of the Board also met on one occasion to consider and approve the Internal Capital Adequacy Assessment Process ('ICAAP') for 2018.

The assignment of responsibilities between the Chairman and the Chief Executive is documented to ensure a clear division between running the Board and executive responsibility for running the Company's business.

Adrian Coles has been the Senior Independent Director since December 2014. The Senior Independent Director is available to employees and stakeholders if they have concerns that are unresolved after contact through the normal channels or where such contact would not be appropriate.

The aggregate emoluments of the Directors of Reclaim Fund Ltd for the year were £468k (2017: £475k).

Board meetings

The agenda for each Board meeting is set by the Chairman in consultation with the Chief Executive and Company Secretary and is informed by a two-year rolling agenda. This sets the framework for Board meetings and seeks to ensure that each meeting covers an appropriate range of topics and that, over the year, the Board covers its whole remit.

Board and Committee papers are distributed at least one week in advance of meetings. This provides the opportunity for Directors to prepare fully for meetings. The minutes of all meetings are circulated to all Directors. Tablets have been provided to Directors to provide all Board papers, including additional supporting material, solely in electronic format. This is environmentally sounder and more secure than providing Board documentation in paper format.

There is regular communication between the Directors, the Chairman, the Chief Executive and the Company Secretary between meetings.

When a Director is unable to attend Board or Committee meetings, issues can be raised with the Chairman. Communication between Non-Executive Directors and management is encouraged between meetings.

Regular Board business

At every quarterly meeting the Board receives reports from the Chief Executive and the Chief Risk Officer, as well as key performance indicators and an update from the Company Secretary. The Chairmen of the four Board Committees (Audit and Risk, Investment, Nomination and Remuneration) also present a summary of issues raised, decisions made, and recommendations proposed at recent Committee meetings. These are noted and discussed further by the Board as required.

Specific areas of focus

In addition to covering the regular business discussed above, Board meeting agendas develop in line with the Company's strategic priorities, regulatory trends and other external factors. A rolling agenda of items for Board consideration and approval is maintained and regularly updated. During 2018, the Board discussed, inter alia, the Government's response to the Commission on Dormant Assets report, the Company's reclaim provisioning policy, its distribution policy, the introduction of an alternative dormant assets scheme, revised Purpose, Mission and Values, appropriate performance measures, and corporate governance.

The Board strategy meeting in October was facilitated by an external provider and focused on items of key strategic importance for the Company, including the response to the Commission on Dormant Assets report, reclaim risk modelling, brand development, and emerging risks as part of the Company's risk register.

Board Committees

The Board has delegated certain responsibilities to the four Committees listed below, each of which has written terms of reference covering the authority delegated to it by the Board. Each of these Committees has a role in ensuring the effectiveness of the Company.

Audit and Risk Committee ('AARC')

The AARC receives reports from the Company's internal and external auditors, the Chief Risk Officer and the Risk and Compliance functions. Its remit includes matters relating to compliance with applicable regulations and legislation, including the Dormant Bank and Building Society Accounts Act 2008, the effectiveness of systems of control, risk management, the internal capital adequacy assessment process, oversight of internal and external audit, whistleblowing and the Annual Report and Accounts.

During the year the AARC comprised:

- Glyn Smith (Chairman)
- Paul Chisnall
- James Hardie
- Robert Newton

The AARC met five times during 2018.

At each meeting, the AARC received reports from the Chief Risk Officer and the internal auditors, including reports on individual audits undertaken. These reports informed the Committee's views when considering the annual assessment of the adequacy of the Company's systems of internal control. As in previous years, the AARC reviewed the Annual Report and Accounts in detail, together with the external auditor's report thereon. The AARC paid particular attention to process and control issues and considered key areas of accounting judgement, with particular emphasis on the provision for reclaims of dormant account balances.

The Committee satisfied itself that the Annual Report and Accounts, taken as a whole, was fair, balanced and understandable and provided the information necessary for stakeholders to assess the performance, strategy and business model of the Company.

The AARC also reviewed the annual plans of the external auditors, the internal auditors and the Risk function and has recently reviewed its own effectiveness and that of both the internal and external auditors.

In addition to the regular reports referred to above, the AARC considered current and projected risk and capital positions and reports on key risk areas both from management and external experts. It also conducted an annual review of participant agency agreements. The Committee also received reports on RFL's whistleblowing arrangements as part of its ongoing work.

The Board is satisfied that one member of the AARC, Glyn Smith, has recent and relevant financial experience with competence in accounting and auditing, and that the Committee as a whole has competence relevant to the sector in which it operates.

Investment Committee

The Investment Committee supports the Board and the Chief Executive in the development and implementation of the RFL Investment Strategy and provides assurance to the Board with regard to the ongoing performance and compliance of the nominated Investment Manager and Custodian with the Board agreed investment mandates and requirements.

During the year the Committee comprised:

- James Hardie (Chairman)
- Adrian Coles
- Glyn Smith (until 1 May 2018)
- Robert Newton (from 1 May 2018)

The Committee met four times during 2018.

The Investment Committee's activities during 2018 included reviewing the Company's investment strategy, liquidity risk appetite, and regularly reviewing the performance and reporting of the Investment Manager and Custodian.

Nomination Committee

The Nomination Committee leads the process for Board appointments, ensuring a rigorous search and selection process based on its evaluation of the balance of skills, knowledge and experience required on the Board.

During the year, the Committee comprised:

- Jane Hanson (Chairman)
- Paul Chisnall
- Adrian Coles
- Glyn Smith (from 1 May 2018)

The Committee met six times during 2018.

Following an evaluation of Board skills and with a view to longer term succession, the Committee's main focus during the year was the recruitment of two additional Non-Executive Directors. During the year, the Committee also considered Non-Executive Directors' terms of office, key person dependency and fit and proper self-certification.

Remuneration Committee

The Remuneration Committee considers and approves the remuneration arrangements for the Chairman, the Executive Directors and Senior Management.

During the year the Committee comprised:

- Adrian Coles (Chairman)
- Jane Hanson
- Glyn Smith

The Committee met four times during 2018.

During the year, the Remuneration Committee focused on the 2018 performance and bonus frameworks and the framework for remuneration arrangements for the Chief Executive, senior management and employees, as well as the arrangements for the automatic enrolment for employee pensions.

Attendance

The following table sets out the number of Board and Board Committee meetings each Director was eligible to attend (number in brackets) along with the actual meetings attended during 2018.

Director	Full Board	AARC	Investment Committee	Nomination Committee	Remuneration Committee
Paul Chisnall	6 (6)	5 (5)	–	6 (6)	–
Adrian Coles	6 (6)	–	4 (4)	6 (6)	4 (4)
Jane Hanson	6 (6)	–	–	6 (6)	4 (4)
James Hardie	6 (6)	5 (5)	4 (4)	–	–
Robert Newton	6 (6)	5 (5)	2 (2)	–	–
Adrian Smith	6 (6)	–	–	–	–
Glyn Smith	6 (6)	5 (5)	2 (2)	3 (3)	4 (4)
Mark Summerfield	5 (6)	–	–	–	–

Note that Katherine Garner and Jenny Watson are excluded from the table as their appointment dates were after the final meetings of the year.

Provision of advice to Directors

There is an agreed procedure by which Directors may take independent professional advice at the Company's expense in furtherance of their duties.

Training and professional development

The Chairman and the Board support the ongoing professional development of the Directors. During the year, the Directors attended a number of internal and external training sessions, both on an individual basis and in a meeting forum. Training sessions have been built into the Board and Committee agendas for 2019 based on the individual and collective requirements of the Board.

Board and Board Committee evaluation

The Board has agreed to undertake a review of its effectiveness and that of its Committees on a two-year cycle, with a high level review every two years and a completely independent review every four years.

Jordans Corporate Law Limited, who currently provide company secretarial services to the Company, undertook a high level review towards the end of 2016; therefore, an independent review was due to take place towards the end of 2018. However, given the recruitment of two new additional Board members, the Board has decided to defer the Board and Committee evaluation until 2019.

The Secretary to the Board

The Secretary is professionally qualified and is responsible for advising the Board through the Chairman on all governance matters. The Directors have access to the advice and services of the Secretary.

The Articles of Association and the schedule of Matters Reserved to the Board for decision provide that the appointment and removal of the Secretary is a matter for the full Board. Jordan Company Secretaries Ltd was Secretary throughout the year.

Ownership

RFL is ultimately owned by the Co-operative Group Ltd via its financial services holding subsidiary Angel Square Investments Limited (formerly known as Co-operative Banking Group Limited).

External audit

The performance of the external auditors is regularly monitored by the AARC to ensure it meets the needs of the Company. The AARC reviewed the performance of the external auditors in July 2018, which highlighted no material concerns with the external auditors and which led the AARC to confirm their effectiveness.

RFL has a non-audit work policy that establishes the principles by which it is able to appoint the external and internal auditors for non-audit services. The policy also establishes a framework governing the process by which non-audit services are approved. The AARC reviews this policy on an annual basis and approved it during 2018. No non-audit services were provided by the external auditors during 2018.

Internal audit

The internal audit function is an independent function, which reports to the AARC. Its primary role is to provide assurance over the adequacy and effectiveness of the internal control framework including risk management practices.

Internal audit seeks to discharge the responsibilities set down in its charter by completing a risk based internal audit plan, that is approved by the AARC on an annual basis, which reviews the processes and ensures that the key business risks are effectively managed by key controls.

Deloitte LLP provided internal audit services to the Company throughout the year.

The AARC carries out a formal review of the effectiveness of the outsourced internal audit function every two years. Members and attendees of the AARC participated in this review in February 2019, which concluded that the internal audit function remained effective. The next formal review of the internal audit function will be conducted in 2021.

Internal audit also acts as a source of constructive advice and best practice, assisting senior management with its responsibility to improve the processes by which business risks are identified and managed.

Internal audit reports are submitted to, and significant issues arising are considered at, the AARC.

CORPORATE GOVERNANCE REPORT continued

The leadership team

It is the responsibility of the leadership team to implement the strategic objectives as agreed by the Board. The leadership team, led by the Chief Executive, is responsible for the day-to-day management of the Company.

Internal controls and risk management framework

The Board and Executive management have the primary responsibility for identifying the key business risks facing the organisation.

Internal controls are the activities undertaken by management, the Board and other parties to enhance risk management and increase the probability that established objectives and goals will be achieved. The Board has overall responsibility for the Company's system of internal controls which aims to ensure effective and efficient operations, quality of internal and external reporting, safeguarding of the Company's assets and compliance with laws and regulations. The Board recognises that any system can only be designed to manage rather than eliminate risks and can only provide reasonable and not absolute assurance against material misstatement or loss.

The risk management framework includes an ongoing process for identifying, evaluating and managing significant risks and has been in place for the whole of the year under review and up to the date of the approval of the Annual Report and Accounts.

A Conflicts of Interest Policy is in place to ensure the independence of Directors and the management of potential conflicts.

Going concern and viability statement

The Directors' confirmation that they have adopted the going concern basis in preparing the Annual Report and Accounts is set out on page 25.

In addition to performing a review of the going concern position, the Directors have also, in the spirit of the Corporate Governance Code, assessed the prospects of the Company over a significantly longer period than 12 months.

The Company was originally established as an authorised reclaim fund under the Financial Services Authority ('FSA', now FCA) Regulating Reclaim Funds Policy Statement (PS09/12) and is required to produce liquidity and capital forecasts that are considered by the AARC and approved by the Board annually.

The Internal Capital Adequacy Assessment Process ('ICAAP') is a key part of the risk management framework of RFL and incorporates stress and scenario tests designed to produce a comprehensive assessment of current and projected risk and capital positions. The process assists RFL in evaluating, over a three year period, the key risks to which it is exposed and the levels of capital and other financial resources that should be maintained to safeguard the capital position of the business at all times, including during a stress scenario.

Based on the 2018 results of the ICAAP, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three year period of their assessment.

On behalf of the Board of Directors

Jane Hanson
Chairman
21 March 2019

Directors' report

To ensure the successful delivery of the Company's strategy, our Board consists of Directors with a wide range of relevant skills, knowledge and experience.

The composition of the Board during the year is set out in the Corporate governance report on pages 20 to 24.

Employees

The average number of employees during 2018 was eight (2017: eight).

The Company is responsible for recruitment of its own staff. It welcomes diversity and actively promotes a policy and practice of equality of opportunity for all staff regardless of age, disability, ethnicity, gender, religion or belief, or sexual orientation.

Annual Report and Accounts

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 requisite steps 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 Annual Report and Accounts is included in the statement of Directors' responsibilities on page 26.

The Directors of the Company who served during the year and to the date of this report were:

Non-Executive Directors

Jane Hanson (Chairman)
Paul Chisnall
Adrian Coles
(Senior Independent Director)
Katherine Garner
(appointed 19 December 2018)
James Hardie
Robert Newton
Glyn Smith
Mark Summerfield
Jenny Watson
(appointed 3 January 2019)

Executive Director

Adrian Smith (Chief Executive)

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 Annual Report and Accounts.

Distributions

Under the Dormant Bank and Building Society Accounts Act 2008, the only distributions the Company is permitted to make are to Big Lottery Fund. £152.8m distributions were paid to Big Lottery Fund during the year (2017: £nil).

No dividend distributions were made to the parent Angel Square Investments Limited (formerly Co-operative Banking Group Limited), as this is not permitted by the Act.

Charitable and political donations

No charitable or political donations were made during the year (2017: £nil).

Matters covered in the Strategic report

All mandatory disclosures which the Directors consider to be of strategic importance are disclosed in the Strategic report on pages 8 to 15.

Auditors

Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and Ernst & Young LLP will therefore continue in office.

By order of the Board

Adrian Smith
Chief Executive
21 March 2019

Reclaim Fund Ltd, Registered number: 07344884

Statement of Directors' responsibilities

in respect of the Strategic report, the Directors' report and the Annual Report and Accounts

The Directors are responsible for preparing the Strategic report, the Directors' report and the Annual Report and Accounts in accordance with applicable law and regulations.

Company law requires the Directors to prepare the Annual Report and Accounts for each financial year. Under that law, the Directors have elected to prepare the Annual Report and Accounts in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU') and applicable law.

Under company law, the Directors must not approve the Annual Report and Accounts 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 the Annual Report and Accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements 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 Annual Report and Accounts 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 Annual Report and Accounts complies 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 included on the Company's website. Legislation in the UK governing the preparation and dissemination of the Annual Report and Accounts may differ from legislation in other jurisdictions.

Independent auditor's report

to the members of Reclaim Fund Ltd

Opinion

We have audited the financial statements of Reclaim Fund Ltd for the year ended 31 December 2018 which comprise the Income statement, Statement of comprehensive income, Statement of financial position, the Statement of cash flows, the Statement of changes in equity and the related notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2018 and of its result for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or Directors' report.

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 26, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

Giles Watson
(Senior Statutory Auditor)

for and on behalf of
Ernst & Young LLP
Statutory Auditor
Leeds

21 March 2019

1 The maintenance and integrity of the Reclaim Fund Ltd website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Financial statements

INCOME STATEMENT
for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Amounts received in respect of dormant accounts	4	**110,565**	117,941
Interest income	5	**5,558**	4,124
Interest expense	5	**(137)**	(162)
Net income		**115,986**	121,903
Administrative expenses	3	**(2,775)**	(2,716)
Provision for reclaims of dormant account balances	11	**(44,226)**	(47,176)
Operating result before distributions		**68,985**	72,011
Provision for future distributions to Big Lottery Fund	12	**(68,481)**	(71,771)
Profit before taxation		**504**	240
Taxation	6	**(504)**	(240)
Retained profit	2	**–**	–

The notes on pages 35 to 50 form part of the Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2018

	Notes	**2018 £'000**	2017 £'000
Retained profit for the financial year	2	**–**	–
Other comprehensive income for the year, net of taxation		**–**	–
Total comprehensive income for the financial year		**–**	–

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 35 to 50 form part of the Financial Statements.

STATEMENT OF FINANCIAL POSITION
as at 31 December 2018

	Notes	2018 £'000	2017 £'000
Assets			
Intangible assets	7	**1**	7
Plant and equipment	8	**239**	83
Investment securities	9	**280,029**	278,610
Cash and cash equivalents	10	**338,706**	393,902
Trade and other receivables		**81**	112
Total assets		**619,056**	672,714
Liabilities			
Provision for reclaims of dormant account balances	11	**404,054**	373,678
Provision for future distributions to Big Lottery Fund	12	**68,481**	71,771
Trade and other payables	13	**72,475**	153,374
Current income tax liability		**331**	170
Deferred tax liability	6	**2**	8
Total liabilities		**545,343**	599,001
Capital and reserves			
Share capital (£100)	15	**–**	–
Capital reserve		**73,713**	73,713
Total equity		**73,713**	73,713
Total liabilities and equity		**619,056**	672,714

The notes on pages 35 to 50 form part of the Financial Statements.

Approved by the Board of Directors on 21 March 2019 and signed on its behalf by:

Adrian Smith
Chief Executive

STATEMENT OF CASH FLOWS
for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Cash flows from operating activities			
Profit before tax		**504**	240
Adjustments:			
Amortisation of intangibles	7	**7**	16
Depreciation of plant and equipment	8	**72**	75
Increase/(decrease) in trade and other receivables		**31**	(12)
Decrease/(increase) in accrued expenses	13	**130**	(33)
Additional provision for reclaims of dormant account balances	11	**44,226**	47,176
Additional provision for future distributions to Big Lottery Fund	12	**68,481**	71,771
Interest amortisation		**3,752**	3,525
Interest received		**(9,310)**	(7,649)
Payments made in respect of participant reclaims	11	**(13,850)**	(15,660)
Distribution payments to Big Lottery Fund	12	**(152,800)**	–
Income tax paid		**(350)**	(190)
Net cash flows from operating activities		**(59,107)**	99,259
Cash flows from investing activities			
Purchase of investment securities		**(53,210)**	(44,895)
Proceeds from maturity of investment securities		**47,645**	34,700
Interest received		**9,707**	7,965
Purchase of plant and equipment	8	**(230)**	(6)
Purchase of intangibles	7	**(1)**	–
Net cash flows from investing activities		**3,911**	(2,236)
Net (decrease)/increase in cash and cash equivalents		**(55,196)**	97,023
Cash and cash equivalents at the beginning of the financial year		**393,902**	296,879
Cash and cash equivalents at the end of the financial year	10	**338,706**	393,902

The notes on pages 35 to 50 form part of the Financial Statements.

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2018

2018	Share capital £'000	Capital reserve £'000	Total £'000
Balance at the beginning of the financial year	**–**	**73,713**	**73,713**
Total comprehensive income for the financial year	**–**	**–**	**–**
Balance at the end of the financial year	**–**	**73,713**	**73,713**

2017			
Balance at the beginning of the financial year	–	73,713	73,713
Total comprehensive income for the financial year	–	–	–
Balance at the end of the financial year	–	73,713	73,713

The notes on pages 35 to 50 form part of the Financial Statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
for the year ended 31 December 2018

1. Significant accounting policies

Basis of preparation

Reclaim Fund Ltd is a limited liability company, incorporated and domiciled in the United Kingdom 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 IFRSs in issue that are endorsed by the EU and effective at the beginning of the year. All amounts presented are stated in thousands of GBP (£'000), unless otherwise stated. The Statement of financial position is ordered according to illiquidity and gives prominence to principal balances.

Standards and interpretations issued and effective

In preparing this Annual Report and Accounts, the Company has adopted the following standards that are new or revised and become effective during the year.

IFRS 9 'Financial Instruments', issued in July 2014 and effective for financial years beginning on or after 1 January 2018. This standard replaces IAS 39 'Financial Instruments: Recognition and Measurement' and contains new requirements for the classification and measurement of financial assets and liabilities, the recognition of impairment, and hedge accounting. The impacts of the new standard on RFL are described below.

The most significant impact is that securities designated as held to maturity under IAS 39 are now designated as amortised cost under IFRS 9. This is a classification change and has no accounting impact.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' ('ECL') model. The new impairment model applies to the investment securities held by RFL that are measured at amortised cost. Under IFRS 9, credit losses are recognised earlier than under IAS 39. At each reporting period, management calculates the ECL on the investment securities.

Management calculated the ECL on the investment securities held at the inception of IFRS 9 and concluded that the amount was not material and no adjustment for impairment was recognised in opening retaining earnings at 1 January 2018 on transition to IFRS 9.

IFRS 15 'Revenue from Contracts with Customers', issued in May 2014 and effective for financial years beginning on or after 1 January 2018. This standard modifies the determination of when to recognise revenue and how much revenue to recognise. The core principle is that an entity recognises revenue to depict the transfer of promised goods and services to the customer of an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. RFL has assessed that IFRS 15 is not applicable to the Company, and that there will be no impact on its Financial Statements.

Standards and interpretations not endorsed or not yet effective

The following IASB pronouncements are relevant to RFL and have not been applied by RFL in the 31 December 2018 reporting year. The full impact of these pronouncements is still being assessed by RFL. Except where otherwise stated, RFL does not expect that the adoption of the following standards, amendments to standards and interpretations will have a material impact on the Financial Statements:

IFRS 16 'Leases', issued on 13 January 2016 and effective for financial years beginning or on 1 January 2019. This standard replaces IAS 17 'Leases' and will result in most leases being brought onto a lessee's balance sheet under a single lease model, removing the distinction between finance and operating leases. The standard requires lessees to recognise a right of use asset and a liability for future payments arising from a lease contract. RFL has assessed that the impact of the application of IFRS 16 on its Financial Statements will be immaterial.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
for the year ended 31 December 2018 continued

1. Significant accounting policies continued

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 Annual Report and Accounts.

Use of estimates and judgements

The preparation of the Annual Report and Accounts requires the Directors to make judgements, 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 year in which the estimate is revised and in any future years affected.

Significant areas of estimation uncertainty that have the most effect on the amounts recognised in the Annual Report and Accounts relate to the provisions, in particular provisions for reclaims of dormant account balances of £404.1m (2017: £373.7m) and the provision for future distributions to Big Lottery Fund of £68.5m (2017: £71.8m). These are discussed below.

Provision for reclaims of dormant account balances

Upon transfer of dormant account monies from UK financial institutions to the Company, the obligation to repay dormant account holders who subsequently reclaim their money is also transferred 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 estimate, taking into account actual reclaim experience. The Directors regard the provision as a key accounting estimate.

To the extent that actual reclaims are different from those provided, additional charges or income are reflected in future years.

The calculation of the provision for future repayments of dormant account balances is inherently complex, with significant amounts of uncertainty in the quantum of reclaims expected and time period for which reclaims will continue. In performing the calculation, the Directors have applied a level of stress which they believe reasonably accounts for the long-term nature of the provision.

In addition, management continues to monitor actual reclaim rates to assess whether the provisioning methodology remains appropriate.

For every 1% increase in the provision for reclaims of dormant account balances, the impact on the operating result before distributions would be a reduction of £12.0m (2017: £11.0m). There would be a subsequent equal and opposite decrease in the provision for distributions to Big Lottery Fund.

1. Significant accounting policies continued

Provision for future 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 Big Lottery Fund for ongoing distribution to the benefit of the community.

Upon receipt of monies from participants, the Company also records a provision for future distributions to Big Lottery Fund. This represents amounts that the Company will expect to pay over to Big Lottery Fund in future years. The Directors regard this provision as a key accounting estimate.

Not all the surplus funds are paid over to Big Lottery Fund immediately, and the exact timings of these future payments are uncertain and depend on the value and timing of reclaims made. Amounts are reclassified from the provision to trade creditors following both Board approval of a distribution payment and once clarity is received as to the timing of a request for payment.

Amounts received in respect of dormant accounts

Amounts received in respect of dormant accounts represent receipts, from participants, of dormant account monies and are recognised where there is a probability that future economic benefits will flow to the Company and these benefits can be measured reliably.

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.

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.

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 Big Lottery Fund are exempt from tax. Any profits remaining from net 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 year, 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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
for the year ended 31 December 2018 continued

1. Significant accounting policies continued

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.

Financial Assets

i) Recognition and initial measurement

Investment securities are initially recognised when they are purchased. Investment securities are initially measured at fair value plus directly attributable transaction costs.

ii) Classification and measurement of financial assets

Investment securities are subsequently classified at amortised cost. Management intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. In assessing this, management performs the following assessment:

a) Business model assessment

The overall business model is to hold assets to maturity, investing in a mix of UK Government securities, high quality agency securities and corporate bonds. Management makes an assessment of this objective as part of the annual investment strategy review to establish if this is still appropriate.

b) Assessment whether contractual cash flows are solely payments of principal and interest

In assessing whether the contractual cash flows are solely payments of principal and interest, management considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows, such that it would not meet this condition. In making this assessment, management considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features.

iii) Impairment of investment securities

At each reporting date, management considers evidence of impairment for financial assets measured at amortised cost, assessing whether there is objective evidence that a specific financial asset, measured at amortised cost, is impaired.

At each reporting period, management calculates the 'expected credit loss' (ECL) on the investment securities held. RFL has a credit downgrade and variation policy that defines a significant downgrade, making clear the circumstances in which a lifetime credit loss requires calculation. Management considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade', namely Baa3 or higher per Moody's or BBB- or higher per Standard and Poor's. If an investment security experiences a significant downgrade, then the lifetime credit loss is calculated.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

iv) Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

1. Significant accounting policies continued

Capital reserve

The capital reserve represents surplus funds after costs, retained by the Company in order to maintain 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.

Leases

Operating lease costs are charged to the income statement in the period in which they are incurred. The assets are not recognised in the Company's balance sheet.

Intangible assets

Intangible assets comprise computer software recorded at cost less accumulated amortisation and any impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the assets to their residual values over their estimated useful lives, being three years.

These assets' residual value and useful lives are reviewed at each reporting date and adjusted if appropriate.

The carrying values of computer software are reviewed for impairment when events or changes in circumstances indicate that the carrying value may be impaired. If any such condition exists, the recoverable amount of the asset is estimated, in order to determine the extent of impairment, and the difference is charged to the income statement.

Plant and equipment

All plant and equipment is recorded at cost less accumulated depreciation and any impairment losses. Depreciation is calculated using the straight-line method to allocate the cost of the assets to their residual values over their estimated useful lives as follows:

Fixtures and fittings – five years
Computer hardware – two to three years

These assets' residual value and useful lives are reviewed at each reporting date and adjusted if appropriate.

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may be impaired. If any such condition exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment and the difference is charged to the income statement.

2. Retained profit

	2018 £'000	2017 £'000
Retained profit for the year is stated after charging:		
Auditor's remuneration		
– audit of these financial statements	**38**	31

NOTES TO THE COMPANY FINANCIAL STATEMENTS
for the year ended 31 December 2018 continued

3. Administrative expenses

The average number of employees during 2018 was eight (2017: eight). A breakdown of the administrative expenses for 2018 and 2017 is shown in the table below:

	2018 £'000	2017 £'000
Staff costs		
– Wages and salaries	**899**	858
– Social security costs	**106**	102
– Pension costs	**55**	52
	1,060	1,012
Professional services	**779**	777
FCA fees and FSCS levies	**34**	35
IT and communication costs	**129**	87
Premises costs	**96**	96
Miscellaneous expenses	**195**	196
Depreciation and amortisation	**80**	91
Total operating costs	**2,373**	2,294
Investment management fees	**402**	422
Total administrative expenses	**2,775**	2,716

Financial Services Compensation Scheme ('FSCS') levies

The FSCS has, amongst other things, provided compensation to customers of financial institutions following the collapse of certain deposit takers in 2008, with the compensation paid out to consumers being funded through loans from HM Treasury. The Company was previously included within the Deposit Taking class and was liable to pay a proportion of the interest on the outstanding amounts that the FSCS borrowed from HM Treasury.

Following consultation with FSCS in 2016, the Company is no longer included within Deposit Taking class and is now included within a distinct Dormant Account Fund Operator class. The Company is obliged to pay its share of management expenses and compensation based upon the Company's proportion of the total market protected deposits in the Dormant Assets Scheme class at 31 December of each year.

3. Administrative expenses continued

Directors' emoluments

Details of the aggregate Directors' emoluments for the years ended 31 December 2018 and 31 December 2017 are shown below. The fees for Non-Executive Directors include only those for whom the Company incurs the cost.

Year ended 31 December 2018	**Salary/ fees £'000**	**Performance related pay[1] £'000**	**Pension contributions[3] £'000**	**Cash in lieu of pension[4] £'000**	**Benefits in kind[5] £'000**	**Total emoluments £'000**
Non-Executive Directors	**205**	**–**	**–**	**–**	**13**	**218**
Executive Director[2]	**174**	**52**	**5**	**11**	**8**	**250**
	379	**52**	**5**	**11**	**21**	**468**

Year ended 31 December 2017	Salary/ fees £'000	Performance related pay[1] £'000	Pension contributions[3] £'000	Cash in lieu of pension[4] £'000	Benefits in kind[5] £'000	Total emoluments £'000
Non-Executive Directors	204	–	–	–	22	226
Executive Director[2]	171	51	19	–	8	249
	375	51	19	–	30	475

1 Performance related pay refers to actual or estimated bonus amounts earned based on financial and non-financial performance targets.
2 This represents emoluments of the highest paid Director of £250k (2017: £249k).
3 During the year one Director (2017: one) was a member of a money purchase pension scheme.
4 This represents cash taken in lieu of pension for the Executive Director.
5 Benefits in kind are in respect of car allowances for the Executive Director, and travel, accommodation and subsistence for Non-Executive Directors for which PAYE and NIC due is included.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
for the year ended 31 December 2018 continued

4. Amounts received in respect of dormant accounts

During the year, £110.6m (2017: £117.9m) was received in respect of dormant accounts funds. A detailed analysis of receipts by participant is provided below:

Participant	2018 £'000	2017 £'000
Allied Irish Bank (UK) plc	**3,311**	6,562
Australia & New Zealand Bank – London Branch	**–**	3,063
Bank Hapoalim – London Branch	**88**	1,801
Bank Leumi UK plc	**1**	2,495
Barclays Bank UK PLC	**14,482**	18,625
The Co-operative Bank plc	**707**	1,567
Credit Agricole Corporate & Investment Bank – London Branch	**–**	626
Danske Bank	**121**	297
Duncan Lawrie Limited	**–**	17
Emirates NBD PJSC – London Branch	**–**	107
HSBC UK Bank plc	**9,236**	6,004
Lloyds Banking Group		
Lloyds Bank plc	**5,110**	8,584
Bank of Scotland plc	**11,970**	18,219
Nationwide Building Society	**12,144**	4,996
Royal Bank of Scotland Group		
Adam & Company plc	**2**	1
Coutts & Co	**4**	97
National Westminster Bank plc	**11,636**	15,861
The Royal Bank of Scotland plc	**3,899**	21,622
Ulster Bank Limited	**1,045**	552
Santander UK plc	**30,189**	2,798
Virgin Money plc	**6,620**	4,047
	110,565	117,941

5. Interest income and expense

	2018 £'000	2017 £'000
Interest income:		
On investment securities	**3,257**	3,107
On cash deposits	**2,301**	1,017
	5,558	4,124
Interest expense	**137**	162

6. Taxation

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

In accordance with IAS 12 'Income Taxes', a reconciliation between accounting profit and tax charge for the year is provided below:

	2018 £'000	2017 £'000
Current tax		
UK corporation tax on profits at 19% (2017: 19.25%)	**512**	258
Adjustments in respect of previous years	**(2)**	(3)
	510	255
Deferred tax		
Origination and reversal of timing differences	**(6)**	(14)
Adjustments in respect of previous years	**–**	(1)
	(6)	(15)
Total tax charge for the financial year	**504**	240

	2018 £'000	2017 £'000
Reconciliation of effective tax rate		
Profit before tax	**504**	240
UK corporation tax at 19% (2017: 19.25%)	**96**	46
Non-taxable income	**(21,007)**	(22,704)
Disallowable provision for reclaim repayments	**8,402**	9,081
Disallowable payments and provision for future distributions to Big Lottery Fund	**13,013**	13,817
Expenses not deductible for tax purposes	**2**	2
Prior year adjustment – current tax	**(2)**	(3)
Prior year adjustment – deferred tax	**–**	(1)
Deferred tax change in rate	**–**	2
Total tax charge for the financial year	**504**	240

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. A further reduction to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015, and an additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax liability at 31 December 2018 has been calculated based on these rates.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
for the year ended 31 December 2018 continued

6. Taxation continued

The movement on the deferred tax liability is as follows:

	2018 £'000	2017 £'000
At the beginning of the financial year	8	23
Adjustments in respect of deferred tax of previous year	–	(1)
Income statement charge/(release) in the year	(6)	(14)
At the end of the financial year	2	8

The balance at the beginning and end of the financial years represents accelerated capital allowances.

7. Intangible assets – computer software

	2018 £'000
Cost	
Opening balance at 1 January 2018	48
Additions	1
Closing balance at 31 December 2018	49
Amortisation	
Opening balance at 1 January 2018	41
Amortisation charge	7
Closing balance at 31 December 2018	48
Carrying amount	
Opening balance at 1 January 2018	7
Closing balance at 31 December 2018	1

8. Plant and equipment

	Fixtures & fittings £'000	Computer hardware £'000	**Total £'000**
Cost			
Opening balance at 1 January 2018	111	161	**272**
Additions	–	230	**230**
Disposals	–	(146)	**(146)**
Closing balance at 31 December 2018	111	245	**356**
Depreciation			
Opening balance at 1 January 2018	58	131	**189**
Depreciation charge	22	50	**72**
Disposals	–	(144)	**(144)**
Closing balance at 31 December 2018	80	37	**117**
Carrying amount			
Opening balance at 1 January 2018	53	30	**83**
Closing balance at 31 December 2018	31	208	**239**

9. Investment securities

	2018 £'000	2017 £'000
Central governments or central banks	**48,117**	48,579
Supranationals	**126,952**	163,164
Corporates	**101,950**	63,867
Accrued interest	**3,010**	3,000
	280,029	278,610

The carrying value of financial instruments measured at amortised cost is determined in compliance with the accounting policies on page 38.

The table below sets out a summary of the carrying and fair values of financial assets classified as held to maturity:

2018	Carrying value £'000	Fair value £'000
Investment securities	**280,029**	**280,947**
2017		
Investment securities	278,610	281,893

The fair value of the investment securities is driven by interest rate movements, and no impairment triggers have been met in the year.

9. Investment securities continued

Valuation hierarchy

Based upon guidance issued by The Committee of European Securities Regulators ('CESR'), RFL classifies debt securities in Level 1 only if it can be demonstrated on an individual security by security basis that these are quoted in an active market: i.e. that the price quotes obtained are representative of actual trades in the market (through obtaining binding quotes or through corroboration to published market prices). Pricing providers cannot guarantee that the prices that they provide are based on actual trades in the market. Therefore, all bonds are classified as Level 2.

Of the total investment securities held, £71.5m is due to mature in less than 12 months from the reporting date.

Expected credit losses

Management calculated the ECL on the investment securities at 31 December 2018 and concluded that the amount was not material, and no adjustment was required.

10. Cash and cash equivalents

	2018 £'000	2017 £'000
Cash and cash equivalents	**338,706**	393,902

Cash and cash equivalents comprise £334.8m (2017: £391.7m) held with the Bank of England, £1.2m (2017: £1.3m) with HSBC UK Bank plc and £2.7m (2017: £0.9m) held with the investment manager. The carrying value of cash and cash equivalents equates to fair value.

11. Provision for reclaims of dormant account balances

	2018 £'000	2017 £'000
At the beginning of the year	**373,678**	342,162
Additional provision created in the year	**44,226**	47,176
Utilised in the year	**(13,850)**	(15,660)
At the end of the year	**404,054**	373,678

11. Provision for reclaims of dormant account balances continued

During the year, £13.9m (2017: £15.7m) of the provision for reclaims of dormant account balances was utilised. The table below shows the total value of reclaims, categorised by the participants at which the individual's account was previously held:

Participant	2018 £'000	2017 £'000
Allied Irish Bank (UK) plc	**124**	–
Australia & New Zealand Bank – London Branch	**–**	1
Bank Leumi UK plc	**165**	–
Barclays Bank UK PLC	**2,020**	2,386
Clydesdale Bank	**53**	81
The Co-operative Bank plc	**391**	160
Danske Bank	**13**	39
Emirates NBD PJSC – London Branch	**–**	1
HSBC UK Bank plc	**1,031**	962
Lloyds Banking Group		
Lloyds Bank plc	**615**	904
Bank of Scotland plc	**5,157**	5,748
Nationwide Building Society	**45**	78
Royal Bank of Scotland Group		
National Westminster Bank plc	**449**	487
The Royal Bank of Scotland plc	**34**	85
Ulster Bank Limited	**24**	61
Santander UK plc	**2,757**	3,758
TSB Bank plc	**52**	168
Virgin Money plc	**920**	741
	13,850	15,660

12. Provision for future distributions to Big Lottery Fund

	2018 £'000	2017 £'000
At the beginning of the year	**71,771**	152,830
Additional provision created in the year	**68,481**	71,771
Approved for distribution to Big Lottery Fund (see Note 13)	**(71,771)**	(152,830)
At the end of the year	**68,481**	71,771

£152.8m of funds were distributed to Big Lottery Fund during the year (2017: £nil m). See Note 13 overleaf.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
for the year ended 31 December 2018 continued

13. Trade and other payables

	2018 £'000	2017 £'000
Amounts owed to Big Lottery Fund[1]	**71,771**	152,830
Accrued expenses	**704**	544
	72,475	153,374

1 Big Lottery Fund changed its name to the National Lottery Community Fund on 29 January 2019.

£71.8m was approved for distribution to Big Lottery Fund and is available for immediate distribution. £152.8m funds were distributed to Big Lottery Fund during the year (2017: £nil m), and £30k remains in trade payables for future distribution to Big Lottery Fund.

14. Parent undertaking

The Company is a wholly owned subsidiary of Angel Square Investments Limited which is incorporated in Great Britain (formerly Co-operative Banking Group Limited which was incorporated in Great Britain and registered in England and Wales under the Co-operative and Community Benefit Societies Act 2014). Its Annual Report and Accounts is available from 1 Angel Square, Manchester, M60 0AG.

The ultimate parent undertaking is the Co-operative Group Ltd, which is incorporated in Great Britain and registered in England and Wales under the Co-operative and Community Benefit Societies Act 2014. Its Annual Report and Accounts is available from 1 Angel Square, Manchester, M60 0AG.

15. Share capital

	2018 £	2017 £
Allotted, called up and fully paid		
100 ordinary shares of £1 each	**100**	100

The shareholder, Angel Square Investments Limited (formerly Co-operative Banking Group Limited) has full voting rights.

16. Related parties

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

17. Risk management

Liquidity and funding risk

Liquidity and funding 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 that it has sufficient funds to meet its liabilities as they fall due. Liquidity and funding risk is mitigated through effective cash management. The Company operates to a strict investment mandate, which ensures that, at all times, a substantial proportion of the Company's assets are held in a highly liquid form.

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 from the Company's cash deposits and investments.

Cash deposits are currently held with the Bank of England (£334.8m, 2017: £391.7m), HSBC UK Bank plc (£1.2m, 2017: £1.3m) and the investment manager (£2.7m, 2017: £0.9m). The Company considers its credit risk on cash deposits to be minimal.

Investment decisions are made in line with a strict and cautious investment mandate in order to manage the Company's exposure to credit risk. Investments comprise fixed income investments, with initial purchases being restricted to investments graded no lower than A.

The maximum exposure to credit risk at the balance sheet date is £618.7m (2017: £672.5m), being £338.7m cash deposits and £280.0m investments (2017: £393.9m cash deposits and £278.6m investments).

Market risk

Market risk is the risk that the Company takes through 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 Company has limited exposure to market risk, as its fixed income investments are all held to maturity and accounted for as such.

18. 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 FCA to hold regulatory capital in respect of its activities as a banking firm and capital consists of the excess of assets over liabilities. The Company has, at all times during the year, held sufficient capital to meet its regulatory capital requirement.

The Company's capital resources are its capital and reserves of £73.7m (2017: £73.7m).

NOTES TO THE COMPANY FINANCIAL STATEMENTS
for the year ended 31 December 2018 continued

19. Commitments

This note gives details of the Company's commitments under operating leases.

Operating lease commitments are in respect of the office premises in Crewe. A 15-year lease was entered into with effect from 4 November 2014. Rentals are fixed, with a break clause every five years.

The future contractual aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2018 £'000	2017 £'000
Within 1 year	43	43
Later than 1 year and not later than 5 years	172	43
Later than 5 years	43	–
	258	86

The amount of operating lease income recognised in the income statement is £nil (2017: £nil).

COMPANY INFORMATION AND ADVISORS

Company information

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Registered number: 07344884

Registered office:
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reclaimfund.co.uk

Independent auditor

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Water Lane
Leeds
LS11 5QR

Internal auditor

Deloitte LLP
1 City Square
Leeds
LS1 2AL

Legal advisor

Addleshaw Goddard LLP
Milton Gate
60 Chiswell Street
London
EC1Y 4AG

Investment manager

Goldman Sachs Asset Management International
River Court
120 Fleet Street
London
EC4A 2BE

Principal bankers

Bank of England
Threadneedle Street
London
EC2R 8AH

HSBC UK Bank plc
Level 20
8 Canada Square
London
E14 5HQ

PARTICIPATING BANKS AND BUILDING SOCIETIES

Participant	Dormant account monies received from participants 2018 £'000	Dormant account monies received from participants Since inception £'000	Reclaims paid to participants 2018 £'000	Reclaims paid to participants Since inception £'000
Allied Irish Bank (UK) plc	**3,311**	9,873	**124**	124
Australia & New Zealand Bank – London Branch	**–**	3,063	**–**	1
Bank Hapoalim – London Branch	**88**	1,889	**–**	–
Bank Leumi UK plc	**1**	2,496	**165**	165
Barclays Bank UK PLC	**14,482**	210,863	**2,020**	12,211
Butterfield Bank (UK) Limited	**–**	8	**–**	–
Clydesdale Bank PLC	**–**	22,239	**53**	202
Commonwealth Bank of Australia – London Branch	**–**	4	**–**	–
Consolidated Credit Bank Limited	**–**	53	**–**	–
The Co-operative Bank plc	**707**	14,479	**391**	1,343
Credit Agricole Corporate & Investment Bank – London Branch	**–**	626	**–**	–
Danske Bank	**121**	5,760	**13**	256
Duncan Lawrie Limited	**–**	17	**–**	–
Emirates NBD PJSC – London Branch	**–**	107	**–**	1
HSBC UK Bank plc	**9,236**	69,516	**1,031**	4,039
Lloyds Banking Group				
Lloyds Bank plc	**5,110**	200,881	**615**	6,634
Bank of Scotland plc	**11,970**	159,363	**5,157**	19,179
Nationwide Building Society	**12,144**	69,643	**45**	847
N. M. Rothschild & Sons Limited	**–**	90	**–**	–
Royal Bank of Scotland Group				
Adam & Company plc	**2**	17	**–**	1
Coutts & Co	**4**	1,593	**–**	–
National Westminster Bank plc	**11,636**	123,555	**449**	2,315
The Royal Bank of Scotland plc	**3,899**	49,514	**34**	287
Ulster Bank Limited	**1,045**	7,652	**24**	190
Santander UK plc	**30,189**	215,468	**2,757**	23,768
TSB Bank plc	**–**	12,354	**52**	3,958
Virgin Money plc	**6,620**	28,143	**920**	4,069
	110,565	1,209,266	**13,850**	79,590

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