

Dalriada. *A better way*

Mendip RBS

Report and Financial Statements For the year ended 31 March 2016

Registration number: 12004759

Private and Confidential

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Mendip RBS
Principal Employer and Advisers to the Scheme

Scheme Provider

Clarendon Hill Investments Limited
St Georges Court
Winnington Avenue
Cheshire
CW8 4EE

Administrator

Dalriada Trustees Limited
Chamber of Commerce House
22 Great Victoria Street
Belfast
BT2 7BA

Auditor

RSM Northern Ireland
Number One
Lanyon Quay
Belfast
BT1 3LG

Legal Adviser

Pinsent Masons LLP
30 Crown Place
Earl Street
London
EC2A 4ES

Investment manager

Hedge Capital Investment Group Ltd
St Georges Court
Winnington Avenue
Cheshire
CW8 4EE

Mendip RBS
Principal Employer and Advisers to the Scheme

Bankers

Lloyds TSB (account closed: 17 June 2016)
114 - 116 Colmore Row
Birmingham
B3 3BD

Barclays Bank PLC (opened: 23 August 2016)
Imperial House
Donegall Square East
Belfast
BT1 5HL

**Mendip RBS
Trustees' Report**

Introduction

The Trustees of the Mendip RBS ("the Scheme") present their report together with the audited financial statements for the year ended 31 March 2016. The Scheme is a defined contribution scheme.

The Scheme was established on 23 August 2011, and is currently governed by the trust deed and rules dated the same date. In accordance with the provisions of Schedule 36 of the Finance Act 2004, the Scheme is a registered pension scheme under Chapter 2 of part 4 of the Finance Act 2004. The Scheme was contracted-out of the S2P (previously known as the State Earnings-Related Pension Scheme) under certificates issued by the Secretary of State for Work and Pensions. Funds derived from contracting out payments were known as protected rights benefits. From 6 April 2012, it was no longer possible to contract out of the S2P through a defined contribution scheme. All existing contracted out payments will be treated as non-protected rights benefits.

The Compliance Statement set out on page 20, the Investment Risk Disclosure Note included as Appendix 1 and the Annual Governance Statement included as Appendix 2 form part of this report.

Scheme management

The Trustees are

John Laurence Woodward.
Jennifer Doris Ilett.
Dalriada Trustees Limited.

The directors of Dalriada Trustees Limited are D N Copeland, C M Johnstone, A B Kennett and B D Spence. The directors of Dalriada Trustees Limited were appointed in accordance with that company's Memorandum and Articles of Association.

In accordance with the provisions of the Pensions Act 1995 as amended, the Pensions Regulator has the power to appoint an independent trustee. Dalriada Trustees Limited was so appointed, with exclusive powers, on 28 March 2012 under section 7 of the Pensions Act 1995, and may only be removed by the Pensions Regulator.

Dalriada has appointed external specialists to advise on legal and accounting matters.

Internal dispute resolution procedure (IDRP)

It is a requirement of the Pensions Act 1995 that all occupational pension schemes must have a dispute resolution procedure in place for dealing with any disputes between the Trustees and the Scheme beneficiaries. A dispute resolution procedure has been agreed by the Trustees, details of which can be obtained by writing to Dalriada Trustees Limited, Chamber of Commerce House, 22 Great Victoria Street, Belfast, BT2 7BA or by download from the members' website page <http://dalriadatrustees.co.uk/pennines-and-mendip>. Email address mail@dalriadatrustees.co.uk.

Financial development of the Scheme

The financial statements of the Scheme for the year ended 31 March 2016 are set out on pages 12 to 17; the Trustees' summary of contributions and the Auditor's statement about contributions are set out on pages 18 and 19. The financial statements have been prepared and audited in accordance with the regulations made under section 41(1) and (6) of the Pensions Act 1995. They show that the value of the fund decreased from £2,556,370 at 31 March 2015 to £2,327,039 at 31 March 2016.

However, these figures should be read alongside the comments made later in this Report, particularly in the 'Investment Report' section.

**Mendip RBS
Trustees' Report**

Transfers at less than cash equivalent

No transfer values have been paid from the scheme.

Membership

As at 31 March 2016, 153 members were entitled to benefits from the Scheme.

There were no changes to the membership of the Scheme during the year ended 31 March 2016.

	Active	Deferred	Pensioner
Membership at 01/04/2015	-	153	-
Membership at 31/03/2016	-	153	-

Pension increases

No pensions were paid during the year.

Changes to the Scheme rules

There were no changes to the Scheme rules during the year.

Governance and Risk Management

Following its appointment, Dalriada identified a number of concerns with the incumbent administrator (T12), not least the significant charges being levied. Dalriada gave notice to T12 of termination of their contract shortly after their appointment, which was resisted by T12 who claimed payment of outstanding fees in excess of £100,000. This has been disputed and resisted by Dalriada.

Other than the funds held in cash in the Scheme's bank account, all monies transferred into the Scheme have been invested in preference shares in the Hedge Capital Investment Group plc. Dalriada's concerns are set out later on in this Report in the 'Investment Report' section.

There appears to have been limited investment advice having been taken by the previous Trustees and no evidence of an appropriate investment adviser being appointed, as required under legislation.

Dalriada has now put in place a more robust administration database and created proper accounting records, the information within which underpins the accounts appended to this Report and which have been independently audited.

Dalriada has developed and will continue to develop its business plan which set out its objectives in various key areas and, alongside the business plan, a risk register has been put in place, setting out the key risks to which the Scheme is subject and the controls in place to mitigate these.

Trustee knowledge and understanding

The Pensions Act 2004 requires trustees to have sufficient knowledge and understanding of pensions and trust law and be conversant with the Scheme documentation. The Pensions Regulator has published a Code of Practice on Trustee Knowledge and Understanding to assist trustees on this matter which became effective from 6 April 2006 and was updated with effect from November 2009. Dalriada is aware of these requirements.

**Mendip RBS
Trustees' Report**

Further information

Further information about the Scheme is available, on request, to members, their spouses and other beneficiaries.

If members have any complaints or queries regarding the Scheme, or wish to obtain further information, they should contact Dalriada Trustees Limited, Chamber of Commerce House, 22 Great Victoria Street, Belfast, BT2 7BA. Email address mail@dalriadatrustees.co.uk.

The Data Protection Act 1984 covered information which was held electronically, i.e. computer based information. The Data Protection Act 1998 extended data protection laws to cover paper-based records held for individuals and new restrictions on the processing of sensitive personal data to which individuals must have given express consent. Sensitive information can include information on, for example, the health of a member.

Members' personal data will be used by the Scheme's advisers to administer the Scheme, and may be passed to other professional providers or advisers.

Dalriada and the Scheme's advisers each have a legal obligation and a legitimate interest to process data relating to members for the purposes of administering and operating the Scheme, which includes passing on data to third parties, as mentioned above.

Dalriada are regarded as 'Data Controllers' for the purposes of the Data Protection Act 1998, in relation to the process referred to above. The advisers appointed by the Trustees are 'Data Processors'.

Investment report

Other than funds held in cash in the Scheme's bank account, all monies transferred into the Scheme have been invested in preference shares in Hedge Capital Investment Group plc (HCIG). Within HCIG, the monies were ultimately used for investment in a range of 'alternative' investments and to facilitate the offer of personal loans back to Scheme members.

On appointment Dalriada commenced high court action against the previous trustees and the organisers of the Scheme to seek recovery of the monies paid to HCIG, claiming, not least, that monies were paid in breach of trust. It also sought, and obtained, a freezing order over the assets of the Hedge companies, a freeze that remains in place currently.

Dalriada's claim was subject to a summary judgement application but this was rejected by the Court and, subsequently, there has been a protracted period of negotiation, looking to reach a settlement of Dalriada's claim.

The various documentation to effect the settlement has now been signed by all parties and an application will be made to Court seeking its approval. Assuming approval is given, the settlement will mean Dalriada taking control of the Hedge companies such that it can begin to understand the underlying investments and the value, if any, of those investments.

Dalriada is aware of some of these underlying investments, which include a mobile learning application for phones and tablets and an investment linked to Brazilian teak plantations.

It is also aware that a significant sum was paid to Sustainable Wealth Group. Investments in Sustainable Wealth Group were promoted by Forensic Review, a company offering cash inducements for members to transfer. Forensic Review was under investigation by the Financial Services Authority (FSA) (now Financial Conduct Authority (FCA)). Sustainable Wealth itself entered administration following an application by the Serious Fraud Office. Over £2m of funds was transferred to the US without the knowledge of Hedge and Dalriada has, to date, supported legal action for recovery of these monies. However, it is unclear how much is likely to be recovered, if anything.

Finally, as commented above, a significant sum has been used to provide unsecured personal loans.

Consequently, Dalriada is unclear as to the actual value of the Scheme's investment in HCIG. This has created difficulty in showing an asset value in the Scheme accounts.

**Mendip RBS
Trustees' Report**

However, HCIG has, as is required, filed audited accounts and these include a net asset value of the company.

Dalriada was not party to, nor did it have any right to information pertaining to, the audit of those accounts. Dalriada's view is that it would be difficult to place a value on the Scheme's investments, which, bar cash, are wholly in HCIG, that is not consistent with the value shown in HCIG's audited accounts.

Accordingly, this is reflected in the investment value shown in these Financial Statements. However, Dalriada would caveat the figure to the extent that, once more information is known about the underpinning investments, the net value may be considerably lower.

Custodial arrangements

Dalriada has been unable to obtain details of any custodial arrangements having been put in place.

Investment principles

Trustees are required to produce a Statement of Investment Principles, which incorporates the investment strategy, in accordance with section 35 of the Pensions Act 1995. Dalriada has had sight of what appears to be a template, unsigned and undated Statement of Investment principles, prepared by the previous trustees and/or their administrators. Dalriada will update the Statement once it has a clear understanding of the value of the underlying investments and what options there are with regard to their realisation.

Employer related investments

There were no employer related investments at any time during the year within the meaning of section 40(2) of the Pensions Act 1995.

The Scheme's investments comply with the restrictions prescribed by regulations made under section 40 of the Pensions Act 1995.

**Mendip RBS
Trustees' Report**

Statement of Trustees' Responsibilities

The Scheme's Trustees are responsible for obtaining audited financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and for making available certain other information about the Scheme in the form of an Annual Report.


The financial statements are the responsibility of the Trustees. Pension scheme regulations require the Trustees to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of that year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year, and
- contain the information specified in Regulation 3 and 3A to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the financial statements have been prepared in accordance with the Statement of Recommended Practice 'Financial Reports of Pension Schemes' (Revised 25 November 2014)

Dalriada has prepared the financial statements, and has agreed suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis.

Dalriada has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

Signed for and on behalf of the Trustees

For Dalriada Trustees Limited.....

Date.....28/10/2016.....

Mendip RBS
Independent Auditor's report to the Trustees

We have audited the accounts of the Mendip RBS for the year ended 31 March 2016 which comprise the fund account, the net assets statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in UK and Republic of Ireland".

This report is made solely to the Trustees, as a body in accordance with section 41 of the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Trustees 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 responsibility to anyone other than the Scheme and the Scheme's Trustees as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Trustees and Auditors

As explained more fully in the Statement of Trustees' Responsibilities, the Scheme's Trustees are responsible for the preparation of accounts which give a true and fair view. Our responsibility is to audit and express an opinion on the accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the accounts

An audit involves obtaining evidence about the amounts and disclosures in the accounts sufficient to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Trustees'; and the overall presentation of the accounts. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited accounts. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Basis of Disclaimer of Opinion

Dalriada Trustees Limited was appointed under section 7 of the provisions of the Pension Act 1995, on 28 March 2012. Following their appointment they identified a number of concerns surrounding the Governance and Risk Management of the Scheme and the Investments held. Their concerns are detailed in their Trustees' report for the period ended 31 March 2016 and a commentary attached at Appendix 1 regarding the Investment Strategy.

The Trustees have stated that they are unclear as to the actual recoverable value of investments held in HCIG. They have included the investment value based on the Net Asset Value shown in the HCIG Accounts, and have caveated this figure to the extent that, once more information is known about the underpinning investments, the net value may be considerably lower.

The Trustees have also appealed HMRC assessments raised in previous years with regard to Scheme Sanction Charges and have received legal opinion which raises questions as to whether the investments made in HCIG are in fact 'void' and made in breach of trust.

Mendip RBS
Independent Auditor's report to the Trustees

Disclaimer of Opinion

Because of the significance of the matters described in the Disclaimer of Opinion Paragraph relating to the investment in HCIG and uncertainty regarding the HMRC assessment, we have been unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Accordingly we do not express an opinion on the financial statements.

RSM Northern Ireland

RSM Northern Ireland

Chartered Accountants and Registered Auditors

Number One
Lanyon Quay
Belfast
BT1 3LG

Date: *28th October 2016*

**Mendip RBS
Financial Statements**

For the year ended 31 March 2016

Fund Account

	Note	2016 £	2015 £
Contributions and benefits			
Other payments	3	-	(1,015,806)
Administrative expenses	4	<u>(79,239)</u>	<u>(77,315)</u>
		<u>(79,239)</u>	<u>(1,093,121)</u>
Net withdrawals from dealings with members			
		<u>(79,239)</u>	<u>(1,093,121)</u>
Change in market value of investments	5	<u>(150,092)</u>	<u>(45,619)</u>
Net returns on investments		<u>(150,092)</u>	<u>(45,619)</u>
Net decrease in fund for the year		(229,331)	(1,138,740)
Net assets at 1 April 2015		2,556,370	3,695,110
Net assets at 31 March 2016		<u><u>2,327,039</u></u>	<u><u>2,556,370</u></u>

The notes on pages 14 to 17 form an integral part of these financial statements.

**Mendip RBS
Financial Statements**

**Statement of Net Assets
(available for benefits) as at 31 March 2016**

	Note	2016 £	2015 £
Investment assets:	5		
Other investments		<u>3,934,667</u>	<u>4,084,759</u>
		<u>3,934,667</u>	<u>4,084,759</u>
 Total net investments		 3,934,667	 4,084,759
Current assets	7	175,364	183,480
Current liabilities	8	(1,782,992)	(1,711,869)
 Net assets at 31 March 2016		 <u><u>2,327,039</u></u>	 <u><u>2,556,370</u></u>

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year.

The notes on pages 14 to 17 form an integral part of these financial statements.

These financial statements were approved by the Trustees and authorised for issue on...*28/10/2016*

Signed for and on behalf of the Trustees

For Dalriada Trustees Limited.....*[Signature]*

Mendip RBS
Notes to the Financial Statements

1. Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 - The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and the guidance set out in the Statement of Recommended Practice (SORP), Financial Reports of Pension Schemes (Revised 25 November 2014), published by the Pensions Research Accountants Group.

This is the first year FRS 102 and the revised SORP has applied to the Scheme's financial statements and the date of transition was 1 April 2014. The first comparative period under FRS 102 was the year ended 31 March 2015. This has had no impact on the figures in the financial statements other than the change in format.

2. Accounting policies

Transfers

Individual transfers to and from the Scheme during the year are included in the accounts on the basis of when the member liability is accepted or discharged.

There were no transfers out during the year.

Benefits

Benefits payable are included in the accounts on an accruals basis when the member notifies the Trustees as to the type or amount of benefit to be taken, or where there is no choice, on the date of retirement or leaving. Currently Dalriada is not able to identify benefits payable.

Administrative expenses and investment management expenses

Administrative expenses and investment management expenses are accounted for on an accruals basis.

Currency

The Scheme's functional currency and presentational currency is pounds sterling GBP.

Investment Assets

Other than funds held in cash in the Scheme's bank account, all monies transferred into the Scheme have been invested in preference shares in Hedge Capital Investment Group plc (HCIG).

Dalriada is unclear as to the value of the underpinning investments and, so, to the actual value of the Scheme's investment in HCIG and, as such, has difficulty in showing an asset value in these accounts.

Dalriada has valued the investment consistent with the net asset value of HCIG, as shown in that company's most recently filed audited accounts for the year ended 31 December 2015. Dalriada would caveat the asset figure to the extent that, once more information is known about the underpinning investments, the net value may be considerably lower.

Mendip RBS
Notes to the Financial Statements

3. Other payments

	2016	2015
	£	£
Scheme Sanction Charge	-	1,015,806
	<u>-</u>	<u>1,015,806</u>

HMRC has levied Scheme Sanction Charges calculated at 40% of the corresponding unauthorised payment charges levied on the members of the Scheme. These unauthorised payment charges have been calculated based on the higher of the loan received by the member or 50% of the amount transferred into the Scheme in respect of the member. It is HMRC's view that unauthorised payment tax charges have arisen. Dalriada is appealing the Scheme Sanction Charge.

4. Administrative expenses

	2016	2015
	£	£
Audit fees	2,000	2,200
Legal fees	50,510	45,075
Pensions Regulator Levy	318	271
Trustee fees	25,240	29,758
Other professional fees	1,171	11
	<u>79,239</u>	<u>77,315</u>

5. Reconciliation of investments

	Value at	Purchases	Sale	Change in	Value at
	31/03/2015	at cost	proceeds	market	31/03/2016
	£	£	£	value	£
				£	
Hedge Capital Inv. Gr. Ltd	4,084,759	-	-	(150,092)	3,934,667
Investments Total	<u>4,084,759</u>	<u>-</u>	<u>-</u>	<u>(150,092)</u>	<u>3,934,667</u>

The change in market value of investments comprises all increases and decreases in the market value of investments held at any time during the year, including all profits and losses realised on sales of investments during the year.

See note 2, as regards concerns surrounding the value placed on the investment in HCIG.

For defined contribution schemes, investments purchased by the Scheme are allocated to provide benefits to the individual members. The previous Trustees/administrators did not make any allocation of funds when members transferred in and, as stated earlier, some of the investments appear to have no immediate realisable value. Consequently, Dalriada has been unable to carry out an allocation of funds to members and will, in time, require further direction from the Court as to the most appropriate method to use.

Mendip RBS
Notes to the Financial Statements

6. Fair value of Investments

The fair value of financial instruments has been estimated using the following fair value hierarchy in accordance with the amendments to FRS 102 in March 2016. The amendments apply to accounting periods beginning on or after 1 January 2017 however, early adoption is permitted:

Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The Scheme's investment assets and liabilities have been fair valued using the above hierarchy categories as follows:

	31 March 2016			Total
	Level 1	Level 2	Level 3	£
	£	£	£	£
Hedge Capital Inv. Gr. Ltd	-	-	3,934,667	3,934,667
	-	-	3,934,667	3,934,667

	31 March 2015			Total
	Level 1	Level 2	Level 3	£
	£	£	£	£
Hedge Capital Inv. Gr. Ltd	-	-	4,084,759	4,084,759
	-	-	4,084,759	4,084,759

7. Current assets

	2016	2015
	£	£
Sundry debtors	232	-
Cash balances	175,132	183,480
	<u>175,364</u>	<u>183,480</u>

Included in the bank balance for the year ended 31 March 2015 is £175,132 which is not allocated to members.

Mendip RBS
Notes to the Financial Statements

8. Current liabilities

	2016	2015
	£	£
Scheme Sanction Charge	(1,015,806)	(1,015,806)
Accrued expenses	(480,301)	(409,178)
Sundry creditors	(286,885)	(286,885)
	(1,782,992)	(1,711,869)

The Pennines RBS has paid fees which were due from the Mendip RBS. On completion of the settlement and when funds become available, these will be repaid to the Pennines RBS in full. The amount due is recorded as a sundry creditor.

9. Related Party Transactions

During the year ended 31 March 2016 the fees due to Dalriada were £25,240 (2015: £29,758). As at 31 March 2016 £135,783 (2015: £110,542) was still due to Dalriada.

10. Contingent Liabilities

On Dalriada's appointment, the incumbent administrators (T12) claimed payment of outstanding fees in excess of £100,000. This has been disputed and resisted by Dalriada and has not been actively pursued by T12 and not included in these accounts.

11. Subsequent Events

Since its appointment, Dalriada has taken the decision to:

Cease to accept new members and/or any further payments into the Scheme, except by way of telegraphic transfers in or additional employee or employer contributions which it has been unable to prevent.

To appoint Legal Advisers, Pinsent Masons LLP.

To appoint a Scheme Auditor, RSM Northern Ireland.

To create proper financial records and prepare Scheme accounts.

To commence high court action against the previous trustees and the organisers of the Scheme to seek recovery of the monies paid to HCIG claiming, not least, that monies were paid in breach of trust.

To seek, and obtain, a freezing order over the assets of the hedge companies, a freeze that remains in place currently.

12. Taxation

The Scheme is a registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains taxes.

13. Self investment

There were no known instances of self investment during the year.

**Mendip RBS
Summary of Contributions**

During the year ended 31 March 2016 no contributions were paid or due to the Scheme.

Signed for and on behalf of the Trustees

For Dalriada Trustees Limited.....

A handwritten signature in black ink, appearing to be 'Neil G. ...', written over a dotted line.

Date.....

28/10/2016

Independent Auditors' Statement about Contributions, under Regulation 4 of the Occupational Pension Schemes (Requirement to Obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, to the Trustees of the Mendip RBS

We have examined the summary of contributions to the Mendip RBS for the Scheme year ended 31 March 2016 to which this statement is attached.

This report, including the opinion, has been prepared for and only the Trustees as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or resume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by prior consent in writing.

Respective responsibilities of Trustees and Auditors

As explained more fully in the Statement of Trustees' Responsibilities, the Scheme's Trustees are responsible for ensuring that there is prepared, maintained and from time to time revised a payment schedule showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Trustees are also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the payment schedule.

It is our responsibility to provide a statement about contributions paid under the payment schedule and to report our opinion to you.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the attached summary of contributions have in all material respects been paid at least in accordance with the payment schedule. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the payment schedule.

Statement about contributions payable under the payment schedule

In our opinion contributions for the Scheme period ended 31 March 2016 as reported in the attached summary of contributions have in all material respects been paid at least in accordance with the payment schedule.

RSM Northern Ireland

RSM Northern Ireland

Chartered Accountants and Registered Auditors

Number One
Lanyon Quay
Belfast
BT1 3LG

Date: *28th October 2016.*

**Mendip RBS
Compliance Statement**

Changes in and other matters relating to the Scheme advisers

During the year there were no changes to the Scheme advisers.

Pension Tracing Service

The Pension Tracing Service provides a tracing service for members (and their dependants) of previous employers' schemes, who have lost touch with earlier employers and trustees. To trace a benefit entitlement under a former employer's scheme, enquiries should be addressed to:

Pension Tracing Service
The Pension Service 9
Mail Handling Site A
Wolverhampton
WV98 1LU
Telephone: 0345 600 2537
Website: www.gov.uk/find-lost-pension

The Pensions Advisory Service

If members or their dependants have problems concerning pension rights or are not satisfied by the information or explanation given by the Trustees or the administrators, they can consult the Pensions Advisory Service (TPAS) at any time. Normally they should try to contact a local TPAS adviser through their nearest Citizens Advice Bureau. Alternatively, they can write to TPAS at:

11 Belgrave Road
London
SW1V 1RB
Telephone: 0300 123 1047
Website: www.pensionsadvisoryservice.org.uk
E-mail: enquiries@pensionsadvisoryservice.org.uk

The Pensions Ombudsman

In cases where a complaint or dispute cannot be resolved under the IDRPs, an application can be made to the Pensions Ombudsman Service to investigate and determine any complaint or dispute of fact or law involving occupational pension scheme. The address is:

11 Belgrave Road
London
SW1V 1RB
Telephone: 0207 630 2200
Website: www.pensions-ombudsman.org.uk
E-mail: enquiries@pensions-ombudsman.org.uk

The Pensions Regulator

The statutory body that regulates occupational pension schemes is the Pensions Regulator (tPR). TPR can be contacted at:

The Pensions Regulator
Napier House
Trafalgar Place
Brighton BN1 4DW
Telephone: 0345 600 0707
Website: www.thepensionsregulator.gov.uk
E-mail: customersupport@tpr.gov.uk

Mendip RBS

Appendix 1

Investment risks

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk.

- Currency risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- Interest rate risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- Other price risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Generally, the Trustees determine their investment strategy after taking advice from a professional investment adviser. A Scheme has exposure to these risks because of the investments it makes in following its chosen investment strategy. Trustees then manage investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits should be implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustees by regular reviews of the investment portfolio.

(i) Investment strategy

Generally, the Trustees' objective is to make available to members of a Scheme an appropriate range of investment options designed to generate income and capital growth. This has not been the case for this Scheme.

The investments held by the Scheme were invested solely in HCIG, bar any funds held in cash in the Scheme's bank account.

Through this investment, HCIG loaned money to Hedge Capital Investments Limited (HCIL) who managed the investments that underpinned the value of HCIG. A major part of these investments was a further loan by HCIL to Hedge Capital Limited (HCL) who, in turn, arranged for the individual loans to members.

Dalriada has been advised by a leading barrister (a Queen's Counsel or 'QC') who specialises in pensions and trust law matters.

In broad terms, the advice Dalriada has received is:

- There is a strong possibility that the investments made in HCIG were 'void' because they were made, in part at least, to allow the loans to members to be made. In this context 'void' is a technical legal term and, if it is decided that the investments in HCIG were 'void', they would not be recognised in law as ever having taken effect.
- The investments made by the previous trustees in HCIG were in breach of the Investments Regulations governing pension scheme investments and so were, arguably, made in breach of trust.
- Finally, that the loans to members resulting from the investment in HCIG were unauthorised payments in the hands of members and, as such, potentially liable to tax charges.

Mendip RBS

Appendix 1

With regards to the Investment Risk Disclosure Note for the Scheme, as the investments do not fall into the regular categories of investments held in a defined contribution scheme, the standard risks cannot be identified. However, Dalriada Trustees are aware that there are considerable risks associated with the Scheme's investments held in HCIG.

Mendip RBS

Appendix 2

**Annual Governance Statement by the Chair of the Trustee for the Scheme Year Ending on
31 March 2016**

Introduction

New governance rules apply to defined contribution ('DC') schemes, and therefore the Scheme, from 6 April 2015.

As the Chair of the Trustee, I have to provide you with a yearly statement which explains what steps have been taken by the trustee to meet the new governance standards. This first statement covers the Scheme year from 1 April 2015 to 31 March 2016.

What has to be included in the statement is set out in law. Under normal circumstances the statement will relate to a DC scheme properly established to provide appropriate benefits for its members.

As you are aware from the Announcements issued to members since its appointment, Dalriada Trustees Limited ("Dalriada") was appointed as trustee to the Scheme by the Pensions Regulator amid concerns that the Scheme was being used as a vehicle for pension liberation. This has presented Dalriada with a number of challenges around governance. Nevertheless this statement is a legal requirement and, as such, can serve as a useful reminder of the issues faced by Dalriada and, where it cannot meet certain governance obligations, I have explained why that it is the case.

Background

Dalriada was appointed as Independent Trustee of the Scheme by Order of the Pensions Regulator on 28 March 2012. The powers and duties exercisable by Dalriada in its capacity as trustee are to the exclusion of all other trustees of the Scheme.

The Scheme was used, principally, as a vehicle to allow members under the minimum retirement age of 55 access to their pension funds by way of a loan.

The Scheme had a single investment being the investment in preference shares issued by Hedge Capital Investment Group plc (HCIG). Loans to members were made by another Group company, Hedge Capital Limited, which, in turn, was funded by way of a loan from a further Group company, Hedge Capital Investments Limited (HCIL), a company wholly owned by HCIG.

These loans were seen as unauthorised payments by HMRC who, as a result, have issued provisional assessments for significant tax charges against both the Scheme and its members.

As well providing the funds to loan back to members, HCIL invested further funds in a number of unusual and high risk investments.

Default investment arrangement

The Scheme did not offer members any choice as to how their funds were invested, funds being used to secure preference shares in HCIG.

Alongside the loans to members, funds were invested by HCIL (a subsidiary of HCIG) in a number of unusual, high risk and largely illiquid investments which are difficult to value.

As such, in Dalriada's view, there has never been an appropriate default investment arrangement. There is no life-styling option available.

The previous trustees directed investment decisions without seeking appropriate investment advice.

No serviceable Statement of Investment Principles exists for the Scheme.

As the investments are unconventional and they do not comply with any maximum charge requirements. Dalriada is not in a position to rectify any of these deficiencies at the current time.

Mendip RBS

Appendix 2

As members will be aware, Dalriada is looking to reach a settlement with Hedge that will allow it to take ownership of the Hedge companies and, thereafter, attempt to recover funds where it can. Once it has identified what assets are recoverable, Dalriada will take appropriate advice to determine a suitable investment strategy.

Dalriada will also then put in place a suitable Statement of Investment Principles.

Details of the revised investment strategy and confirmation of any investment choices being made available will be set out to members. However, it is unlikely that this will be implemented in the near future. Ultimately, it is Dalriada's intention to wind up the Scheme as soon as it is able, giving members the opportunity to transfer any funds to a more suitable arrangement of their choice.

Core Financial Transactions

Trustees have a specific duty to ensure that core financial transactions relating to DC schemes are processed promptly and accurately. These include the following:

- investing contributions in the Scheme
- transferring assets related to members into or out of the Scheme
- transferring the assets between different investments within the Scheme
- making payments from the Scheme to or on behalf of the members.

The Scheme does not currently accept contributions or transfers in and is unable to pay any level of benefit, including transfers values, to members at the present time.

This is due to a number of factors, not least uncertainty as to the value of the Scheme's investments and the position with regard to the potential tax charges mentioned above. More information on this has been provided in Dalriada's Announcements to members.

The Financial Transactions the Scheme does make are, in the main, in relation to costs. These are reported in the Scheme's annual accounts.

Given its inability to carry out routine administrative actions, unsurprisingly, over the reporting period, there have been no material administration service issues which need to be reported here by Dalriada.

Notwithstanding this, Dalriada, as a professional Independent Trustee, has processes and controls in place that are suitably designed to ensure any service objectives can be achieved once the Scheme is in a position to operate in the manner of a normal scheme.

Charges and Transaction Costs

The new governance rules require trustees to make an assessment of the charges and transactions costs borne by DC scheme members.

Since its appointment, there have been no transactions as Dalriada has not accepted any payments into the Scheme, either by way of contribution or transfers in.

Under the terms of its appointment, the fees of Dalriada and its advisers are met from Scheme funds. Whilst these costs fall as debt due from the employer (or sponsor), in this case the sponsor was a dormant company with no assets.

Due to the mismanagement of the Scheme by its previous trustees and the subsequent actions taken by Dalriada since appointment, it is inevitable that the Scheme has incurred, and will continue to incur, significantly higher ongoing costs than would be the case for a similarly sized but conventional scheme.

Mendip RBS

Appendix 2

Dalriada has set out in its various Announcements to members the actions it has taken to take control of the assets that underpin the investments made by the previous trustees. Generally, actions undertaken by Dalriada, beyond those considered necessary for the appropriate management of the Scheme, are centred on legal action around recovery of funds. Such actions are considered on a cost benefit analysis and, where necessary, Court approval is sought for the use of Scheme funds to pay for such legal action.

Good value for members

When assessing the charges and any transaction costs which are payable by members, trustees are required to consider the extent to which the investment options and the benefits offered by the Scheme represent good value for members when compared to other options available in the market. Given the particular circumstances of the Scheme, such a comparison is simply not possible.

Generally, Dalriada's aim is to recover what assets it can, as cost effectively as it can, to resolve the position with HMRC as regards the possible taxation of Scheme assets and, thereafter, to determine the value of members' funds and provide members with appropriate options prior to, ultimately, winding up the Scheme.

Trustee Knowledge and Understanding

The law sets out the requirement for trustees to have appropriate knowledge and understanding of legal requirements relating to pensions and trusts, the funding of occupational pension schemes, investment of Scheme assets and other matters to enable them to exercise their functions as trustees properly. This requirement is underpinned by guidance in the Pension Regulator's Code of Practice 7.

Dalriada, as a professional trustee, meets all knowledge and understanding requirements. A record of the training completed by Dalriada staff is kept and this training record is reviewed periodically to improve standards. Dalriada also seeks external specialist advisers when required.

All current Dalriada staff have completed the Trustee Toolkit made available by the Pensions Regulator. New staff must complete the Toolkit after joining Dalriada.

As a result of the training activities which have been completed by Dalriada staff individually and collectively, and taking into account the professional external advice available to Dalriada when required, Dalriada considers that its combined knowledge and understanding enables it to exercise properly its function as trustee of the Scheme.

Signed for and on behalf of Dalriada Trustees Limited (the trustee)

Chairman.....

