

Dalriada. *A better way*

Pennines RBS

**Report and Financial Statements
For the year ended 31 March 2018**

Registration number: 12004678

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Pennines 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
Linen Loft
27 - 37 Adelaide Street
Belfast
BT2 8FE

Auditor

RSM UK Audit LLP (removed: 25 October 2018)
Number One
Lanyon Quay
Belfast
BT1 3LG

Johnston Carmichael LLP (appointed: 26 September 2018)
Statutory Auditor
227 West George Street
Glasgow
G2 2ND

Legal Adviser

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

Investment manager

Hedge Capital Investment Group Ltd (removed: 12 May 2017)
St Georges Court
Winnington Avenue
Cheshire
CW8 4EE

Pennines RBS
Principal Employer and Advisers to the Scheme

Bankers

NatWest
Northwich Branch
The Bull Ring
Cheshire
CW9 5BN

**Pennines RBS
Trustees' Report**

Introduction

The Trustees of the Pennines RBS ("the Scheme") present their report together with the audited financial statements for the year ended 31 March 2018. 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 23 and the Annual Governance Statement included as Appendix 1 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, T Lukic (appointed 2 October 2017) 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.

The Trustees have 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, Linen Loft, 27 - 37 Adelaide Street, Belfast, BT2 8FE or by download from the members' website page <http://dalriadatrustees.co.uk/pennines-and-mendip> Email address penninesandmendip@dalriadatrustees.co.uk

Financial development of the Scheme

The financial statements of the Scheme for the year ended 31 March 2018 are set out on pages 14 to 20; the Trustees' summary of contributions and the Auditor's statement about contributions are set out on pages 21 and 22. 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 £4,692,194 at 31 March 2017 to £504,931 at 31 March 2018.

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

**Pennines RBS
Trustees' Report**

Dalriada was 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, had difficulty in showing a correct asset value in previous accounts.

Transfers at less than cash equivalent

No transfer values have been paid from the Scheme.

Membership

As at 31 March 2018, 301 members were entitled to benefits from the Scheme.

Changes to the membership of the Scheme during the year are set out in the following table.

	Active	Deferred	Pensioner
Membership at 01/04/2017	-	301	-
Adjustment	-	2	-
Membership at 31/03/2018	-	303	-

The adjustment in the membership is the result of further reconciliation work being carried out and an additional two members being traced.

One member died in 2013, this has not been reflected in the membership figures as no payment has been made in respect of this member.

Pension increases

No pensions were paid in the year.

Changes to the Scheme rules

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

Changes to the Scheme auditor

The Trustees appointed Johnston Carmichael LLP as Scheme auditor with effect from 26 September 2018. Following the resignation of RSM UK Audit LLP as the auditor with effect from 25 October 2018 they reported that there were no circumstances connected with their resignation which in their opinion significantly affected the interests of the members or prospective members of, or beneficiaries under, the Scheme.

Governance and Risk Management

Following their appointment, Dalriada Trustees identified a number of concerns with the incumbent administrator (T12), not least the significant charges being levied. Dalriada Trustees 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 was disputed and resisted by Dalriada Trustees. T12 was subsequently dissolved on 17 March 2015.

**Pennines RBS
Trustees' Report**

Other than the funds held in cash in the Scheme's bank account, all monies transferred into the Scheme were invested in preference shares in the Hedge Capital Investment Group plc, which later became Hedge Capital Investment Group Limited. Dalriada Trustees 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 Trustees 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 Trustees 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 Trustees Limited are aware of these requirements.

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, Linen Loft, 27 - 37 Adelaide Street, Belfast, BT2 8FE. Email address penninesandmendip@dalriadatrustees.co.uk

The General Data Protection Regulations 2016/679 (Regulations) cover information which is held electronically, i.e. computer based information and extend data protection laws to cover paper-based records held for individuals. The Regulations contain restrictions on the processing of special categories of data as defined in the Regulations, to which individuals must give their consent. This category of data can include information on, for example, the health of a member or marital status.

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.

The Trustees 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.

The Trustees are regarded as 'Controller' for the purposes of the Regulations, in relation to the process referred to above. The advisers appointed by the Trustee are usually 'Processors', however, some advisers, such as scheme actuary and auditors are considered to be controllers by the various professional regulatory bodies. Under the Regulations where two or more controllers jointly determine the purposes and means of processing, they shall be joint controllers of the data.

**Pennines RBS
Trustees' Report**

Investment report

Other than funds held in cash in the Scheme's bank account, all monies transferred into the Scheme were invested in preference shares in Hedge Capital Investment Group plc/Limited (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.

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

As we also reported, the settlement, once agreed, would require the sanction of the Court.

Settlement was reached with the Hedge Companies in the autumn of 2016. The key terms of the settlement were:

- Dalriada took ownership of the various Hedge Companies, with the exception of Hedge Capital Limited (the company that made the loans).
- Hedge Capital Limited was placed into Administration and KPMG were appointed as Administrators.
- All legal action was discontinued and agreement was reached on payment of costs to Hedge's legal advisers.

An application was then made to Court to have the terms of the settlement sanctioned. The application was heard in May 2017. This hearing was held in private, but we can confirm that the Court approved the intended settlement, which enabled Dalriada and the Hedge entities (as well as Mr Woodward) to proceed with implementing the steps required under the terms of the settlement.

In addition to the main settlement with Hedge, Dalriada also reached agreement with another party who had invested funds in HCIG. However, as previously reported, their investment was small.

Following the Court sanction and the conclusion of the settlement between Dalriada and the various Hedge entities, all funds held in cash by HCIG totaling £4,495,551 were returned to the Scheme.

Dalriada appointed Andrew Conquest as director to each of the following companies – Hedge Capital Investment Group (HCIG), Hedge Capital Investments Limited (HCIL), Hedge Tax Mitigation Limited (HTML) and Hedge Capital Markets Limited (HCML).

HCML was a dormant company and was dissolved.

HCIG, HCIL and HTML were placed into voluntary liquidation on 27 November 2017 and KPMG appointed as liquidators of each of the companies on 8 December 2017.

It was always the intention that, once the settlement was achieved and Dalriada took ownership of the various Hedge companies, it would look to strip away the corporate structure and look to identify, and place a value on, the assets underlying the companies, in particular HCIL.

As we have reported previously, 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.

**Pennines RBS
Trustees' Report**

Dalriada 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 FSA (now 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.

KPMG, as liquidators, have a number of powers with regard to recovery of assets and investigation into the actions of the previous directors. Dalriada is now working with KPMG to try to ascertain what value there might be in each of the companies.

Dalriada, as trustee to the Schemes, is by far the major creditor.

Dalriada remains 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.

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.

**Pennines RBS
Trustees' Report**

Statement of Trustees' Responsibilities

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102), are the responsibility of the Trustees. Pension scheme regulations require, and the Trustees are responsible for ensuring, that those financial statements:

- 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 the scheme year of its 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 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustees are responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the scheme will not be wound up.

The Trustees are also responsible for making available certain other information about the scheme in the form of an Annual Report.

The Trustees also have 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.

The Trustees are responsible under pensions legislation for securing that a payment schedule is prepared, maintained and from time to time revised showing the rates of contributions payable towards the Scheme by or on behalf of the Employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Trustees are also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for adopting risk-based processes to monitor whether contributions are made to the Scheme by the Employer in accordance with the payment schedule. Where breaches of the schedule occur, the Trustees are required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

Signed for and on behalf of the Trustees

For Dalriada Trustees Limited.....

Date..... 31/10/2018

Pennines RBS
Independent Auditor's report to the Trustees

Qualified Opinion

We have audited the financial statements of Pennines RBS (the 'scheme') for the year ended 31 March 2018 which comprise the fund account, the statement of net assets and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the financial statements:

- show a true and fair view of the financial transactions of the scheme during the year ended 31 March 2018, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for Qualified Opinion

As explained in note 2 to the financial statements, the scheme's trustees could not obtain an accurate valuation of the scheme's investments as at 31 March 2017. These investments were included in the financial statements at a value of £8,057,625 as at 31 March 2017. As shown in note 5, during the year ended 31 March 2018, the scheme recovered £4,495,551 from these investments and wrote down the remaining asset value of £3,562,074 to £nil value. We were unable to obtain sufficient appropriate audit evidence about the carrying value of the scheme's investments as at 31 March 2017 and as at 31 March 2018 and consequently of the £3,562,074 change in market value of investments recognised in the year ended 31 March 2018 shown in note 5 and in the fund account. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Pennines RBS
Independent Auditor's report to the Trustees

Other information

The trustees are responsible for the other information. The other information comprises the information included in the report and financial statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of trustees

As explained more fully in the trustees' responsibilities statement set out on page 10, the scheme's trustees are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustees are responsible for assessing the scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustees either intend to wind up the scheme or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the scheme's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustees.

Pennines RBS

Independent Auditor's report to the Trustees

- Conclude on the appropriateness of the trustees' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the scheme to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Use of our report

This report is made solely to the scheme's trustees, as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the scheme's 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 or assume responsibility to anyone other than the scheme's trustees as a body, for our audit work, for this report, or for the opinions we have formed.

Johnston Carmichael LLP

Johnston Carmichael LLP

Statutory Auditor

227 West George Street
Glasgow G2 2ND

Date: 31 October 2018

**Pennines RBS
Financial Statements**

For the year ended 31 March 2018

Fund Account

	Note	2018 £	2017 £
Contributions and benefits			
Administrative expenses	3	<u>(625,281)</u>	<u>(171,680)</u>
		<u>(625,281)</u>	<u>(171,680)</u>
Net withdrawals from dealings with members			
		<u>(625,281)</u>	<u>(171,680)</u>
Returns on investments			
Investment income	4	92	-
Change in market value of investments	5	<u>(3,562,074)</u>	-
Net returns on investments		<u>(3,561,982)</u>	-
Net decrease in the fund for the year		(4,187,263)	(171,680)
Net assets at 1 April 2017		4,692,194	4,863,874
Net assets at 31 March 2018		<u><u>504,931</u></u>	<u><u>4,692,194</u></u>

The notes on pages 16 to 20 form an integral part of these financial statements.

**Pennines RBS
Financial Statements**

**Statement of Net Assets
(available for benefits) as at 31 March 2018**


	Note	2018 £	2017 £
Investment assets:	5		
Other investments	5	-	8,057,625
		<u>-</u>	<u>8,057,625</u>
 Current assets	 8	 3,493,980	 293,424
Current liabilities	9	(2,989,049)	(3,658,855)
 Net assets at 31 March 2018		 <u><u>504,931</u></u>	 <u><u>4,692,194</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 16 to 20 form an integral part of these financial statements.

These financial statements were approved by the Trustees and authorised for issue on 31/10/2018

Signed for and on behalf of the Trustees

For Dalriada Trustees Limited.....

Pennines 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.

2. Accounting policies

Functional currency

The functional currency used in the financial statements is Sterling and all figures have been rounded to the nearest pound.

Investment Income

Interest on bank deposits is accounted for as it accrues.

Transfers

Individual transfers to and from the Scheme during the year are included in the financial statements 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 financial statements 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 Trustees Limited 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.

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/Limited (HCIG).

Dalriada was 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, had difficulty in showing a correct asset value in previous accounts. Dalriada had previously 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. However, Dalriada had caveated that asset figure to the extent that, once more information was known about the underpinning investments, the net value may be considerably lower.

During the year, following the conclusion of the settlement between Dalriada and the various Hedge entities, all funds held in cash by HCIG were returned to the Scheme.

Pennines RBS
Notes to the Financial Statements

There remain other investments within HCIG, as set out in the Investment Report on pages 8 & 9. As liquidators, KPMG are tasked with recovering what money it can from those investments but, currently, we don't anticipate any material recovery. Given this, we have exercised prudence, and assumed nil recovery. This means, for the purpose of these accounts, the value of HCIG amounts to what has been recovered in cash and paid over the Scheme. In turn, and as intimated previously, this also means a significant negative in change in the value of the HCIG investment. This is reflected in the figures shown in note 5.

3. Administrative expenses

	2018	2017
	£	£
Consultancy fees	19,277	864
Audit fees	3,800	6,190
Legal fees	555,077	114,404
Pensions Regulator Levy	706	626
Trustee fees	46,300	49,499
Other professional fees	121	97
	<u>625,281</u>	<u>171,680</u>

4. Investment income

	2018	2017
	£	£
Interest on cash deposits	92	-
	<u>92</u>	<u>-</u>

5. Reconciliation of investments

	Value at	Purchases	Sale	Change in	Value at
	31/03/2017	at cost	proceeds	market	31/03/2018
	£	£	£	value	£
	£	£	£	£	£
Hedge Capital Inv. Gr. Ltd	8,057,625	-	(4,495,551)	(3,562,074)	-
Investments Total	<u>8,057,625</u>	<u>-</u>	<u>(4,495,551)</u>	<u>(3,562,074)</u>	<u>-</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 and an explanation as to the change in market value figure.

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 may, in time, require further direction from the Court as to the most appropriate method to use.

Pennines RBS
Notes to the Financial Statements

6. Fair value determination

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.

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 2017			
	Level 1	Level 2	Level 3	Total
	£	£	£	£
Hedge Capital Inv. Gr. Ltd	-	-	8,057,625	8,057,625
	-	-	8,057,625	8,057,625

7. Investment risk disclosures

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.

The Trustees determine their investment strategy after taking advice from a professional investment adviser. The Scheme has exposure to these risks because of the investments it makes in following the investment strategy set out below. The Trustees 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 are 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.

Pennines RBS
Notes to the Financial Statements

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.

Dalriada will continue to work with KPMG as it progresses the liquidation of HCIG to establish the eventual value to be returned to the Scheme from this investment.

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 are aware that there are considerable risks associated with the Scheme's investment in HCIG.

8. Current assets

	2018	2017
	£	£
Sundry debtors	3,492,270	286,885
Cash balances	<u>1,710</u>	<u>6,539</u>
	<u><u>3,493,980</u></u>	<u><u>293,424</u></u>

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. Mendip RBS holds funds belonging to Pennines RBS with regards to the Hedge Capital Limited settlement.

Included in the bank balance for the year ended 31 March 2018 is £1,710 which is not allocated to members.

Pennines RBS
Notes to the Financial Statements

9. Current liabilities

	2018	2017
	£	£
Scheme Sanction Charge	(2,472,362)	(2,472,362)
Accrued expenses	(32,187)	(1,173,111)
Sundry creditors	<u>(484,500)</u>	<u>(13,382)</u>
	<u>(2,989,049)</u>	<u>(3,658,855)</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.

10. Related Party Transactions

During the year ended 31 March 2018 the fees due to Dalriada Trustees were £46,300 (2017: £49,499). As at 31 March 2018 £2,946 (2017: £337,283) was still due to Dalriada Trustees.

During the year Mendip RBS paid fees for Pennines RBS which totaled £471,119 (2017: £13,149). As at 31 March 2018 Pennines RBS still owed Mendip RBS £484,500 (2017: £13,381).

During the year Pennines RBS transferred funds to Mendip RBS of £4,000 (2017: £nil). As at 31 March 2018 Pennines RBS still owed Mendip RBS £4,000 (2017: £nil).

In previous years Pennines RBS paid fees for Mendip RBS which totaled £286,885, as at 31 March 2018 this was still due to Pennines RBS (2017: £286,885).

During the year funds held by Mendip RBS for Pennines RBS totaling £3,205,385 (2017: nil) with regards to the Hedge Capital Limited settlement.

11. 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 Trustees and has not been actively pursued by T12 and not included in these accounts. T12 was subsequently dissolved on 17 March 2015.

12. Subsequent Events

There were no reportable events after the year end.

13. 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.


14. Self investment

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

**Pennines RBS
Summary of Contributions**

During the year ended 31 March 2018 no contributions were paid or were due to the Scheme.

Signed for and on behalf of the Trustees

For Dalriada Trustees Limited.....

Date 31/10/2018.....

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 Pennines RBS

We have examined the summary of contributions to the Pennines RBS for the Scheme year ended 31 March 2018 to which this statement is attached.

Statement about contributions payable under the payment schedule

In our opinion contributions for the Scheme year ended 31 March 2018 as reported in the summary of contributions and payable under the payment schedule have in all material respects been paid at least in accordance with the payment schedule and scheme rules.

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.

Respective responsibilities of trustees and the auditor

As explained more fully in the Statement of Trustees' Responsibilities, the scheme's trustees are responsible for securing that a payment schedule is prepared, maintained and from time to time revised 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.

Use of our report

This report is made solely to the trustees, as a body in accordance with Regulation 4 of The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996. Our 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 Statement about Contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the scheme's trustees as a body, for our work, for this report, or for the opinions we have formed.

Johnston Carmichael LLP

Johnston Carmichael LLP
Statutory Auditor

227 West George Street
Glasgow G2 2ND

Date: *31 October 2018*

**Pennines RBS
Compliance Statement**

Changes in and other matters relating to the Scheme advisers

The changes to the Scheme advisers are shown on page 3 and 4.

Pension Tracing Service

The Pension Tracing Service provides a tracing service for members (and their dependents) 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: 0800 731 0193
Website: www.gov.uk/find-pension-contact-details

The Pensions Advisory Service

The Pensions Advisory Service (TPAS) offers free and impartial guidance to people with workplace and personal pensions. The Pensions Advisory Service (TPAS) can be contacted at:

11 Belgrave Road
London, SW1V 1RB
Telephone: 0800 011 3797
Website: www.pensionsadvisoryservice.org.uk

The Pensions Ombudsman

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

10 South Colonnade
Canary Wharf
E14 4PU
Telephone: 0800 917 4487
Website: www.pensions-ombudsman.org.uk
E-mail: enquiries@pensions-ombudsman.org.uk

**Pennines RBS
Compliance Statement**

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 1011

Website: www.thepensionsregulator.gov.uk

E-mail: customersupport@tpr.gov.uk

Pennines RBS

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Pennines RBS ("the Scheme")

Annual Governance Statement by the Chair of the Trustee for the Scheme Year Ending on 31 March 2018

Introduction and background

This statement has been prepared in accordance with regulation 23 the Occupational Pension Scheme (Scheme Administration) Regulations 1996, as amended (the "Administration Regulations"), and related Pensions Regulator guidance.

It relates to the Pennines RBS (the "Scheme").

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.

Whilst the previous trustees were not removed by the Pensions Regulator, Dalriada Trustees Limited (Dalriada) was appointed with exclusive powers so Dalriada is, effectively, the sole trustee 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 (later Limited) (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 arrangement

A number of requirements of the Administration Regulations, which are referred to in this statement, relate only to a "default arrangement" as defined in the Administration Regulations. The Scheme does not have a default fund for ongoing accrual. It is not a qualifying scheme within the meaning given by section 99 of the Pensions Act 2008. It is not used to meet any auto-enrolment obligations and no contributions are being paid into the Scheme.

The Scheme did not offer a Default Lifestyle Strategy.

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 made investment decisions without seeking appropriate investment advice.

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Statement of Investment Principles

Ordinarily, trustees should prepare a statement of investment principles ("SIP") governing decisions about investments.

No serviceable Statement of Investment Principles exists for the Scheme.

Once it has identified what assets are recoverable, Dalriada will take appropriate advice to determine a suitable investment strategy and put in place a suitable Statement of Investment Principles.

As reported in the Scheme's Report and Accounts, Dalriada is now working with KPMG to determine what assets may be recovered alongside those funds already transferred to the Scheme as a result of the settlement agreement. Ultimately, it is Dalriada's intention to wind up the Scheme as soon as it is able, giving members the opportunity to transfer any remaining funds to a more suitable arrangement of their choice.

Copies of the Scheme's Report and Accounts are published on the members' website.

Review of default strategy and default arrangements

As noted above, as there is no default arrangement or default strategy in place for the Scheme at the current time then there has been no review of the default arrangement or default strategy in the year in question and no previous review for which a date can be given.

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, to date, 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. Dalriada's administration processes are independently audited and accredited under AAF 01/06 and AAF 02/07.

Once Dalriada is in a position to process member benefit requests these will be managed and monitored in line with Dalriada's standard SLA levels and targets and formally reported on, on a quarterly basis.

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Charges and Transaction Costs

The new governance rules require the Trustee to make an assessment of investment management charges and transactions costs borne by the Scheme members and the extent to which those charges and costs represent good value for money for members.

The Trustee has calculated the charges and, so far as they were able to do so, the transaction costs, borne by Scheme members for the Scheme Year.

In this context, "charges" means (subject to some specific exceptions, such as charges relating to pension sharing orders) all administration charges other than transaction costs.

"Transaction costs" are costs incurred as a result of the buying, selling, lending or borrowing of investments.

Dalriada has deviated from the approach set out in the statutory guidance for the reasons set out below.

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 so there have been no transaction costs.

However, under the terms of its appointment, the fees of Dalriada and its advisers are met from Scheme funds. Whilst these costs (or "charges") 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.

These costs for the year ending 31 March 2018 are set in the Accounts and total:

£625,281.

"Good value" assessment of charges and transactions

Generally, trustees should assess the extent to which the charges described above represent "good value" for members during the scheme year, by considering the level of member borne charges against the benefits attributable to such charges.

Whether something represents "good value" is not capable of being precisely defined, but for these purposes, trustees should consider that charges may be viewed as representing "good value" for members where an optimum combination of cost and quality is achieved for the membership as a whole, relative to other options available in the market.

The characteristics of the Scheme are unusual and there are no readily available comparators to determine whether the costs incurred represent good value.

However, the 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.

Dalriada was appointed following a tender exercise by the Pensions Regulator (TPR) and Dalriada is subject to ongoing oversight by TPR.

Dalriada's costs (both for ongoing management and with regard to action around recovery of funds) are calculated using a blended charging rate that sits well below its standard market rates. Its legal advisers operate similarly.

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As commented above, 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. Dalriada's administration processes are independently audited and accredited under AAF 01/06 and AAF 02/07.

Once Dalriada is in a position to process member benefit requests these will be managed and monitored in line with Dalriada's standard SLA levels and targets and formally reported on, on a quarterly basis.

Trustee knowledge and understanding

The Trustee has considered the latest guidance in relation to Chairman's Statements from The Pensions Regulator and has ensured that its practices reflect the requirements set out. I have set out below how the Trustee ensures it currently meets the knowledge and understanding requirements of trustees.

Dalriada is an independent professional trustee, established in 2003, which has been appointed by The Pensions Regulator (TPR) under section 7 of the Pensions Act 1995 to a number of schemes as a result of TPR having concerns about the nature and operation of those schemes and the extent to which the then current trustees understood their statutory and fiduciary duties and responsibilities. Dalriada refers to such schemes as "Regulatory Appointments". The Scheme is a Regulatory Appointment.

Dalriada has established a specialist team drawn from various relevant disciplines within Dalriada to manage the governance of these Regulatory Appointments which we have called the Irregular Schemes Team.

A dedicated committee (the Irregular Schemes Committee - 'the Committee') has been established by the Board of Directors of Dalriada to oversee the activities of the Irregular Schemes Team in its governance of this scheme and other Regulatory Appointments. Care has been taken to ensure that the membership of the Committee is such that there is sufficient knowledge and understanding within the Committee to meet the requirements set out in sections 247 and 248 of the Pensions Act 2004 and The Pensions Regulator's Code of Practice 7 on Trustee Knowledge and Understanding.

I have set out below the membership of the Committee, along with a short note on their skill set and experience. In addition, it is worth noting that three members of the Committee are directors of Dalriada Trustees Limited. Dalriada operates a team based approach which gives the Regulatory Appointments Team access to over 120 pensions and support personnel with a broad skill set suited to identifying and implementing the variety of tasks required to successfully manage the Scheme, including pension administration experts, an in house legal team, fund accountants and investment experts. Whilst the core Irregular Schemes Team deals with the majority of matters arising on the Scheme on a day to day basis, in conjunction with its appointed advisers, it can access the specialist expertise of the wider Dalriada team as and when required.

As far as we are aware, no other professional independent trustee firm has established and developed a specialist team in this difficult and challenging area of trusteeship. The relevant experience developed by the Irregular Schemes Team on such cases is unmatched and unrivalled.

The Committee

Sean Browes

Sean has been working in the pensions industry since he graduated in 1988. He worked for two major benefit consultancies in both administration management and consultancy roles, before

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joining Dalriada in 2003. Sean has a broad range of skills and experience suited to all areas of pension scheme management.

Sean leads the Irregular Schemes Team, dealing with Dalriada's appointments by The Pensions Regulator (TPR) to schemes suspected of being involved in pension liberation or thought to be scams. He now has a wealth of experience and knowledge with regard to the unique characteristics associated with the administration and management of these types of scheme and the challenges they present.

Neil Copeland

Neil is a co-founder and director of Dalriada Trustees Limited. He acts as a trustee representative on some of our most complex and challenging cases, including our regulatory appointments. Neil specialises in schemes with technically challenging governance and covenant issues, as well as having over 25 years of experience in relation to defined benefit, hybrid, defined contribution, multi-employer and sectionalised arrangements.

Neil is the Dalriada Board representative for the Irregular Schemes Team and spends a significant proportion of his time working on Regulatory Appointments. Like Sean, Neil has developed considerable experience of the complex and non-standard issues faced by the Dalriada team in managing the Regulatory Appointments. This has included acting as a witness in high profile litigation in relation to Regulatory Appointments in support of TPR and representing Dalriada in oral hearings before the Determinations Panel where Dalriada's appointment by TPR has been challenged by the incumbent trustees or other directly affected parties.

Tom Lukic

Tom is also a director of Dalriada Trustees Limited and leads the Dalriada business across the Midlands. He has broad pensions experience with particular expertise in employer covenant and corporate transactions. He has worked with a range of trustee boards managing scheme assets from c£5 million to more than £1 billion. Similarly, he is experienced in working with a broad spectrum of sponsoring employers from small, owner managed businesses through to much larger and complex groups being either privately owned or fully listed.

Tom's experience, both as an adviser and as a trustee representative, provides particular insight into corporate structures and insolvencies. The Scheme's investments include shares and/or bonds in, or issued by, corporate entities where understanding the accounting and financial structures of these entities is essential.

Brian Spence

Brian is a co-founder and director of Dalriada Trustees Limited. He is now involved in the provision of a wide range of advice to pension scheme sponsors and trustees. Brian is well-known in the pensions industry for taking a strategic view in dealing with pension scheme matters and uses his experience to deliver practical solutions which satisfy the needs of the Trustees, the employers and other stakeholders. Brian is recognised by TPR and the pensions industry as an expert in dealing with contentious and/or complex issues. He is a lead contact and "key person" for a number of high profile trustee appointments.

In addition, Brian has practical experience of working as a trustee in all three major legal jurisdictions of the UK and as a trustee and advisor in Ireland. Brian has held a UK Scheme Actuary Practising Certificate since inception of the role in 1997.

Brian has an in depth knowledge of legal processes, particularly around testing points of legal principle related to the operation of pension schemes, often as a result of deficiencies in scheme documentation (a common issue with Regulatory Appointments) and, also, litigation - where it is

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cost effective to do so, Dalriada will look to take legal action against the perpetrators of a scam with the aim to recover misappropriated assets.

Knowledge of the trust deed and rules and all documents setting out the trustee's current policies

The Scheme has a dedicated client manager who has an in depth knowledge of the Scheme and its governing documentation. At the point of becoming an Independent Trustee to the Scheme, a prescribed take on process was followed. This included an assimilation and review of all the relevant scheme documentation, including the trust deed and rules. The Committee is made aware of any issues or risks in relation to the Scheme's trust deed and rules as and when they arise and appropriate action agreed in relation to the issue or risk identified. In addition to the knowledge held by the client manager and Lead Trustee Representative, the trustees obtain legal advice in relation to the Scheme's documentation, where necessary.

There have been no new trustees introduced in this reporting period. However, it is recognised that an appropriate induction process should be in place to support the addition of new trustees. This is under review and will be put in place within the next reporting period.

A working knowledge of the current Statement of Investment Principles (SIP)

As is set out earlier, the Scheme does not have a SIP at this time due to particular circumstances of the Scheme.

Sufficient knowledge and understanding of the law relating to pensions and trusts and understanding of the principles relating to the funding and investment of occupational schemes

Those Dalriada staff working on the Scheme, including the lead trustee representative, are obliged to self evaluate their learning and development requirements on an annual basis as part of Dalriada's internal appraisal process. The process identifies how staff can develop their knowledge and understanding, as well as where they can share their expertise in order to best support the Scheme. Dalriada staff are also required to comply with their respective training requirements in order to maintain a required level of continuing professional education (CPE) and to provide evidence of courses, seminars and other types of professional development to satisfy their respective professional bodies' CPE requirements.

Every trustee representative is required to undertake a minimum number of hours training in a year. This is recorded centrally by Dalriada's HR Team and, where appropriate, forms part of staff personal development plans. This training can include internal and external courses and attendance at industry events, as well as a degree of self learning by way of subscriptions to professional publications and electronic information channels.

Further, every trustee representative is required to complete The Pensions Regulator's Trustee Toolkit and subscribes to the updates issued by The Pensions Regulator.

Trustee representatives belong to Dalriada's knowledge management network which keeps them up to date with industry thinking. They also have access to a team of in house pensions experts who inform the team about changes to pensions legislation and practices.

The trustees have access to Pendragon Perspective and Aries - both industry leading tools, giving access to pension legislation.

Dalriada has its own in house legal specialists to provide support and guidance to trustees around legislation and interpretation of scheme documentation. This is further aided by advice from external legal advisers, which is obtained when the trustees feel the reinforcement is necessary to support their own understanding.

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Combined knowledge and understanding, together with available advice enables the trustees to properly exercise their function

Dalriada has informally assessed the skill set and experience of each member of the Committee and the client team. It has taken into account the development activities already mentioned, along with the internal resources made available to staff, supplemented, where required, by professional external advice.

Given that the Committee has been recently established, there is a need to more formally assess the skills of its members. This will be done annually using a skills matrix developed for this purpose. Any areas for development flagged during this process will be addressed as part of the individual's personal development plan and reviewed throughout the year.

An evaluation of the effectiveness of the Committee as a whole will also be carried out annually.

I consider that the combined knowledge and understanding of the Committee and the client team enables them to exercise properly their function as trustee of the Scheme. In particular:

- Members of the Committee have the relevant financial knowledge and experience to enable the trustee to comply with its duties in relation to investment of the Scheme's assets. Tom Lukic's experience (see above) in particular is advantageous in this area.
- There is a vast range of pensions experience and knowledge within the Committee and the client team. This is appropriate to deal with the governance of the Scheme in line with the trust deed and rules, along with other scheme documentation. There is also a great deal of experience relevant to dealing with issues which might be thrown up by the Scheme which require the amendment of scheme documentation.
- Sean Browes, Neil Copeland and Brian Spence have a great deal of knowledge and experience in relation to schemes of complex nature, such as this Scheme, where investments made by previous trustees are deemed to be highly inappropriate, their administration has been poor and / or the trustees have not had the sufficient knowledge and understanding to be trustees of an occupational pension scheme.
- Sean Browes and Neil Copeland have many years of experience in the administration of pension schemes, allowing a keen oversight of the administration of the Scheme.

Member Representation

Dalriada is aware that members of the Scheme are potential victims of a scam. As such, we look to keep members informed and to facilitate direct access for members to Dalriada by means of a:

- Dedicated member website
- Dedicated contact e-mail address
- Dedicated phone line.

Where required for legal action, members have been represented by a representative beneficiary with their own legal advice provided for.

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

Chairman



Date

31 October 2018