

**Reclaim Fund Ltd**

**Operating Review**

**For the year ended 31 December 2012**

## Reclaim Fund Ltd

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

## Contents

|  | <b>Page</b> |
|--|-------------|
| Chairman's review                          | 3           |
| Corporate governance report                | 5           |
| Independent auditor's statement            | 8           |
| Summary income statement                   | 9           |
| Summary balance sheet                      | 10          |
| Participating banks and building societies | 11          |

## **Chairman's review**

2012 has been the first full year of operations for Reclaim Fund Ltd (RFL) following the successful launch of the business in Spring 2011. I am pleased to report that the Fund has made solid progress during the year and I believe that the money it has been able to distribute is starting to make a difference in enabling social investment in the United Kingdom.

RFL operates with clear objectives defined by the Dormant Bank and Building Society Accounts Act 2008 which 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 enables 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 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.

During 2012 we have continued to develop the business, embedding a low cost administrative approach and commencing activities which will help us to understand the appropriate level of future distributions. In the year we have received an additional £174m from our participant banks & building societies (Participants) and we have now received over £540m since the operation started in March 2011. We have so far been able to make cumulative distributions to Big Lottery Fund of almost £100m since our launch. This money has been used to provide the capital for the newly formed Big Society Capital in England and to fund direct investments in Northern Ireland, Scotland and Wales.

Our assessment of how much money we can release for distribution in the future will depend on our experience of reclaims by holders of dormant accounts. There is limited historic information available to guide us and it will take some years for patterns of reclaims to become clear. We are developing predictive models and growing our understanding of the effectiveness of efforts by Participants to reunite dormant accounts with their owners. In making our assessment of the money that can safely be distributed we need to keep in mind that the Fund's liability to repay claimants exists in perpetuity under present legislation. We are continuing to make cautious provisions to ensure that we can always meet the repayment of reclaims from our Participants and set aside £69m for this in 2012. Over time we anticipate being able to make further distributions to Big Lottery Fund and in 2012 we set aside a further £55m for this purpose.

RFL is supported by 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 5. During the year the first executive director of the Fund, Paul Mills, retired from his role having completed the task of establishing the Fund and guiding it through its initial setting up. We are extremely grateful to Paul for his important contribution. The Board was delighted to be able to appoint Adrian Smith to the post of Managing Director to lead the Fund through its next phase. Adrian has been with the Fund from its inception and has a deep affinity for its purpose.

Looking ahead into 2013, we anticipate receiving more dormant account balances from our Participants although this is now likely to slow down considerably as most of the UK's largest banks and building societies have already transferred most of their dormant balances. We expect to continue to receive accounts which reach 15 years of dormancy, making them eligible for transfer to the Fund. We are also aware that some of our Participants are working on projects to transfer to the Fund further tranches of older accounts which can be released after systems development activity.

### **Chairman's review (continued)**

We are also continuing to develop relationships with potential new Participants which include some of the UK's larger building societies and some smaller UK banks. In total we hope to receive between £50m and £70m of dormant account balances during 2013.

At the end of our second year of operation I would like to thank again the many organisations that have worked with us to help successfully establish the Fund, particularly our participating banks and building societies. Early indications in 2009 led us to believe that there was around £400m in dormant accounts across the UK that may be eligible for transfer to RFL. As we have now received in excess of £540m we have clearly seen our Participants work hard to track down eligible balances that can be passed across to RFL and to make the scheme a success.

We continue to be supported by the Co-operative Group to which I am very grateful for providing 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 at RFL who have worked well together to deliver a strong performance in 2012.

A handwritten signature in black ink, appearing to read 'D Anderson', with a stylized flourish at the end.

David Anderson  
Chairman  
1 February 2013

## **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 directors and one executive director, 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 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 The 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 The 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, The 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.

## **Corporate Governance Report (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 The 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.

The aggregate emoluments of the directors (including those non-executive directors remunerated directly by the Company) of Reclaim Fund Ltd for the year were £382k (2011 (72 week period): £447k).

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

Frameworks are in place 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.

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



David Anderson  
Chairman  
1 February 2013



## **Independent Auditor's Statement to the Members of Reclaim Fund Ltd**

We have examined the summary financial statement for the year ended 31 December 2012 set out on pages 9 to 11.

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 year ended 31 December 2012 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

1 February 2013

**Summary Income Statement**  
**For the year ended 31 December 2012**

All amounts are stated in £'000 unless otherwise indicated

|  | <b>Year ended</b><br><b>31 December</b><br><b>2012</b> | 72 week period<br>ended<br>31 December<br>2011 |
|--|--|--|
| Amounts received in respect of dormant accounts                  | <b>173,721</b>   | 368,563  |
| Interest income  | <b>1,772</b>   | 700  |
| Interest expense   | <b>(14)</b>  | (135)  |
| Net income   | <b>175,479</b>   | 369,128  |
| Setup costs  | -  | (4,075)  |
| Administrative expenses  | <b>(1,335)</b>   | (1,018)  |
| Provision for reclaims of dormant account balances <sup>+</sup>  | <b>(69,488)</b>  | (147,425)                                      |
| Operating result before distributions                            | <b>104,656</b>   | 216,610  |
| Distributions to Big Lottery Fund <sup>+</sup>                   | <b>(50,000)</b>  | (47,630)                                       |
| Provision for future Big Lottery Fund distributions <sup>+</sup> | <b>(54,656)</b>  | (95,267)                                       |
| <b>Profit before taxation</b>                                    | <b>-</b>   | 73,713   |
| Taxation <sup>**</sup>   | -  | -  |
| <b>Retained profit*</b>  | <b>-</b>   | 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. In accordance with the Dormant Bank and Building Society Accounts Act 2008, no dividends can be paid to the parent company.

<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 Big Lottery Fund are non taxable. Any profits remaining from investment income, after deduction of operating expenses are taxable.

**Summary Balance Sheet  
As at 31 December 2012**

All amounts are stated in £'000 unless otherwise indicated

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

\* CFS Management Services Limited (a fellow subsidiary of The Co-operative Banking Group) provides, at cost, most of the operational services (including 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 1 February 2013.

## Participating Banks and Building Societies

All amounts are stated in £'000 unless otherwise indicated

| Participant                    | Dormant account monies received from participants |                 | Reclaims paid to participants |                 |
|--------------------------------|---|-----------------|-------------------------------|-----------------|
|                                | 2012  | Since inception | 2012                          | Since inception |
| Barclays Bank plc              | 17,164  | 76,780          | 843                           | 1,251           |
| Commonwealth Bank              | 4   | 4               | -                             | -               |
| Co-operative Banking Group     | 2,089   | 7,388           | 115                           | 115             |
| Danske Bank *                  | 390   | 4,307           | 47                            | 57              |
| HSBC Bank plc                  | 2,449   | 28,490          | 106                           | 109             |
| Lloyds Banking Group           |   |                 |                               |                 |
| Lloyds TSB Bank plc            | 1,338   | 117,635         | 703                           | 1,052           |
| Bank of Scotland plc           | 75,063  | 78,263          | -                             | -               |
| Nationwide Building Society    | 4,273   | 36,596          | 25                            | 28              |
| Royal Bank of Scotland         |   |                 |                               |                 |
| Adam & Company plc             | 5   | 8               | -                             | -               |
| Coutts & Co                    | 29  | 82              | -                             | -               |
| National Westminster Bank plc  | 6,821   | 59,078          | 269                           | 269             |
| The Royal Bank of Scotland plc | 6,402   | 11,874          | -                             | -               |
| Ulster Bank Limited            | 241   | 745             | -                             | -               |
| Santander UK plc               | 55,054  | 117,150         | 2,608                         | 3,243           |
| Virgin Money plc +             | 2,399   | 3,884           | 61                            | 160             |
| <b>Total</b>                   | <b>173,721</b>                                    | <b>542,284</b>  | <b>4,777</b>                  | <b>6,284</b>    |

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

+ With effect from 14 October 2012, Northern Rock plc changed its name to Virgin Money plc

This Summary Financial Statement is only a summary of information in the Reclaim Fund Ltd financial statements for the year ended 31 December 2012. 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 year 31 December 2012 may be may be viewed on the Reclaim Fund Ltd website: [www.reclaimfund.co.uk](http://www.reclaimfund.co.uk) or obtained from 1 Angel Square, Manchester, M60 0AG.