

**Reclaim Fund Ltd**

**Financial Statements**

**For the year ended 31 December 2012**

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

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## **Reclaim Fund Ltd**

### **Directors' report**

The directors present their report and financial statements for the year ended 31 December 2012.

### **Business review**

#### ***Principal activities***

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

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

#### ***Review of the year***

During the year, the Company accepted £173.7m (2011: £368.6m) of dormant account monies from ten UK banks and building societies (2011: nine). A number of reclaims from Participants were received during the year, amounting to £4.8m (2011: £1.5m). Given the limited reclaim experience, provisioning for future reclaims has remained cautious, with additional provisions recorded in the year of £69.5m (2011: £147.4m).

The Company is run on a not-for-profit basis and accordingly, profit after tax is £nil. Having established a necessary capital base to ensure the long term viability of the organisation in the previous period, the capital reserves have not been increased in the year. Net assets at the balance sheet date are £73.7m (2011: £73.7m). The only distributions the Company can make are to the Big Lottery Fund in support of good causes.

In April 2012 a distribution of £14.5m was made to Big Lottery Fund. This was followed by £15.2m in July, £10.3m in October and £10.0m in December, taking the total distributions for the year to £50.0m (2011: £47.6m)

Additionally, provisions for future distributions of £54.7m (2011: £95.3m) have been recorded during the year.

#### ***Future outlook***

2012 has been the first full year of operation for Reclaim Fund Ltd following the successful launch of the business in Spring 2011. In 2013 the company will continue to work with banks and building societies to attract further participation in the scheme. It will also further develop experience and understanding of reclaims to ensure it can maximise distributions to good causes whilst ensuring that all reclaims can be met. A continued focus on efficiency across the Company will aim to ensure that costs are closely managed.

## Reclaim Fund Ltd

### Directors' report (continued)

#### Principal risks and uncertainties

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

Risks specific to the Company are disclosed in the risk management section on pages 20 and 21.

#### Key performance indicators

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

The specific KPIs for the Company include:

Participants	Level of participation in the scheme by banks and building societies. - During the year participations from banks and building societies totalled £174m which was in line with financial forecasts.
Stakeholders	Outsource service providers meeting agreed 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 a service level agreement.
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 strength	Reclaim rates, funds committed, cost management, capital adequacy, liquidity, distributions and levels of provisions. - All key financial performance indicators were achieved during the year.

#### **Going concern**

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

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

#### **Dividend**

The Dormant Bank and Building Society Accounts Act 2008 prevents the distribution of dividends.

## **Reclaim Fund Ltd**

### **Directors' report (continued)**

#### ***Directors***

The directors of the Company during the year were:

#### **Non-Executive Directors:**

David Anderson (Chair)

Keith Alderson

Paul Chisnall

Adrian Coles

Jane Hanson

John Hughes

James Mack

Bob Newton

#### **Executive Directors:**

Paul Mills (resigned 30 June 2012)

Adrian Smith

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

#### ***Employees***

All staff working on a full time basis for the Company are now employed by CFS Management Services Limited (CFSMS), a fellow subsidiary of the Co-operative Banking Group. An expense is incurred by the Company for the cost of these staff. The average number of employees included in this expense during 2012 was five (2011: three).

The Company had no direct employees at 31 December 2012 (2011: two). The average number of persons directly employed by the Company during the year was one (2011: two), reflecting the retirement of one executive director and the remaining executive director transferring his employment to CFSMS during the year. The aggregate remuneration borne directly by the Company was £94k (2011 (72 week period): £353k). The total remuneration for both executive directors (including that borne initially by CFSMS) was £247k (2011 (72 week period): £353k).

#### ***Diversity***

The Company is responsible 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.

#### ***Financial statements***

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

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

#### ***Supplier payment policy and practice***

Most supplies and services are sourced through a group service company at cost.

## **Reclaim Fund Ltd**

### **Directors' report (continued)**

#### ***Distributions***

During the year £50.0m (2011: £47.6m) was paid to the Big Lottery Fund for onwards distribution to good causes across the UK.

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

#### ***Charitable and political donations***

No charitable or political donations were made during the year.

#### ***Subsequent events***

On 16 January 2013, the Company entered into an agreement with an investment manager to manage a proportion of its investment portfolio, in line with a strict investment mandate. This resulted in £70m of the assets that were held at the balance sheet date being invested in a combination of high quality bonds and gilts.

#### ***Auditors***

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

By order of the Board

Pat Wade  
Secretary  
1 February 2013

## **Reclaim Fund Ltd**

### **The Board**

#### **Non-Executive Directors:**

##### **David Anderson (BA, MA) (Chairman)**

Joined the Board in 2010. Has spent his career in financial services and currently serves as a Non-Executive Director with NFU Mutual Assurance Ltd and the John Lewis Partnership. Former CEO of Co-operative Financial Services, Yorkshire Building Society and Jobcentre Plus.

##### **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. 34 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. Also leads the BBA's work on corporate governance and professional standards.

##### **Adrian Coles (BA, MA)**

Joined the Board in 2011 and is Chair of the Remuneration and Appointments Committee. 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 and is Chair of Audit and Risk Committee. A Fellow of the Institute of Chartered Accountants with over 20 years working in financial services. Non-Executive Director and Chair of Board Risk Committee at Direct Line Group; Independent Member of the Fairness Committee at ReAssure; and Non-Executive Director, Senior Independent Director and Chair of Audit and Risk Committee at Calderdale and Huddersfield Foundation Trust. Previous Executive Director roles include Risk and Governance Director at Aviva's Life Business.

##### **John Hughes (MA, PhD)**

Joined the Board in 2010. Led the work undertaken by Co-operative Banking Group to establish Reclaim Fund Ltd in 2010. Managing Director, 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.

##### **James Mack (BA (Hons), ACA)**

Joined the Board in 2011. Chief Financial Officer, Co-operative Banking Group. Non-Executive Director of Unity Trust Bank plc. 19 years' financial services experience, including roles in internal and external audit, finance and capital markets.

## **Reclaim Fund Ltd**

### **The Board (continued)**

#### **Non-Executive Directors (continued)**

##### **Bob Newton (BSc, FIA, CDir)**

Joined the Board in 2010. Over 40 years' experience in the financial services industry. 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 Chairman of CIS General Insurance Limited.

#### **Executive Director:**

##### **Adrian Smith (DipMS) (Managing Director)**

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 Managing Director.

## **Reclaim Fund Ltd**

### **Statement of directors' responsibilities in respect of the directors' report and the financial statements**

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

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

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

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

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

The directors are responsible for the maintenance and integrity of the corporate and financial information on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## **Independent auditor's report to the members of Reclaim Fund Ltd**

We have audited the financial statements of Reclaim Fund Ltd for the year ended 31 December 2012 set out on pages 11 to 27. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

### **Respective responsibilities of directors and auditors**

As explained more fully in the statement of directors' responsibilities statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate)

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 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 directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

### Matters on which we are required to report by exception

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

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



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

1 February 2013

## Reclaim Fund Ltd

### Income statement

For the year ended 31 December 2012

All amounts are stated in £'000 unless otherwise indicated

		Year ended 31 December 2012	72 week period ended 31 December 2011
	Notes		
Amounts received in respect of dormant accounts	3	173,721	368,563
Interest income	4	1,772	700
Interest expense	4	(14)	(135)
Net income		175,479	369,128
Setup costs	5	-	(4,075)
Administrative expenses	2	(1,335)	(1,018)
Provision for reclaims of dormant account balances <sup>+</sup>	10	(69,488)	(147,425)
Operating result before distributions		104,656	216,610
Distributions to Big Lottery Fund <sup>+</sup>	6	(50,000)	(47,630)
Provision for future Big Lottery Fund distributions <sup>+</sup>	11	(54,656)	(95,267)
<b>Profit before taxation</b>		-	73,713
Taxation <sup>**</sup>	7	-	-
<b>Retained profit*</b>	1	-	73,713

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

<sup>\*</sup>The Company is run on a not-for-profit basis. The retained profit for the prior 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.

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

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

The notes on pages 16 to 27 form part of these financial statements.

## Reclaim Fund Ltd

### Statement of comprehensive income For the year ended 31 December 2012

All amounts are stated in £'000 unless otherwise indicated

	Year ended 31 December 2012	72 week period ended 31 December 2011
	Notes	
Retained profit for the period	1	73,713
Other comprehensive income for the period, net of taxation	-	-
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>73,713</b>

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

The notes on pages 16 to 27 form part of these financial statements.

## Reclaim Fund Ltd

### Balance sheet

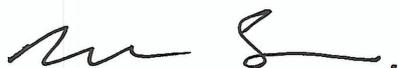
As at 31 December 2012

All amounts are stated in £'000 unless otherwise indicated

	Notes	2012	2011
<b>Assets</b>			
Cash and cash equivalents	8	434,770	315,357
Trade and other receivables	9	6	2
<b>Total assets</b>		<b>434,776</b>	<b>315,359</b>
<b>Liabilities</b>			
Provision for reclaims of dormant account balances	10	210,629	145,918
Provision for future distributions to Big Lottery Fund	11	149,923	95,267
Amounts due to other Co-operative Banking Group undertakings	15	246	193
Trade and other payables	12	265	268
<b>Total liabilities</b>		<b>361,063</b>	<b>241,646</b>
<b>Capital and reserves</b>			
Share capital (£100)	14	-	-
Capital reserve		73,713	73,713
<b>Total equity</b>		<b>73,713</b>	<b>73,713</b>
<b>Total liabilities and equity</b>		<b>434,776</b>	<b>315,359</b>

The notes on pages 16 to 27 form part of these financial statements.

Approved by the Board of directors on 1 February 2013 and signed on its behalf by:



Adrian Smith, Managing Director

## Reclaim Fund Ltd

### Cashflow statement

For the year ended 31 December 2012

All amounts are stated in £'000 unless otherwise indicated

		Year ended 31 December 2012	72 week period ended 31 December 2011
	Notes		
<b>Cash flows from operating activities</b>			
Amounts received in respect of dormant accounts	3	173,721	368,563
Net interest received	4	1,758	565
Expenses		(1,335)	(5,093)
Provision for reclaims of dormant account balances	10	(69,488)	(147,425)
Provision for future Big Lottery Fund distributions	11	(54,656)	(95,267)
Distributions to Big Lottery Fund	6	(50,000)	(47,630)
<b>Retained profit before tax</b>		<u>-</u>	<u>73,713</u>
Adjustments for non-cash items:			
Increase in trade and other receivables		(4)	(2)
Increase in trade and other payables		50	461
Increase in provision for reclaims of dormant account balances	10	69,488	147,425
Increase in provision for future distributions to Big Lottery Fund	11	54,656	95,267
Adjustments for cash items:			
Interest income	4	(1,772)	(700)
Interest expense	4	-	132
Payments made in respect of participant reclaims	10	(4,777)	(1,507)
Taxation	7	-	-
<b>Net cash flows from operating activities</b>		<u>117,641</u>	<u>314,789</u>
<b>Cash flows from investing activities</b>			
Interest income	4	1,772	700
<b>Net cash flows from investing activities</b>		<u>1,772</u>	<u>700</u>
<b>Cash flows from financing activities</b>			
Interest expense	4	-	(132)
<b>Net cash flows from financing activities</b>		<u>-</u>	<u>(132)</u>
<b>Net increase in cash and cash equivalents</b>		<b>119,413</b>	<b>315,357</b>
Cash and cash equivalents at the beginning of the financial year		<u>315,357</u>	-
<b>Cash and cash equivalents at the end of the financial year</b>	8	<u>434,770</u>	<u>315,357</u>

The notes on pages 16 to 27 form part of these financial statements.

## Reclaim Fund Ltd

### Statement of changes in equity For the year ended 31 December 2012

All amounts are stated in £'000 unless otherwise indicated

	Share capital	Retained earnings	Total
<b>2012</b>			
Balance at the beginning of the financial year	-	<b>73,713</b>	<b>73,713</b>
Total comprehensive income for the financial year	-	-	-
Balance at the end of the financial year	<u>-</u>	<u><b>73,713</b></u>	<u><b>73,713</b></u>
2011			
Share capital issued	-	-	-
Total comprehensive income for the period	-	73,713	73,713
Balance at the end of the period	<u>-</u>	<u>73,713</u>	<u>73,713</u>

The notes on pages 16 to 27 form part of these financial statements.

## **Reclaim Fund Ltd**

### **Notes to the financial statements For the year ended 31 December 2012**

#### **Basis of preparation**

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

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

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

#### **Standards and interpretations issued and effective**

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

#### **Standards and interpretations issued but not yet effective**

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

- **IFRS 9 (Financial Instruments: Classification and Measurement)**

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

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

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

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

Early adoption is permitted, once endorsed by the EU. The impact of IAS 1's amendment is likely to be immaterial for the Company once it becomes effective for periods starting on or after 1 July 2012.

## Reclaim Fund Ltd

### Notes to the financial statements (continued)

For the year ended 31 December 2012

#### Going concern

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

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

#### Significant accounting policies

##### **(a) Revenue recognition**

###### *(i) Amounts received in respect of dormant accounts*

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

###### *(ii) Interest income*

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

##### **(b) Provisions**

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

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

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

## Reclaim Fund Ltd

### Notes to the financial statements (continued)

For the year ended 31 December 2012

#### Significant accounting policies (continued)

##### **(b) Provisions (continued)**

The calculation of the provision for future repayments of dormant account balances is inherently complex, with significant amounts of uncertainty. In forming 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 the Big Lottery Fund. This represents amounts which the Company will pay over to the Big Lottery Fund in future years. The provision is recognised as a result of the uncertainty timing of when these payments will be made. The directors regard this provision as a key accounting judgment.

##### **(c) Distributions to Big Lottery Fund**

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

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

##### **(d) Taxation**

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

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

Current tax is the expected tax payable on the taxable income for the 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.

## Reclaim Fund Ltd

### Notes to the financial statements (continued)

For the year ended 31 December 2012

#### Significant accounting policies (continued)

**(e) Cash and cash equivalents**

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

**(f) Capital reserve**

The capital reserve represents surplus funds after costs, retained by the Company in order to 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. This reserve however, is distributable to the Big Lottery Fund.

#### Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the 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 financial statements are described within the significant accounting policies above.

Significant areas of estimation uncertainty that have the most significant effect on the amounts recognised in the financial statements relate to the provision for reclaims of dormant account balances of £210.6m (2011: £145.9m) and the provision for future distributions to Big Lottery Fund of £149.9m (2011: £95.3m).

#### **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 continue 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 £5.3m (2011: £3.7m).

## Reclaim Fund Ltd

### Notes to the financial statements (continued)

For the year ended 31 December 2012

#### ***Provision for future distributions to the Big Lottery Fund***

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

Not all the surplus funds are paid over to the Big Lottery Fund immediately, and the exact timing 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 profile of the Company.

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

The principal risks facing the Company are:

##### ***Reclaim risk***

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

##### ***Market risk***

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

##### ***Liquidity risk***

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

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

##### ***Credit risk***

Credit risk is the risk of financial loss from a counterparty's failure to settle financial obligations as they fall due. Credit exposures arise in the normal course of the Company's business, principally from cash deposits. Cash deposits are currently held only with fellow Co-operative Banking Group undertakings (£3.9m, 2011: £0.9m) and the Bank of England (£430.9m, 2011: £314.5m). The Company therefore considers its credit risk to be minimal.

The maximum exposure to credit risk at the balance sheet date is £434.8m (2011: £315.4m).

## **Reclaim Fund Ltd**

### **Notes to the financial statements (continued)**

**For the year ended 31 December 2012**

#### **Risk management (continued)**

##### ***Credit risk (continued)***

As described in the Directors' report, on 16 January 2013, the Company invested £70.0m of the £434.8m cash held at the balance sheet date in high quality bonds and gilts. Investments are made in line with a strict investment mandate in order to manage the Company's exposure to credit risk.

##### ***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 Services Authority (FSA). Regulatory intervention is an ongoing feature of UK financial services.

##### ***Operational risk (unaudited\*)***

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

#### **Capital management**

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

The Company is required by the FSA 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 financial statements of £73.7m (2011: £73.7m).

#### **Fair values**

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

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

## Reclaim Fund Ltd

### Notes to the financial statements (continued)

For the year ended 31 December 2012

All amounts are stated in £'000 unless otherwise indicated

#### 1. Retained profit

	Year ended 31 December 2012	72 week period ended 31 December 2011
Retained profit for the year is stated after charging:		
Auditor's remuneration		
- audit of these financial statements	25	30
- other non-audit services	64	761

The prior period included £746k for provision of services during the setup of the Company.

#### 2. Administrative expenses

Administrative expenses include costs incurred for the services of CFS Management Services Limited, a fellow subsidiary of the Co-operative Banking Group. These costs include an amount for individuals who work on a full time basis for the Company, but whose contract of employment is with CFS Management Services Limited. The average number of employees included in this expense during the year was five (2011: three).

#### *Directors' emoluments*

Details of the aggregate directors' emoluments for the year ended 31 December 2012 are shown below.

The basic salary for Non-Executive Directors includes only those for whom the Company incurs the cost. Keith Alderson, John Hughes and James Mack were remunerated by The Co-operative Banking Group for services rendered to all companies in the Group, including this company and are therefore excluded from the disclosure below as the Company incurs no cost for these individuals.

Year ended	Basic salary	Performance related pay <sup>(1)</sup>	Benefits in kind <sup>(2)</sup>	Total emoluments
31 December 2012				
Non-Executive Directors	135	-	-	135
Executive Directors	194	47	6	247
	<b>329</b>	<b>47</b>	<b>6</b>	<b>382</b>
72 week period ended				
31 December 2011				
Non-Executive Directors*	94	-	-	94
Executive Directors	311	30	12	353
	<b>405</b>	<b>30</b>	<b>12</b>	<b>447</b>

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

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

\* The Non-Executive Directors joined the Board at various dates during the prior period. In 2012, all Non-Executive Directors served for the full year.

## Reclaim Fund Ltd

### Notes to the financial statements (continued)

#### For the year ended 31 December 2012

All amounts are stated in £'000 unless otherwise indicated

### 3. Amounts received in respect of dormant accounts

During the year, £173.7m (2011: £368.6m) in respect of dormant accounts funds was received. A detailed analysis of receipts by UK financial institution is provided below:

Institution	2012	2011
Barclays Bank plc	17,164	59,616
Commonwealth Bank	4	-
Co-operative Banking Group	2,089	5,299
Danske Bank*	390	3,917
HSBC Bank plc	2,449	26,041
Lloyds Banking Group		
Lloyds TSB Bank plc	1,338	116,297
Bank of Scotland plc	75,063	3,200
Nationwide Building Society	4,273	32,323
Royal Bank of Scotland		
Adam & Company plc	5	3
Coutts & Co	29	53
National Westminster Bank plc	6,821	52,257
The Royal Bank of Scotland plc	6,402	5,472
Ulster Bank Limited	241	504
Santander UK plc	55,054	62,096
Virgin Money <sup>†</sup>	2,399	1,485
	<u>173,721</u>	<u>368,563</u>

\* With effect from 15 November 2012, Northern Bank changed name to Danske Bank.

<sup>†</sup> With effect from 14 October 2012, Northern Rock plc changed name to Virgin Money plc.

### 4. Interest income and expense

	Year ended 31 December 2012	72 week period ended 31 December 2011
Interest income	<u>1,772</u>	<u>700</u>
Interest expense:		
- Interest payable on subordinated liabilities	-	132
- Interest payable on dormant account balances reclaimed	14	3
	<u>14</u>	<u>135</u>

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

## Reclaim Fund Ltd

### Notes to the financial statements (continued)

#### For the year ended 31 December 2012

All amounts are stated in £'000 unless otherwise indicated

#### 5. Setup costs

One off costs of £4.1m were incurred in the prior period in order to establish the Company ready for the commencement of trade. No such costs were incurred during the current year.

#### 6. Distributions to Big Lottery Fund

During the year, £50.0m (2011: £47.6m) of surplus funds were distributed to the Big Lottery Fund. Furthermore, additional provisions of £54.7m (2011: £95.3m) were recorded for future distributions, taking the total provision for future distributions to £149.9m (2011: £95.3m).

#### 7. Taxation

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

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

Income statement	2012	2011
<b>Reconciliation of effective tax rate</b>		
Profit before tax	-	73,713
UK corporation tax at 24.5% (2011: 26%)	-	19,165
Non-taxable income	(42,557)	(95,826)
Non-allowable provision for reclaim repayments	17,023	38,331
Non-allowable payments and provision for future distributions to Big Lottery Fund	25,638	37,153
Expenses not deductible for tax purposes	-	1,060
Excess expenses incurred in the period	-	117
Excess expenses brought forward and utilised in the year	(104)	-
Tax charge for the period	-	-

#### 8. Cash and cash equivalents

	2012	2011
Cash and cash equivalents	434,770	315,357

Cash and cash equivalents consist of £3.9m (2011: £0.9m) held on behalf of the Company by The Co-operative Bank plc and £430.9m (2011: £314.5m) with the Bank of England. The carrying value of cash and cash equivalents equates to fair value.

## Reclaim Fund Ltd

### Notes to the financial statements (continued)

For the year ended 31 December 2012

All amounts are stated in £'000 unless otherwise indicated

#### 9. Trade and other receivables

	2012	2011
Prepayments	<u>6</u>	<u>2</u>

#### 10. Provision for reclaims of dormant account balances

	2012	2011
At the beginning of the period	145,918	-
Additional provision created in the period	69,488	147,425
Utilised in the period	(4,777)	(1,507)
At the end of the period	<u>210,629</u>	<u>145,918</u>

During the year, £4.8m (2011: £1.5m) of the provision for reclaims of dormant account balances was utilised. The table below shows the total value of reclaims, categorised by the UK financial institution at which the individual's account was previously held:

Institution	2012	2011
Barclays Bank plc	843	408
Commonwealth Bank	-	-
Co-operative Banking Group	115	-
Danske Bank*	47	10
HSBC Bank plc	106	3
Lloyds Banking Group		
Lloyds TSB Bank plc	703	349
Bank of Scotland plc	-	-
Nationwide Building Society	25	3
Royal Bank of Scotland		
Adam & Company plc	-	-
Coutts & Co	-	-
National Westminster Bank plc	269	-
The Royal Bank of Scotland plc	-	-
Ulster Bank Limited	-	-
Santander UK plc	2,608	635
Virgin Money <sup>†</sup>	61	99
	<u>4,777</u>	<u>1,507</u>

\* With effect from 15 November 2012, Northern Bank changed name to Danske Bank.

<sup>†</sup> With effect from 14 October 2012, Northern Rock plc changed name to Virgin Money plc.

## Reclaim Fund Ltd

### Notes to the financial statements (continued)

For the year ended 31 December 2012

All amounts are stated in £'000 unless otherwise indicated

#### 11. Provision for future distributions to Big Lottery Fund

	2012	2011
At the beginning of the period	95,267	-
Additional provision created in the period	104,656	142,897
Utilised in the period	(50,000)	(47,630)
At the end of the period	<u>149,923</u>	<u>95,267</u>

#### 12. Trade and other payables

	2012	2011
Accrued expenses	<u>265</u>	<u>268</u>

#### 13. 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. Their financial statements 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 Industrial and Provident Societies Acts 1965 to 2002. Their financial statements are available from 1 Angel Square, Manchester, M60 0AG.

#### 14. Share capital

	2012	2011
	£	£
<b>Allotted, called up and fully paid</b>		
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>

Each shareholder has one vote per share.

## Reclaim Fund Ltd

### Notes to the financial statements (continued)

For the year ended 31 December 2012

All amounts are stated in £'000 unless otherwise indicated

#### 15. Related party transactions

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

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

	<b>2012</b>	2011
Transactions taking place in the period with related parties:		
Parent undertaking		
- interest expense	-	132
Other Co-operative Banking Group undertakings:		
- Amounts received in respect of dormant accounts	<b>2,089</b>	5,299
- Amounts paid in respect of reclaims	<b>115</b>	-
- Administrative expenses	<b>1,313</b>	1,004
- Setup costs (see note 5)	-	4,075
At the balance sheet date, related party balances:		
Other Co-operative Banking Group undertakings:		
- Cash and cash equivalents	<b>3,886</b>	931
- Amounts due to other Co-operative Banking Group undertakings	<b>246</b>	193

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

Most of the administrative expenses are costs incurred and subsequently passed on to the Company by CFS Management Services Limited, a group service company.