

Reclaim Fund Ltd

Operating Review

72 week period ended 31 December 2011

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Foreword

I am grateful to Co-operative Banking Group for stepping forward in support of the Dormant Bank & Building Society Accounts Act 2008 by establishing Reclaim Fund Ltd.

Reclaim Fund Ltd is key to helping unlock monies that have been dormant for many years to fund social good, whilst ensuring that customers are always able to reclaim their dormant Bank or Building Society balances.

The Government has great ambition for building a bigger, stronger society; a society where communities and citizens have more power to shape their lives and determine their destinies. The money made available through Reclaim Fund Ltd will make a huge difference in funding social investment to strengthen our society, and we are already seeing success in a number of areas.

The Big Society Investment Fund, which has been set up to use dormant accounts money to support innovative projects ahead of the launch of Big Society Capital has agreed in-principle to invest up to £4.1m in five innovative projects that will bring real changes to people's lives. These projects will help the long-term unemployed set up their own businesses; provide support for vulnerable young people to get into employment; enable deprived communities to own and run their own community energy projects and support the creation of the first ever social stock exchange.

As part of Co-operative Banking Group, which has strong ethical and socially responsible credentials at its heart, I believe that Reclaim Fund Ltd is an excellent partner to support the Government's vision of building a bigger and stronger society across the United Kingdom.



Nick Hurd MP
Minister for Civil Society

Chairman's review

I am delighted to be able to report on a successful inaugural year for Reclaim Fund Ltd, a unique organisation created under the Dormant Bank and Building Society Accounts Act 2008.

This Act was designed to make available for good causes money which had been lying dormant in banks and building societies for over 15 years and which may never be reclaimed. The Act provides for those banks and building societies, which choose to participate to extinguish their liabilities to dormant account holders upon transfer of dormant account balances to a reclaim fund. The reclaim fund must retain sufficient funds in perpetuity for future reclaims by dormant account holders, and distribute surplus money to Big Lottery Fund for onward distribution to good causes across the UK.

The Act was passed into law in March 2009, and in late 2009 Co-operative Financial Services (later renamed Co-operative Banking Group (CBG)) was approached by HM Treasury to establish a reclaim fund. Recognising the close alignment of the aims of the Act with its own strong ethical values, CBG agreed. During 2010 CBG worked closely with HM Treasury, the Financial Services Authority (FSA), the British Bankers' Association and the Building Societies Association to establish Reclaim Fund Ltd (the Company) as a not for profit subsidiary of CBG. The Company was authorised by the FSA and became fully operational in March 2011.

To guide our approach, the Board has established statements covering the purpose, vision, values and givens of the Reclaim Fund.

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

Our vision is to maximise the benefit for good causes through our stewardship of unclaimed assets.

The delivery of our vision will be underpinned by our values, which are a framework for how we behave and treat each other, as individuals and as a business; also by our givens, which are the principles that we adhere to.

Our values are:

- We put the interests of dormant account holders first in all we do
- We take personal and social responsibility and are proud of what we do
- Together we will create a great place to work, grow and develop
- We strive relentlessly to improve efficiency and effectiveness
- We are open and fair and are committed to excellent communication
- We will work constructively with our shareholder to achieve mutual success

Our givens are:

- We operate to the highest ethical standards
- We are financially strong, ensuring all reclaims can be met
- We are a not for profit business
- We only do business consistent with our values and principles
- We operate within a cautious risk appetite

Chairman's review (continued)

To achieve our vision we will:

- work closely with banks and building societies to maximise the amount of dormant account balances made available to us.
- always make sure we have sufficient funds to meet reclaims by dormant account holders.
- rigorously monitor reclaim rates over time to allow us to make informed decisions about how much more money we can sensibly pass on for the benefit of good causes.

We will not:

- place dormant account holders at risk of losing their money, for example by making premature decisions about how much of the dormant account money can be passed on for good causes, or by investing retained balances in anything but very strong counterparties.
- retain dormant account monies any longer than is necessary for future reclaims by dormant account holders and for the running of the Company.

To ensure the successful delivery of our strategy we have established a strong Board of Directors with a comprehensive range of relevant skills, knowledge and experience. Further details are provided in the Corporate Governance Report on page 4.

Since we began operations in late March 2011 we have received almost £370m of dormant account balances from nine of the largest banks and building societies that have signed up to the scheme so far. This money consists of the balances of accounts on which there have been no transactions for at least 15 years and in many cases for much longer periods. Banks and building societies have previously undertaken work to trace dormant account holders, and this money comprises balances on accounts where such tracing activity was unsuccessful, or because the small sums involved did not make it worthwhile to undertake significant tracing activity.

During 2011 we transferred almost £50m to Big Lottery Fund for distribution to good causes across the UK, and we expect this to rise to more than £60m by the end of our first full year of operations in March 2012, in line with previous announcements. Over time, we anticipate making further transfers and so far we have set aside a further £95m for this purpose.

Our assessment of how much we can release for distribution will depend on our experience of future reclaims by holders of dormant accounts. As we have limited historical data to help us at this early stage we have made cautious provisions to meet such reclaims and have set aside £147m.

Over time, our understanding of reclaim activity will develop and we can build on our experience to make informed predictions about future reclaim rates. This in turn will enable us to determine how much more we can release to Big Lottery Fund for further distributions to good causes.

Chairman's review (continued)

We have established capital reserves of £74m to meet regulatory requirements, to provide protection against unforeseen events such as exceptionally high reclaim rates, and to cover the ongoing running costs of the Company. We have taken account of the fact that we are obliged to continue to run the scheme for as long as reclaims could be made and yet there is no certainty that more funds will be received in future. Under UK law there is at present no limit on the time period in which a reclaim can be made. However as a not for profit company we will release the reserves as soon as the Board considers it is prudent to do so. In the meantime, we do not anticipate the need to create additional reserves for the foreseeable future, so in future we will be able to transfer a greater proportion of dormant account balances to Big Lottery Fund, after making sensible provision for reclaims.

Looking ahead, we anticipate receiving more dormant account balances from the following sources:

- existing participating banks and building societies (Participants). Each year more accounts will reach 15 years of dormancy, making them eligible for transfer to the Company. In addition, some of our existing Participants hold more accounts already dormant for more than 15 years, which they intend to transfer to us as soon as possible, for example when necessary systems have been created, or when ongoing attempts to trace dormant account holders have been exhausted.
- new Participants. In order for the Company to be established and operational as soon as possible, we worked initially with the banks and building societies listed on page 10, as we believed the vast majority of dormant accounts were held by these organisations. Nonetheless there are a number of other potential Participants in the UK, and we are in discussions with the largest of these organisations with a view to their joining the scheme and transferring dormant balances to us in 2012.

In total we hope to receive between £70m and £130m of dormant account balances during 2012.

At the end of our first full year of operation I would like to thank the many organisations that have worked with us to help successfully establish the Company, particularly our participating banks and building societies. I should also acknowledge the contribution of the Co-operative Group which has provided administration and support on a not for profit basis as part of its determination to make a positive contribution to society. Finally I would also like to thank my Board colleagues and the small team of employees who have all worked hard to get a new organisation up and running.



David Anderson
Chairman
28 March 2012

Corporate Governance Report

The Board of the Company 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.

The Board comprises eight non-executive and two executive directors, as follows:

Non-executive directors:

David Anderson (BA, MA) (Chairman)

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

Keith Alderson

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

Paul Chisnall (BA (Hons), Dip IoD)

Joined the Board in 2011. An executive director of the British Bankers' Association and in this capacity headed up the BBA's preparatory work on dormant accounts and took part in the introduction of the 'mylostaccount' central tracing service.

Adrian Coles (BA, MA)

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

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

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

John Hughes (MA, PhD)

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

Corporate Governance Report (continued)

Non-executive directors (continued)

James Mack (BA (Hons), ACA)

Joined the Board in 2011. Acting Chief Financial Officer, Co-operative Banking Group. Non-executive director of Unity Trust Bank plc. Nineteen years financial services experience, including roles in internal and external audit, finance and capital markets.

Bob Newton (BSc, FIA, CDir)

Joined the Board in 2010. Forty years experience in the financial services industry; now has a portfolio of business and pro bono interests. Non-executive director of UIA (Insurance) Limited and Chairman of Silentair Group Limited. Non-executive director of Co-operative Banking Group, The Co-operative Bank plc, Co-operative Insurance Society Limited and CIS General Insurance Limited.

Executive directors:

Paul Mills (BSc (Hons), ACA)

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

Adrian Smith (DipMS)

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

The aggregate emoluments of the directors (including non-executive directors) of Reclaim Fund Ltd for the 72 week period ended 31 December 2011 were £447k.

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

Frameworks have been developed to ensure the overall effectiveness of the Board and its committees, through ongoing monitoring and formal review on an annual basis; also to ensure the formal review of each director's personal contribution (including that of the Chairman) to Board proceedings and the Company's progress in the year. These frameworks are currently being embedded.

All directors participate in a programme of training and development designed to keep their knowledge and skills up to date. All directors conform to the requirements of the Approved Persons regime operated by the Financial Services Authority.

Corporate Governance Report (continued)

Board Committees

Supervision and direction is facilitated by two Board committees which meet regularly to consider issues specific to key business areas.

The Audit and Risk Committee receives reports from the Company's internal and external auditors, and the Risk and Compliance functions. Its remit includes matters relating to compliance with applicable regulations and legislation such as the Dormant Bank and Building Society Accounts Act 2008, the effectiveness of systems of control, risk management, internal capital adequacy process, arrangements for compliance and internal and external audit, and the annual report and accounts.

The committee comprises the following non-executive directors:

Jane Hanson Chair
James Mack
Bob Newton

In consultation with the Co-operative Banking Group Remunerations and Appointments Committee, the Remunerations and Appointments Committee considers and approves the remuneration arrangements for executive and non-executive directors. The committee also leads the process for Board appointments, ensuring a rigorous search and selection process based on their evaluation of the balance of skills, knowledge and experience required on the Board.

The committee comprises:

Adrian Coles Chair
Keith Alderson
Paul Chisnall

On behalf of the Board of Directors

A handwritten signature in black ink, appearing to read 'D Anderson', with a long horizontal flourish extending to the right.

David Anderson
Chairman
28 March 2012

Independent auditor's statement to the members of Reclaim Fund Ltd

We have examined the summary financial statement for the period ended 31 December 2011 set out on pages 8 to 10.

This statement is made solely to the company's members, as a body, in accordance with section 427 of the Companies Act 2006. Our work has been undertaken so that we might state to the company's members those matters we are required to state to them in such a statement 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 work, for this statement, or for the opinions we have formed.

Respective responsibilities of directors and auditor

The directors are responsible for preparing the summary financial statement in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the Operating Review with the full annual financial statements and its compliance with the relevant requirements of section 427 of the Companies Act 2006 and the regulations made thereunder.

We also read the other information contained in the Operating Review and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

Basis of opinion

We conducted our work in accordance with Bulletin 2008/3 The auditor's statement on the summary financial statement in the United Kingdom issued by the Auditing Practices Board. Our report on the company's full annual financial statements describes the basis of our audit opinion on those financial statements.

Opinion on summary financial statement

In our opinion the summary financial statement is consistent with the full annual financial statements of Reclaim Fund Ltd for the period ended 31 December 2011 and complies with the applicable requirements of section 427 of the Companies Act 2006 and the regulations made thereunder.



**Jonathan Holt, Senior Statutory Auditor
for and on behalf of KPMG Audit Plc, Statutory Auditor**

Chartered Accountants
St James' Square
Manchester
M2 6DS

28 March 2012

**Summary Income Statement
for the 72 week period ended 31 December 2011**

	£000s
Amounts received in respect of dormant accounts	368,563
Interest income	700
Interest expense	<u>(135)</u>
Net income	369,128
Setup costs	(4,075)
Administrative expenses	(1,018)
Dormant accounts reclaim provision ⁺	<u>(147,425)</u>
Operating result before distributions	216,610
Distributions to Big Lottery Fund ⁺	(47,630)
Provision for future Big Lottery Fund distributions ⁺	<u>(95,267)</u>
Profit before taxation*	73,713
Taxation**	<u>-</u>
Retained profit for the period*	<u><u>73,713</u></u>

The financial statements cover the period from incorporation of the company (13 August 2010) through to 31 December 2011, a 72 week period.

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

* The Company is run on a not for profit basis. The retained profit for the period represents surplus funds after costs, retained by the Company in order to establish the necessary capital base to ensure the long term viability of the organisation. In accordance with the Dormant Bank and Building Society Accounts Act 2008, no dividends can be paid to the parent company.

**The Company is subject to corporation tax. In accordance with tax legislation, any profits arising from the Company's continuing activity of receiving dormant account monies and making distributions to the Big Lottery Fund are non taxable. Any profits remaining from investment income, after deduction of operating expenses are taxable. There is no tax payable for the period due to the Company having an excess of expenses over net interest income.

**Summary Balance Sheet
As at 31 December 2011**

	£000s
Assets	
Cash and cash equivalents	315,357
Trade and other receivables	<u>2</u>
Total assets	<u>315,359</u>
Liabilities	
Provision for reclaims of dormant account balances	145,918
Provision for future distributions to Big Lottery Fund	95,267
Amounts due to other Co-operative Banking Group undertakings*	193
Trade and other payables	<u>268</u>
Total liabilities	<u>241,646</u>
Capital and reserves	
Share capital (£100)	-
Capital reserve	<u>73,713</u>
Total equity	<u>73,713</u>
Total liabilities and equity	<u>315,359</u>

* CFS Management Services Limited (a fellow subsidiary of Co-operative Banking Group) provides, at cost, most of the operational services (e.g. Finance and IT & Communications) for the running of the Company.

This Summary Financial Statement was approved by the Board of Directors and signed on its behalf by David Anderson on 28 March 2012.

Participating banks and building societies

Participant	Dormant account monies received from participants	Reclaims paid to participants
	£000s	£000s
Barclays Bank plc	59,616	408
Co-operative Banking Group	5,299	-
HSBC Bank plc	26,041	3
Lloyds Banking Group		
Lloyds TSB Bank plc	116,297	349
Bank of Scotland plc	3,200	-
Nationwide Building Society	32,323	3
Northern Bank Limited	3,917	10
Northern Rock plc	1,485	99
Royal Bank of Scotland		
Adam & Company plc	3	-
Coutts & Co	53	-
National Westminster Bank plc	52,257	-
The Royal Bank of Scotland plc	5,472	-
Ulster Bank Limited	504	-
Santander UK plc	62,096	635
Total	368,563	1,507

This Summary Financial Statement is only a summary of information in the Reclaim Fund Ltd financial statements for the period ended 31 December 2011. It is not Reclaim Fund Ltd statutory accounts and it does not contain sufficient information to allow as full an understanding of the results and state of affairs of the Company. Copies of the financial statements for the period ended 31 December 2011 may be viewed on the Reclaim Fund Ltd web site: www.reclaimfund.co.uk or obtained from New Century House, Corporation Street, Manchester, M60 4ES.