

Reclaim Fund Ltd

Operating Review

For the year ended 31 December 2013

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

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Chairman's review

I am pleased to report on what has been another year of solid progress at Reclaim Fund Ltd (RFL). Established in 2011 to implement a significant part of the Dormant Bank & Building Society Accounts Act, the business has now completed its transition from start up into a fully operational state. It is delivering effectively against its defined purpose of distributing surplus monies for the benefit of good causes across the UK, whilst always holding sufficient funds to meet reclaims in perpetuity.

In 2013 we have been able to make £66m in distributions to Big Lottery Fund with cumulative distributions since our launch of £164m. At our Participant event in October this year we were joined by a number of social intermediaries who were able to share with us and our participating institutions, details of a number of social investment schemes already underway. These schemes had been made possible by funds gathered from participants and released for distribution by the Reclaim Fund.

These distributions have been underpinned by further receipts from our participants of £87m during the year.

RFL is a wholly owned subsidiary of Co-operative Banking Group Limited (CBG), and part of the wider Co-operative Group, which supported Government in agreeing to set up and provide administrative support to RFL to enable it to be established. In what has been a very difficult year for CBG and the wider Co-operative Group I would like to acknowledge the continued support that RFL has received from its parent company. The RFL Board is satisfied that RFL is well protected from the challenges faced by its parent, our capital is legally ring fenced and the responsibilities of the RFL Board are clearly defined. During the year, we have commenced discussions with CBG about their future strategy regarding the ownership of, and provision of services to, RFL.

I continue to be supported by a strong Board of Directors with a range of relevant skills and experience to help develop the business. A fuller review of the Board is contained in the Corporate Governance Report on page 4. During the year we had a number of Non-executive Director Board changes and I would like to acknowledge the contribution of Keith Alderson, John Hughes and James Mack who resigned as CBG appointed Directors during the year. They were replaced on the Board by Clare Gosling and Zachary Hocking who bring a fresh set of skills and perspective to the Board and have both already made strong contributions.

Looking ahead we will continue to develop our relationships with participant Banks and Building Societies. Whilst the flow of receipts will be slower as the scheme matures we are still keen to develop relationships with new participants in addition to our current supporters. Since inception we have now received over £629m from participating Banks and Building Societies and we hope to receive a further £57m in 2014.

We enter our fourth year of operation in good health. We are developing a broader understanding of reclaims and the associated potential for distributions. We continue to strive for operational efficiency and to focus closely on the risks associated with both our business and the wider financial services environment in which we operate.

**Chairman's review
(continued)**

Finally I would like to thank Adrian Smith and his small team at RFL who have remained steadily focussed on the successful achievement of our targets in some challenging circumstances during 2013.

A handwritten signature in black ink, appearing to read 'D Anderson', with a stylized, cursive script.

David Anderson
Chairman
11 February 2014

Corporate Governance Report

Board composition

The Board currently comprises seven non-executive directors and one executive director.

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.

Paul Chisnall (BA (Hons), Dip IoD)

Joined the Board in 2011. An Executive Director of the British Bankers' Association (BBA) and in this capacity headed up the BBA's preparatory work on dormant accounts and took part in the introduction of the 'mylostaccount' central tracing service. 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 between 1993 and November 2013. A Non-Executive Director of Housing Securities Ltd group and the Housing Securities 2 plc group. In January 2014, was appointed a member of the Financial Services Commission [Gibraltar]. 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.

Clare Gosling (BA, ACA)

Joined the Board in 2013. Member of the Institute of Chartered Accountants. Director of Financial Control at The Co-operative Bank plc. Non-Executive Director of Unity Trust Bank plc.

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

Joined the Board in 2011 and is Chair of the Audit and Risk Committee. A Fellow of the Institute of Chartered Accountants with over 20 years 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 and Chair of Board Risk Committee at Old Mutual Wealth Management. Previous Executive Director roles include Risk and Governance Director at Aviva's Life Business. Jane is also a Magistrate.

Zachary Hocking (BA)

Joined the board in 2013. Following qualification as a Chartered Accountant he joined the Co-operative Financial Services Group in 1998. Has worked in a number of roles within the Co-operative, including Investment Manager and Strategic Planning Manager and is currently Head of Savings & Investments for The Co-operative Bank plc.

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 Limited and Chairman of CIS General Insurance Limited.

Corporate Governance Report (continued)

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 £353k (2012: £382k).

Roles and responsibilities of the Board

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

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 manages these matters at its regular Board meetings. The Board met eight times in 2013.

Board procedures

Board and committee papers are distributed at least one week in advance of meetings. This provides the opportunity for directors to prepare fully for meetings. The minutes of all meetings are circulated to all directors. iPads have been provided to directors to provide all Board papers, including additional supporting material, solely in electronic format. This is environmentally sounder than providing board documentation in paper format and also gives greater security over paperwork.

There is regular communication between the directors, the Chair and the secretary between meetings.

When a director is unable to attend Board or committee meetings, issues can be raised with the Chair. Written questions for management on papers are encouraged from directors between meetings. A rolling schedule of matters arising from Board and committee meetings is followed through.

Corporate Governance Report (continued)

Board committees

The Board has delegated certain responsibilities to the following committees, all of which have written terms of reference covering the authority delegated to it by the Board. Each of these committees has a role in ensuring the effectiveness of the Company.

Remuneration & Appointments Committee

In consultation with the Co-operative Banking Group Remunerations and Appointments Committee, the Remuneration 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.

During the year the committee comprised:

Adrian Coles	(Chair)
Keith Alderson	(resigned 4 June 2013)
Paul Chisnall	

The committee met three times during 2013.

Audit & Risk Committee

The Audit & 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.

During the year the committee comprised:

Jane Hanson	(Chair)
Bob Newton	
James Mack	(resigned 4 February 2013)
Clare Gosling	(appointed 4 February 2013)

The committee met four times during 2013.

In line with best practice and its terms of reference, the committee reviewed its own effectiveness during the year.

Corporate Governance Report (continued)

Investment Committee

The Investment Committee was set up on 26 July 2013 to support the Board and the Managing Director in the development and implementation of the RFL Investment Strategy and to provide assurance to the Board with regard to the ongoing performance and compliance of the nominated Investment Manager and Custodian with the Board agreed investment mandates and requirements.

During the year the committee comprised:

Zachary Hocking (Chair)
David Anderson
Adrian Coles
Jane Hanson
Adrian Smith

The Committee held its first meeting in September 2013.

Attendance

The following table sets out the frequency of, and attendance at, the Board and Board Committee meetings during 2013 by Directors:

Directors	Board	Audit & Risk Committee	Remuneration & Appointments Committee	Investment Committee
David Anderson	8 (8)	-	-	1 (1)
Paul Chisnall	8 (8)	-	3 (3)	-
Adrian Coles	8 (8)	-	3 (3)	1 (1)
Clare Gosling	6 (7)	3 (3)	-	-
Jane Hanson	7 (8)	4 (4)	-	1 (1)
Zachary Hocking	6 (7)	-	-	1 (1)
Bob Newton	7 (8)	4 (4)	-	-
Adrian Smith	8 (8)	-	-	1 (1)

The number in brackets indicates the total number of meetings the Director was eligible to attend during the year.

Provision of advice to directors

A number of external consultants provide professional advice to the Boards of the constituent parts of the wider Co-operative Group. There is an agreed procedure by which directors may take independent professional advice at the Company's expense in furtherance of their duties.

Training and Professional Development

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 Conduct Authority.

Specific training topics have been agreed by the Board and Committees and a training schedule is maintained.

Corporate Governance Report (continued)

The secretary to the Board

The secretary is professionally qualified and is responsible for advising the Board through the Chair on all governance matters. The directors have access to the advice and services of the secretary. The Articles of Association and the schedule of matters reserved to the Board for decision provide that the appointment and removal of the secretary is a matter for the full Board.

The executive

It is the responsibility of the executive to implement the strategic objectives as agreed by the Board. The executive, under the leadership of the Managing Director, is responsible for the day to day management of the Company.

Relations with members/stakeholders

The Company is a wholly owned subsidiary of Co-operative Banking Group Limited.

Risk management

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

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. The framework includes an ongoing process for identifying, evaluating and managing significant risks and has been in place for the year under review and up to the date of the approval of the annual report and accounts.

Internal control

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

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

External audit

The performance of the external auditors is regularly monitored to ensure it meets the needs of the Company and the results are reported to the committee.

Internal audit

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

Internal audit seeks to discharge the responsibilities set down in its charter by completing a risk based internal audit plan, reviewing the processes which ensure that the key business risks are effectively managed by key controls.

**Corporate Governance Report
(continued)**

Internal audit (continued)

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

Internal audit reports are submitted to, and significant issues discussed at, the Audit & Risk Committee.

On behalf of the Board of Directors

A handwritten signature in black ink, appearing to read 'D Anderson', written in a cursive style.

David Anderson
Chairman
11 February 2014

Summary Income Statement
For the year ended 31 December 2013

All amounts are stated in £'000 unless otherwise indicated

	Year ended 31 December 2013	Year ended 31 December 2012
Amounts received in respect of dormant accounts	86,913	173,721
Interest income	3,163	1,772
Interest expense	(22)	(14)
Net income	90,054	175,479
Administrative expenses	(1,781)	(1,335)
Provision for reclaims of dormant account balances	(34,765)	(69,488)
Operating result before distributions	53,508	104,656
Provision for future distributions to Big Lottery Fund	(53,892)	(104,656)
Loss before taxation	(384)	-
Taxation	384	-
Retained profit	-	-

Summary Balance Sheet
As at 31 December 2013

All amounts are stated in £'000 unless otherwise indicated

	2013	2012
Assets		
Cash and cash equivalents	382,130	434,770
Investment securities - held to maturity	68,453	-
Trade and other receivables	2	6
Deferred tax	384	-
Total assets	450,969	434,776
Liabilities		
Provision for reclaims of dormant account balances	238,763	210,629
Provision for future distributions to Big Lottery Fund	137,815	149,923
Amounts due to other Co-operative Banking Group undertakings	378	246
Trade and other payables	300	265
Total liabilities	377,256	361,063
Capital and reserves		
Share capital (£100)	-	-
Capital reserve	73,713	73,713
Total equity	73,713	73,713
Total liabilities and equity	450,969	434,776

This Summary Financial Statement was approved by the Board of Directors and signed on its behalf by David Anderson on 11 February 2014.

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	
	2013	Since inception	2013	Since inception
Barclays Bank plc	29,089	105,869	1,316	2,567
Commonwealth Bank	-	4	-	-
The Co-operative Bank plc	1,137	8,525	179	294
Danske Bank	193	4,500	21	78
HSBC Bank plc	2,641	31,131	78	187
Lloyds Banking Group	-			
Lloyds TSB Bank plc	13,981	131,616	626	1,678
Bank of Scotland plc	-	78,263	-	-
TSB Bank plc	12,354	12,354	-	-
Nationwide Building Society	3,782	40,378	49	77
Royal Bank of Scotland	-			
Adam & Company plc	3	11	-	-
Coutts & Co	1,168	1,250	-	-
National Westminster Bank plc	1,640	60,718	212	481
The Royal Bank of Scotland plc	2,550	14,424	-	-
Ulster Bank Limited	3,148	3,893	-	-
Santander UK plc	12,029	129,179	3,882	7,125
Virgin Money plc	3,198	7,082	268	428
	86,913	629,197	6,631	12,915

This Summary Financial Statement is only a summary of information in the Reclaim Fund Ltd annual report and accounts for the year ended 31 December 2013. It is not Reclaim Fund Ltd annual report and 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 annual report and accounts for the year 31 December 2013 may be may be viewed on the Reclaim Fund Ltd web site: www.reclaimfund.co.uk or obtained from 1 Angel Square, Manchester, M60 0AG.