

Reclaim Fund Ltd

Annual report and accounts

For the year ended 31 December 2014

Registered office: 1 Angel Square, Manchester, M60 0AG.
Registered number: 07344884

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Reclaim Fund Ltd

Strategic Report

The Directors present their annual report and accounts for the year ended 31 December 2014.

Business review

Principal activities

The principal activity of Reclaim Fund Ltd (“the Company”) is that of 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 Co-operative Banking Group Limited following the introduction of the Dormant Bank and Building Society Accounts Act 2008. The Act enables banks and building societies, that choose to participate (‘Participants’), to transfer money from their dormant bank and building society accounts into the Company for ongoing distribution for the benefit of the community. It also ensures that the right of account holders to reclaim their money is protected in perpetuity by transferring the individual’s right against the bank or building society to the Reclaim Fund Ltd.

The strategy for the Company is aligned to the operational activities permitted 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. The Company does not undertake a strategic review exercise other than to develop a business plan in line with requirements of the Act.

Review of the year

During the year, the Company accepted £95.0m (2013: £86.9m) of dormant account monies from nine of the ten participating UK banks and building societies (2013: nine). A number of reclaims from participants were received during the year, amounting to £10.2m (2013: £6.6m). Given the limited reclaim experience, provisioning for future reclaims has remained cautious, with additional provisions recorded in the year of £38.0m (2013: £34.8m).

The Company is run on a not-for-profit basis and, accordingly, profit after tax was £nil (2013: £nil). Net assets at the balance sheet date were £73.7m (2013: £73.7m). The only distributions the Company is permitted to make are to Big Lottery Fund in support of good causes.

In January 2014, a distribution of £17.7m was made to Big Lottery Fund. This was followed by £12.7m in April, £13.3m in July and £13.3m in October, taking the total distributions for the year to £57.0m (2013: £66.0m).

Reclaim Fund Ltd

Strategic Report (continued)

Operating model

In line with our vision to maximise the benefits for good causes through our effective stewardship of unclaimed assets, during 2014 our Board initiated a review of our current operating model, focussing particularly on our approach to service provision. As a result of this review, the Board has approved a number of operational services previously obtained through the Master Services Agreement in place between the Company and fellow Group company, CFS Management Services Limited (CFSMSL), being brought in house. Our employee numbers will increase accordingly to reflect the new arrangements and the changes underway will strengthen our leadership and assist with reducing current key person dependencies. This review has also led to a decision to relocate the Company's operations to independent business premises in Crewe. This will take effect early in 2015. Our financial results going forward, will accordingly reflect the associated changes to our cost base. In terms of our operations, the majority of the professional services still remaining with CFSMSL will, going forward, be sourced from alternative third party suppliers following rigorous procurement selection procedures.

Principal risks and uncertainties

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

The principal risks faced by the Company are reclaim risk, market risk, liquidity risk, credit risk, business risk, regulatory risk and operational risk.

More detail on the principal risks specific to the Company are disclosed in the risk management section on pages 21 and 22.

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.

Reclaim Fund Ltd

Strategic Report (continued)

The specific non-financial KPIs for the Company include:

	KPI	Comment
Participants	Level of participation in the scheme by banks and building societies.	During the year, amounts received in respect of dormant accounts from nine of the ten participating (2013: nine) banks and building societies totalled £95.0m which was higher than forecast mainly due to additional amounts received from HSBC and Lloyds Banking Groups.
Stakeholders	Outsource service providers meetings set service level agreements 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.

The specific financial KPIs for the Company include:

	2014	2013	Comment
Funds committed from participants	£95.0m	£86.9m	In 2014, transfers in are significantly higher than forecast due to the HSBC bank transfer being £8.7m higher than forecast and the Lloyds Bank transfer being £33.3m higher than forecast.
Capital and reserves	£73.7m	£73.7m	Within guidelines set by the FCA.
Distributions to Big Lottery Fund	£57.0m	£66.0m	Distributions are made in line with the Company's distribution policy. This reflects the Company's cautious approach to distributing each transfer received over time.
Liquidity - cash held	£408m	£382m	A significant majority of cash is held with the Bank of England, providing a highly liquid, secure position.
Cost management	£2.0m	£1.8m	Costs are in line with agreed budgets set by the Board of Directors.
Reclaim Provision	£267m	£239m	The level of reclaim provision continues to be regularly monitored by the Board.

Reclaim Fund Ltd

Strategic Report (continued)

Future outlook

The Company has built strong relationships with its participants and stakeholders and anticipates that participations will continue in 2015 and beyond. The Company will maintain its focus on developing a deeper understanding of reclaim activity and behaviours in order to maximise distributions to Big Lottery Fund over the years ahead.

By order of the Board

Adrian Smith
Managing Director
6 March 2015

Reclaim Fund Ltd

Directors' report

Directors

The Directors of the Company during the year were:

Non-Executive Directors:

David Anderson	(resigned as Director and Chairman 14 February 2014)
Paul Chisnall	
Adrian Coles	(Acting Chairman between 15 February and 17 August 2014)
Clare Gosling	(resigned 28 March 2014)
Jane Hanson (Chairman)	(appointed Chairman 18 August 2014)
Zachary Hocking	(resigned 28 March 2014)
Robert Newton	

Glyn Smith was appointed as a Non-Executive Director on 4 February 2015.

Executive Director:

Adrian Smith

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.

There have been a number of changes to the Board during the year, including the retirement of the Chairman, David Anderson due to ill health and the subsequent appointment of our new Chairman, Jane Hanson. The role of Acting Chairman was performed by Adrian Coles from 15 February to 17 August 2014. Adrian was appointed Senior Independent Director on 5 December 2014.

In addition, Glyn Smith has been appointed to the Board and as Chairman of the Audit and Risk Committee. Glyn brings with him some 35 years of banking experience. The role of Acting Chairman of the Audit and Risk Committee was performed by Robert Newton from 18 August 2014 to 3 February 2015 following Jane's appointment as Board Chairman.

Two Non-Executive Directors – Clare Gosling and Zachary Hocking, both nominated by our parent, Co-operative Banking Group Limited (CBG) - left the Board early in the year. We anticipate the Board will be further strengthened with the appointment of two additional new Non-Executive Directors in 2015.

Further details are provided in the Board report on page 8.

Employees

All staff working on a full time basis for the Company are employed by CFSMSL, a fellow subsidiary of CBG. An expense is incurred by the Company for the cost of these staff. The average number of employees included in this expense during 2014 was four (2013: five).

The Company had no direct employees at 31 December 2014 (2013: nil). The average number of persons directly employed by the Company during the year was nil (2013: nil). The aggregate remuneration borne directly by the Company was £nil (2013: £nil).

Diversity

The Company is responsible, within the arrangements set out in the previous two paragraphs, for recruitment of its own staff. It welcomes diversity and actively promotes a policy and practice of equality in opportunity for all staff regardless of age, disability, ethnicity, gender, religion or belief, or sexual orientation.

Reclaim Fund Ltd

Directors' report (continued)

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 steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

A statement by the Directors as to their responsibilities for preparing the annual report and accounts is included in the Statement of Directors' Responsibilities on page 9.

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. When making this assessment, the Directors act within the principles of the Financial Reporting Council's 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009' report.

Dividend

The Dormant Bank and Building Society Accounts Act 2008 prevents the distribution of dividends; accordingly no distributions have been made.

Distributions

During the year £57.0m (2013: £66.0m) was paid to Big Lottery Fund for onward distribution to good causes across the UK.

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

Charitable and political donations

No charitable or political donations were made during the year (2013: £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.

Auditors

KPMG Audit Plc resigned as auditor on 16 October 2014 pursuant to section 516 of the Companies Act 2006. On 17 October 2014, the Directors appointed KPMG LLP as auditor of the company to fill the resultant casual vacancy as auditor under section 485(3) of the Companies Act 2006. KPMG LLP has indicated its willingness to continue in office and a resolution to reappoint it as auditor will be proposed at the next annual general meeting.

By order of the Board

Adrian Smith
Managing Director
6 March 2015

Reclaim Fund Ltd

The Board

Non-Executive Directors:

Jane Hanson (JP, BA (Hons), FCA) (Chairman)

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 Non-Executive Director and Chairman of the Board Risk Committee at Direct Line Insurance Group plc; Independent Member of the Fairness Committee at ReAssure; and Non-Executive Director and Chairman of the Board Risk Committee at Old Mutual Wealth. Her previous Executive Director roles include Risk and Governance Director at Aviva's Life Business. Jane is also a Magistrate.

Paul Chisnall (BA (Hons), Dip IoD)

Paul joined the Board in 2011. Paul is an Executive Director of the British Bankers' Association (BBA) and in this capacity headed up the BBA's preparatory work on dormant accounts and took part in the introduction of the 'mylostaccount' central tracing service. Paul also leads the BBA's work on corporate governance and professional standards.

Adrian Coles (BA, MA)

Adrian joined the Board in 2011, served as Acting Chairman between 15 February and 17 August 2014 and was appointed Senior Independent Director on 5 December 2014. Director General of the Building Societies Association between 1993 and 2013, Adrian is Chairman and Non-Executive Director of the Housing Securities Ltd group. In January 2014, Adrian was appointed a member of the Financial Services Commission "Gibraltar", and in May 2014 became a Non-Executive Director of Progressive Building Society. He is also a Non-Executive Director of BSA Pension Trustees Ltd and previously held a variety of other Non-Executive Directorships. Adrian was awarded an OBE in 2011 for services to financial services.

Robert Newton (BSc, FIA, CDir)

Robert joined the Board in 2010 and served as Acting Chairman of the Audit and Risk Committee between 18 August 2014 and 3 February 2015. With over 40 years' experience in the financial services industry, Robert is Chairman of Silentair Group Limited, a Non-Executive Director of Co-operative Banking Group Limited and Chairman of CIS General Insurance Limited.

Glyn Smith (MA, FCA)

Glyn joined the Board on 4 February 2015 and was also appointed Chairman of the Audit and Risk Committee. A graduate of Cambridge University and a Chartered Accountant, Glyn has some 35 years' experience in the financial services sector, most notably as a senior executive at Barclays Bank PLC and as Group Finance Director of Portman Building Society. He is currently a Non-Executive Director of Coventry Building Society, Covent Garden Market Authority and FCO Services and chairs the Audit Committees at all three organisations. He was formerly a Non-Executive Director of Domestic & General Group plc and a member of the ICAEW examinations team.

Executive Director:

Adrian Smith (DipMS) (Managing Director)

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 subsequently appointed as Managing Director.

Reclaim Fund Ltd

Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report and 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 they have elected to prepare the Annual report and accounts in accordance with IFRSs as adopted by the 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 judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the 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 comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information 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

We have audited the Annual report and accounts of Reclaim Fund Ltd for the year ended 31 December 2014 set out on pages 12 to 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' responsibility statement set out on page 9, the Directors are responsible for the preparation of the Annual report and accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the Annual report and accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Annual report and accounts

A description of the scope of an audit of the Annual report and accounts is provided on the Financial Reporting Council's web-site at www.frc.org.uk/auditscopeukprivate

Opinion on Annual report and accounts

In our opinion the Annual report and accounts:

- give a true and fair view of the state of the Company's affairs as at 31 December 2014 and of its result for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report and Directors' report for the financial year for which the Annual report and accounts are prepared is consistent with the Annual report and accounts.

Independent auditor's report to the members of Reclaim Fund Ltd (continued)

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the Annual report and accounts 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.

Karen Orr (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 The Embankment
Neville Street
Leeds
LS1 4DW

6 March 2015

Reclaim Fund Ltd

Income statement

For the year ended 31 December 2014

All amounts are stated in £'000 unless otherwise indicated

		Year ended 31 December 2014	Year ended 31 December 2013
	Notes		
Amounts received in respect of dormant accounts	3	95,047	86,913
Interest income	4	3,246	3,163
Interest expense	4	(41)	(22)
Net income		98,252	90,054
Administrative expenses	2	(2,020)	(1,781)
Provision for reclaims of dormant account balances	9	(38,018)	(34,765)
Operating result before distributions		58,214	53,508
Provision for future distributions to Big Lottery Fund	10	(57,948)	(53,892)
Profit/(Loss) before taxation		266	(384)
Taxation	5	(266)	384
Retained profit	1	-	-

The notes on pages 17 to 32 form part of the Annual report and accounts.

Reclaim Fund Ltd

Statement of comprehensive income For the year ended 31 December 2014

All amounts are stated in £'000 unless otherwise indicated

		Year ended 31 December 2014	Year ended 31 December 2013
	Notes		
Retained profit for the year	1	-	-
Other comprehensive income for the year, net of taxation		-	-
Total comprehensive income for the year		<u>-</u>	<u>-</u>

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 17 to 32 form part of the Annual report and accounts.

Reclaim Fund Ltd

Statement of financial position

As at 31 December 2014

All amounts are stated in £'000 unless otherwise indicated

	Notes	2014	2013
Assets			
Cash and cash equivalents	6	407,849	382,130
Investment securities	7	71,595	68,453
Trade and other receivables	8	62	2
Deferred tax	5	118	384
Total assets		479,624	450,969
Liabilities			
Provision for reclaims of dormant account balances	9	266,532	238,763
Provision for future distributions to Big Lottery Fund	10	138,773	137,815
Amounts due to other Co-operative Banking Group undertakings	14	220	378
Trade and other payables	11	386	300
Total liabilities		405,911	377,256
Capital and reserves			
Share capital (£100)	13	-	-
Capital reserve		73,713	73,713
Total equity		73,713	73,713
Total liabilities and equity		479,624	450,969

The notes on pages 17 to 32 form part of the annual report and accounts.

Approved by the Board of Directors on 6 March 2015 and signed on its behalf by:

Adrian Smith
Managing Director

Reclaim Fund Ltd

Statement of Cash flow

For the year ended 31 December 2014

All amounts are stated in £'000 unless otherwise indicated

		Year ended 31 December 2014	Year ended 31 December 2013
	Notes		
Cash flows from operating activities			
Profit/(Loss) before tax		266	(384)
Adjustments:			
(Increase)/decrease in trade and other receivables		(60)	4
Increase/(decrease) in trade and other payables		(72)	167
Increase in provision for reclaims of dormant account balances	9	38,018	34,765
Increase/(decrease) in provision for future distributions to Big Lottery Fund		958	(12,108)
Interest amortisation	7	1,387	1,218
(Increase)/decrease in accrued income		(15)	160
Interest received		(4,643)	(4,541)
Payments made in respect of participant reclaims	9	(10,249)	(6,631)
Taxation	5	-	-
Net cash flows from operating activities		25,324	13,034
Cash flows from investing activities			
Purchase of investment securities	7	(4,514)	(69,831)
Interest received		4,643	4,541
Net cash flows from investing activities		129	(65,290)
Net increase/(decrease) in cash and cash equivalents		25,719	(52,640)
Cash and cash equivalents at the beginning of the financial year		382,130	434,770
Cash and cash equivalents at the end of the financial year	6	407,849	382,130

The notes on pages 17 to 32 form part of the annual report and accounts.

Reclaim Fund Ltd

Statement of changes in equity For the year ended 31 December 2014

All amounts are stated in £'000 unless otherwise indicated

	Share capital	Capital Reserve	Total
2014			
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	<u>-</u>	<u>73,713</u>	<u>73,713</u>
2013			
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	<u>-</u>	<u>73,713</u>	<u>73,713</u>

The notes on pages 17 to 32 form part of the annual report and accounts.

Reclaim Fund Ltd

Notes to the annual report and accounts For the year ended 31 December 2014

Basis of preparation

Reclaim Fund Ltd is a limited liability Company, incorporated in the United Kingdom and registered in England and Wales.

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

Standards and interpretations issued and effective

In preparing these annual report and accounts, the Company has adopted the following standards and interpretations that are new or revised and became effective during the year:

During the year the Company has changed its accounting policy as a result of IFRIC 21 – Levies, on the basis that it is a clarification of IAS 27- Separate Financial Statements. This has caused the trigger date for the FSCS levy to change from 31 December each year to the following 1 April.

IAS 27 (Revised), Separate Financial Statements (EU effective 1 January 2014).

Annual Improvements to IFRSs – 2010-2012 Cycle (EU effective 1 February 2015).

The impact of the above changes on the financial statements is not deemed significant.

Significant accounting policies

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. When making this assessment, the Directors act within the principles of the Financial Reporting Council's 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009' report.

Reclaim Fund Ltd

Notes to the annual report and accounts (continued) For the year ended 31 December 2014

Significant accounting policies (continued)

(a) Revenue recognition

(i) Amounts received in respect of dormant accounts

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

(ii) Interest income

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

(b) Provisions

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

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

The Company therefore records a provision for future repayments of dormant account balances. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate, based on actual reclaim experience. The Directors regard the provision as a key accounting judgement.

The calculation of the provision for future repayments of dormant account balances is inherently complex, with significant amounts of uncertainty. In performing the calculation, the Directors have applied a level of stress which they believe implicitly accounts for the long-term nature of the provision.

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

Reclaim Fund Ltd

Notes to the annual report and accounts (continued)

For the year ended 31 December 2014

Significant accounting policies (continued)

(c) Distributions to Big Lottery Fund

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

Distributions to Big Lottery Fund are recognised in the income statement when a constructive or legal obligation exists for payment.

(d) Taxation

The Company is subject to corporation tax. In accordance with tax legislation, any profits arising from the Company's continuing activity of receiving dormant account monies and making distributions to Big Lottery Fund are non-taxable. 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 (any profits remaining from net investment income, after deduction of operating expenses, are taxable). Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be released or realised.

(e) Cash and cash equivalents

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

(f) Investment securities

Held to maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. They are initially recognised at fair value plus directly attributable transaction costs and are subsequently carried at amortised cost using the effective interest method.

Reclaim Fund Ltd

Notes to the annual report and accounts (continued)

For the year ended 31 December 2014

Significant accounting policies (continued)

(g) 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.

(h) 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.

Use of estimates and judgments

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

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

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

Significant areas of estimation uncertainty that have the most effect on the amounts recognised in the annual report and accounts relate to the provision for reclaims of dormant account balances of £266.5m (2013: £238.8m) and the provision for future distributions to Big Lottery Fund of £138.8m (2013: £137.8m).

Provision for reclaims of dormant account balances

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

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

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 £7.2m (2013: £6.3m).

Reclaim Fund Ltd

Notes to the annual report and accounts (continued)

For the year ended 31 December 2014

Provision for future distributions to Big Lottery Fund

The Company also records a provision for future distributions for payments to Big Lottery Fund. This represents amounts that the Company will pay over to Big Lottery Fund in future years.

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.

Risk management

Our approach to risk management

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

The Audit and Risk Committee oversees and challenges the risk management process, including the identification of key risks and assessment of the effectiveness of planned management actions.

The Board is supported by an Investment Committee in the development and implementation of the Company's Investment Strategy and to provide assurance to the Board with regard to the on-going performance. Investment management services are provided by Goldman Sachs Asset Management International (GSAM) and custodian services are provided by Northern Trust (NT).

The principal risks facing the Company are:

Reclaim risk

Reclaim risk is the risk that the Company does not retain sufficient funds to meet future reclaims in perpetuity. The Company's policy is to maintain cautious provisions for future reclaims to reflect the longevity of the risk of reclaim. The level of reclaims is rigorously monitored on an on-going basis.

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 risk is mitigated by adherence to a strict investment mandate, which comprises investments in fixed income investments.

Liquidity risk

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

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

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.

Reclaim Fund Ltd

Notes to the annual report and accounts (continued)

For the year ended 31 December 2014

Risk management (continued)

Credit risk (continued)

Cash deposits are currently held with The Co-operative Bank plc (£0.3m, 2013: £0.4m), the Bank of England (£406.5m, 2013: £378.9m) and the investment manager (£1.0m, 2013: £2.8m). The Company considers its credit risk on cash deposits to be minimal.

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.

The maximum exposure to credit risk at the balance sheet date is £479.4m (2013: £450.6m), being £407.8m cash deposits and £71.6m investments (2013: £382.1m cash deposits and £68.5m investments).

Business risk

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

Regulatory risk

The Company operates in regulated markets and is subject to significant legislative and regulatory requirements, with the main regulator of the Company being the Financial Conduct Authority (FCA). Regulatory intervention is an ongoing feature of the UK financial services industry.

Operational risk (unaudited*)

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

Capital management

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

The Company is required by the Financial Conduct Authority (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 under regulatory supervision, held sufficient capital to meet its regulatory capital requirement.

The Company's capital resources are its capital and reserves per the annual report and accounts of £73.7m (2013: £73.7m).

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

Reclaim Fund Ltd

Notes to the annual report and accounts (continued)

For the year ended 31 December 2014

All amounts are stated in £'000 unless otherwise indicated

1. Retained profit

	Year ended 31 December 2014	Year ended 31 December 2013
Retained profit for the year is stated after charging:		
Auditor's remuneration		
- audit of these financial statements	26	25
- other non-audit services	-	-

2. Administrative expenses

Administrative expenses include costs incurred for the services of CFSMSL, a fellow subsidiary of Co-operative Banking Group Limited. These costs include an amount for individuals who work on a full time basis for the Company, but whose contract of employment is with CFSMSL. The average number of employees included in this expense during the year was four (2013: five).

A breakdown of the administrative expenses for 2014 and 2013 is shown in the table below:

	2014	2013
Staff costs	716	740
Shared services	338	322
Professional services	457	464
Operating model review expenses	277	120
FCA/BSA fees and FSCS levies	171	91
Miscellaneous expenses	61	44
	2,020	1,781

Financial Services Compensation Scheme (FSCS) levies

The FSCS has provided compensation to customers of financial institutions following the collapse of deposit takers in 2008. The compensation paid out to consumers is currently funded through loans from HM Treasury. The Company will be liable to pay a proportion of the outstanding borrowings that the FSCS has borrowed from HM Treasury. Additionally 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 at 31 December of each year.

The ultimate FSCS levy to the industry as a result of the 2008 collapses cannot currently be estimated reliably as it is dependent on other factors that may affect amounts payable and the timing of amounts payable, including changes in interest rates, potential recoveries of assets by the FSCS and the level of protected deposits.

Reclaim Fund Ltd

Notes to the annual report and accounts (continued)

For the year ended 31 December 2014

All amounts are stated in £'000 unless otherwise indicated

2. Administrative expenses (continued)

Directors' emoluments

Details of the aggregate Directors' emoluments for the years ended 31 December 2014 and 31 December 2013 are shown below.

The basic salary for Non-Executive Directors includes only those for whom the Company incurs the cost.

Year ended	Basic	Performance	Total
31 December 2014	salary	related pay ⁽¹⁾	emoluments
Non-Executive Directors	120	-	120
Executive Director ⁽²⁾	158	52	210
	278	52	330

Year ended	Basic	Performance	Total
31 December 2013	salary	related pay ⁽¹⁾	emoluments
Non-Executive Directors	144	-	144
Executive Director ⁽²⁾	151	58	209
	295	58	353

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

(2) This represents emoluments of the highest paid Director of £210k (2013: £209k).

Reclaim Fund Ltd

Notes to the annual report and accounts (continued)

For the year ended 31 December 2014

All amounts are stated in £'000 unless otherwise indicated

3. Amounts received in respect of dormant accounts

During the year, £95.0m (2013: £86.9m) in respect of dormant accounts funds was received. A detailed analysis of receipts by UK financial institution is provided below:

Institution	2014	2013
Barclays Bank plc	25,233	29,089
Commonwealth Bank	-	-
The Co-operative Bank plc	1,122	1,137
Danske Bank	256	193
HSBC Bank plc	10,701	2,641
Lloyds Banking Group		
Lloyds Bank plc	38,763	13,981
Bank of Scotland plc	-	-
TSB plc	-	12,354
Nationwide Building Society	6,060	3,782
Royal Bank of Scotland		
Adam & Company plc	1	3
Coutts & Co	108	1,168
National Westminster Bank plc	1,039	1,640
The Royal Bank of Scotland plc	486	2,550
Ulster Bank Limited	634	3,148
Santander UK plc	8,648	12,029
Virgin Money	1,996	3,198
	95,047	86,913

4. Interest income and expense

	Year ended 31 December 2014	Year ended 31 December 2013
Interest income:		
- on investment securities	1,355	1,277
- on cash deposits	1,891	1,886
	3,246	3,163
Interest expense	41	22

Reclaim Fund Ltd

Notes to the annual report and accounts (continued)

For the year ended 31 December 2014

All amounts are stated in £'000 unless otherwise indicated

5. 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 non-taxable. Any profits remaining from investment income, after deduction of operating expenses are taxable.

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

Income statement	2014	2013
Reconciliation of effective tax rate		
Profit/(Loss) before tax	<u>266</u>	<u>(384)</u>
UK corporation tax at 21.5% (2013: 23.25%)	57	(89)
Non-taxable income	(20,435)	(20,204)
Non-allowable provision for reclaim repayments	8,174	8,082
Non-allowable payments and provision for future distributions to Big Lottery Fund	12,516	12,439
Expenses not deductible for tax purposes	(46)	101
Excess expenses brought forward and utilised in the year	-	(329)
Losses brought forward utilised but not provided for in previous period	-	(384)
Tax charge/(credit) for the year	<u>266</u>	<u>(384)</u>

A deferred tax asset was recognised in 2013, in respect of the tax losses created from the initial set up costs of the Company. The continued recognition of this asset is based on the level of forecast taxable profits (any profits remaining from net investment income, after deduction of operating expenses are taxable) to utilise the available tax losses.

The 2012 Autumn Statement on 5 December 2012 announced that the UK corporation tax rate will reduce to 20% by 2015. This will reduce the company's future current tax charge accordingly. For 2014, this has been calculated based on the rate of 20.25% to the extent it is expected losses will be utilised in 2015 and at 20% to the extent they will be used in a period subsequent to that, based on the rates substantively enacted at the balance sheet date.

Reclaim Fund Ltd

Notes to the annual report and accounts (continued)

For the year ended 31 December 2014

All amounts are stated in £'000 unless otherwise indicated

5. Taxation (continued)

Deferred tax

Deferred income taxes are calculated on all temporary differences under the liability method using an effective rate of 20.25%.

	2014	2013
<i>Deferred taxation asset / (liability)</i>		
At 31 December 2013	384	-
Income statement credit in the period	<u>(266)</u>	<u>384</u>
At 31 December 2014	<u>118</u>	<u>384</u>
<i>Comprising:</i>		
Tax losses	<u>118</u>	<u>384</u>
At 31 December 2014	<u>118</u>	<u>384</u>

A deferred tax asset was recognised in 2013, in respect of the tax losses created from the initial set up costs of the Company. The continued recognition of this asset is based on the level of forecast taxable profits (any profits remaining from net investment income, after deduction of operating expenses are taxable) to utilise the available tax losses.

The 2012 Autumn Statement on 5 December 2012 announced that the UK corporation tax rate will reduce to 20% by 2015. This will reduce the Company's future current tax charge accordingly. For 2014, this has been calculated based on the rate of 20.25% to the extent it is expected losses will be utilised in 2015 and at 20% to the extent they will be used in a period subsequent to that, based on the rates substantively enacted at the balance sheet date.

6. Cash and cash equivalents

	2014	2013
Cash and cash equivalents	<u>407,849</u>	<u>382,130</u>

Cash and cash equivalents consist of £0.3m (2013: £0.4m) held on behalf of the Company by The Co-operative Bank plc, £406.5m (2013: £378.9m) with the Bank of England and £1.0m (2013: £2.8m) held with the investment manager. The carrying value of cash and cash equivalents equates to fair value.

Reclaim Fund Ltd

Notes to the annual report and accounts (continued)

For the year ended 31 December 2014

All amounts are stated in £'000 unless otherwise indicated

7. Investment securities

The movement in investment securities is summarised as follows:

	2014	2013
Held to maturity		
Listed government and government agency securities	71,595	68,453
	<u>71,595</u>	<u>68,453</u>
	2014	2013
At the beginning of the year	68,453	-
Acquisitions	4,514	69,831
Unwind of premiums	(1,387)	(1,218)
Unwind of accrued interest	(1,262)	(1,422)
Accrued interest	1,277	1,262
Carrying value	<u>71,595</u>	<u>68,453</u>

The carrying value of financial instruments measured at amortised cost is determined in compliance with the accounting policies on pages 17 to 20.

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

	Carrying value	Fair value
2014		
Investment securities	<u>71,595</u>	<u>71,943</u>
2013		
Investment securities	<u>68,453</u>	<u>63,774</u>

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

Notes to the annual report and accounts (continued)
For the year ended 31 December 2014

All amounts are stated in £'000 unless otherwise indicated

8. Trade and other receivables

	2014	2013
Prepayments	<u>62</u>	<u>2</u>

9. Provision for reclaims of dormant account balances

	2014	2013
At the beginning of the year	238,763	210,629
Additional provision created in the year	38,018	34,765
Utilised in the year	(10,249)	(6,631)
At the end of the year	<u>266,532</u>	<u>238,763</u>

During the year, £10.2m (2013: £6.6m) of the provision for reclaims of dormant account balances was utilised. The table below shows the total value of reclaims, categorised by the UK financial institution at which the individual's account was previously held:

Institution	2014	2013
Barclays Bank plc	1,564	1,316
Commonwealth Bank	-	-
The Co-operative Bank plc	94	179
Danske Bank	56	21
HSBC Bank plc	16	78
Lloyds Banking Group		
Lloyds Bank plc	439	626
Bank of Scotland plc	1,411	-
TSB plc	2,168	
Nationwide Building Society	186	49
Royal Bank of Scotland		
Adam & Company plc	-	-
Coutts & Co	-	-
National Westminster Bank plc	219	212
The Royal Bank of Scotland plc	-	-
Ulster Bank Limited	-	-
Santander UK plc	3,674	3,882
Virgin Money	422	268
	<u>10,249</u>	<u>6,631</u>

Reclaim Fund Ltd

Notes to the annual report and accounts (continued)

For the year ended 31 December 2014

All amounts are stated in £'000 unless otherwise indicated

10. Provision for future distributions to the Lottery Fund

	2014	2013
At the beginning of the year	137,815	149,923
Additional provision created in the year	57,948	53,892
Utilised in the year	(56,990)	(66,000)
At the end of the year	<u>138,773</u>	<u>137,815</u>

During the year, £57.0m (2013: £66.0m) of surplus funds were distributed to Big Lottery Fund.

11. Trade and other payables

	2014	2013
Accrued expenses	<u>386</u>	<u>300</u>

12. Parent undertaking

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

The ultimate parent undertaking is Co-operative Group Limited, 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 are available from 1 Angel Square, Manchester, M60 0AG.

13. Share capital

	2014	2013
	£	£
Allotted, called up and fully paid		
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>

The shareholder, Co-operative Banking Group Limited has all voting rights.

Reclaim Fund Ltd

Notes to the annual report and accounts (continued)

For the year ended 31 December 2014

All amounts are stated in £'000 unless otherwise indicated

14. Related party transactions

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

A number of transactions have been entered into during the year with related parties. These transactions have been undertaken with the following Banking Group and associate undertakings:

Banking Group undertakings

CFS Management Services Limited

Associate undertakings

The Co-operative Bank plc

The Co-operative Bank plc was a Banking Group undertaking during 2013 and became an associate of the Co-operative Banking Group in December 2013. Amounts with an asterisk are related parties with the Co-operative Bank plc only.

	2014	2013
Transactions taking place in the year with related		
Other Co-operative Banking Group undertakings:		
- Administrative expenses	1,615	1,431
- Amounts received in respect of dormant accounts *	-	1,137
- Amounts paid in respect of reclaims *	-	179
Associate Undertakings:		
- Amounts received in respect of dormant accounts	1,122	-
- Amounts paid in respect of reclaims	94	-
At the balance sheet date, related party balances:		
Other Co-operative Banking Group undertakings:		
- Trade and other payables	220	378
Associate Undertakings:		
- Cash and cash equivalents	315	359

All transactions are conducted on an arm's length basis under standard commercial terms. Expenses are recharged at cost.

Most of the administrative expenses are costs incurred and subsequently passed on to the Company by CFSMSL, a Co-operative Banking Group service company.

Reclaim Fund Ltd

Notes to the annual report and accounts (continued)

For the year ended 31 December 2014

All amounts are stated in £'000 unless otherwise indicated

15. Commitments

This note gives details of our commitments to capital expenditure and under operating leases.

(a) Capital commitments

As at 31 December 2014, the Company had entered into contractual agreements with office equipment and IT hardware suppliers for the new office in Crewe. The Company is committed to incur costs as follows:

	2014	2013
Fixtures and Fittings	111	-
	<hr/> 111 <hr/>	<hr/> - <hr/>

It is anticipated that these assets will come into use and be capitalised during 2015.

(b) Operating lease commitments

Operating lease commitments are in respect of land and buildings. A new 15 year lease commenced on 1 January 2015. The lease has a term of 15 years, 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:

	2014	2013
Within 1 year	43	-
Later than 1 year and not later than 5 years	172	-
Later than 5 years	-	-
	<hr/> 215 <hr/>	<hr/> - <hr/>

The amount of operating lease income recognised in the Income Statement is £nil (2013 £nil).