Nucleus Financial Services Limited financial statements

For the year ended 31 December 2015

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Registered number: 05629686

Company information

Directors

A C D Bloch
P R Bradshaw
D R Ferguson
S J Geard
J P Gibson
J A A Samuels
M D Seddon
S J Tucker

Company secretary

N C Megaw

Registered number

05629686

Registered office

One London Wall
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United Kingdom
EC2Y 5AB

Independent auditors

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144 Morrison Street
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EH3 8EX

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Contents

Strategic and Directors' reports

The Directors present their Strategic and Directors' reports and the financial statements for the year ended 31 December 2015 for Nucleus Financial Services Limited ("the Company").

With effect from 1 January 2015, the Financial Reporting Council revised financial reporting standards and issued Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS 102"). This is the first year that the Company has presented its results under FRS 102. The last financial statements prepared under UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2014 and details of the transition are disclosed in note 22.

Strategic report

The Company's principal activity is the provision of "wrap" investment administration services to selected Financial Advisers in the UK.

The Company is a wholly owned subsidiary of Nucleus Financial Group Limited ("Nucleus" or "the Group"). Nucleus provides a wrap platform to UK financial advisers. The Nucleus wrap platform allows clients to invest directly, or via various 'tax wrappers' into a broad range of asset types, including cash, unit trusts, OEICs, ETFs, investment trusts and other securities.

Nucleus has a particular commitment to transparency and a desire to put the client centre stage. This is hardwired into our culture and sustained through the influence of our users in determining our business model and future strategy.

The Company is regulated by the Financial Conduct Authority ("FCA"). The FCA regulated activities of the Group are predominantly those relating to a Limited Licence Investment Firm. In addition, the Company has additional FCA and Her Majesty's Revenue and Customs ("HMRC") obligations relating to its activities as an operator of a Self Invested Personal Pension scheme ("a Sipp Operator") and also those relating to the management of Individual Savings Accounts ("an Isa Manager"). The Company is authorised to hold and control client money as part of its activities and is therefore subject to the FCA's client asset rules ("CASS rules").

The financial statements of the Company along with the Company's Pillar 3 statement can be found on the Group's website www.nucleusfinancial.com and they are also available on request from the company secretary.

In terms of recent regulatory change we believe that our business model and corporate culture are consistent with the FCA agenda to promote ever higher standards of conduct and client-centricity across the financial services industry. We welcome the increased levels of professionalism in the adviser market. Wrap platforms, as with quality financial advisers, stand to benefit in areas where life companies may once have enjoyed protected status.

In June 2014 we completed a migration of our technology to the Sonata system, giving us and our users access to modern and scalable technology that we believe will become the leading architecture in our market. There are regular updates planned for 2016 which will give us extended capability and greater efficiency.

In August 2015 the Company also entered into a new agreement for a period of 7 years with Genpact WM UK Limited ("Genpact"), who acquired the operations of Citi Openwealth, our former business process outsourcer ("BPO"). Genpact now provide the Company with a range of outsourced operational services.

The year closed with £9.1bn of assets under management, representing an increase of 16.2% from the end of 2014.

During the year the Company added £2bn of gross inflows (£1.2bn net) and a 17% increase in firms with meaningful inflow support. We now support 2,584 users, an increase of 43% in the year, while the financial performance was also pleasing, with turnover up 23% to £29m.

Future developments

The Company is aware of the recent activity in the sector concerning the intended float or disposal of platform operations from some of our competitors. The Company continues to believe that open-architecture, independent wrap platforms support the delivery of fair and consistent financial advice outcomes for clients and as a result remains committed to its core purpose of providing platform technology and associated operations to its user base. Over the coming years the Company expects to launch a number of significant new features that will enhance user experience, improve financial adviser productivity and boost client outcomes.

Strategic and Directors' reports

Principal risks and uncertainties

The following principal risks relate to Nucleus' business and the sector in which it operates. The risks and uncertainties described below are not intended to be exhaustive. Additional risks and uncertainties not presently known to the Directors or that the Directors currently deem to be immaterial could also have an adverse effect on the Group's business and financial performance.

Relationship with financial advisers

As with all operators in the adviser platform market, attracting, engaging and retaining users and their clients is an important part of the Group's growth plans. Specifically, Nucleus provides a white label platform solution to Paradigm Partners LLP and in 2015 approximately one quarter of new business originated through this arrangement. Changes in the environment as a result of regulator or competitor actions could adversely affect the Group's ability to continue its offering to financial advisers and have a material adverse effect on the Group's revenues.

Reliance on key suppliers

Nucleus, like many other participants in the wrap platform market, operates a business model that outsources aspects of operational or technology services, and enters into agreements with product providers to deliver components of the Nucleus wrap. As a result we have a reliance on our suppliers and performance issues affecting these products and services may impact on our business performance. Our key suppliers are:

- Genpact to whom we outsource platform administration services. In the delivery of its services, Genpact outsources platform technology to Bravura Solutions Limited;
- Scottish Friendly Assurance Society and Sanlam Life & Pensions UK Limited, who provide the onshore bonds;
- RL360, who provide the offshore bond;
- Royal Bank of Scotland plc who provide operational, client money and corporate banking facilities;
- Bank of Scotland plc and Lloyds Bank plc who provide client money facilities.

Competition risk

There can be no assurance that other companies will not compete more aggressively than at present with Nucleus. This may be in terms of winning new clients, attracting advisers and sourcing acquisition targets. Competition may come from companies that have greater development, marketing, financial and personnel resources than the Group, or firms for whom the platform offering can be subsidised from richer margins on cross-sale of its own products. Competitors may also develop products and services that are more effective or economically viable than those developed by Nucleus.

Access to capital

Nucleus is an unlisted private company limited by share capital. The provisions of the Company's shareholder agreement ordinarily restrict the ability of the Company to raise additional capital from its existing shareholders. However, where additional capital is required in order to meet its regulatory obligations there is specified flexibility in the shareholders' agreement.

The Group operates in a heavily regulated industry

Any change in regulations affecting the Company, or any other member of Nucleus, could have a material adverse effect on Nucleus' ability to carry on its activities, which in turn could have a material adverse effect on the Company and its returns to shareholders. There are a number of risks which arise from Nucleus' regulatory status and the most significant of these, are considered to be:

(i) Impact of a breach of FCA regulations

If the Company or any other member of Nucleus, and/or any of its key suppliers, were to commit a serious breach of any of the regulations that apply to it, there could be both regulatory and cost consequences (including, without limitation, fines and/or the cost of being required to take remedial action). These could adversely impact on the Group's business, operations and financial condition.

(ii) Requirement to hold sufficient regulatory capital

As a firm regulated by the FCA, Nucleus is required to have available to it, and to maintain, a sufficient level of capital as determined by the requirements applicable to a Limited License Investment Firm and a non-insured Sipp Operator.

(iii) New and forthcoming regulation

The FCA has continued to focus on how the RDR changes have been implemented and has used a number of themed reviews to sample check the industry's compliance with specific issues such as management of conflicts of interest and inducements, advisers' use of platforms and the handling of customer complaints. Furthermore, the FCA's Financial Advice Market Review ("FAMR") report looks at how to resolve concerns about the affordability and accessibility of financial advice and guidance.

The regulatory stage at European level has also brought into force regulations that will affect the operations of the Group. These include the provisions of the Capital Requirements Directive IV ("CRD IV") such as the Packaged Retail and Insurance-based Investment Products Regulation (PRIIPs) and the revised Markets in Financial Instruments Directive (MiFID II).The implementation of MiFID II has been delayed by one year, however, it is essential our preparatory work continues to be a focus because of the breadth and scale of the required changes.

Strategic and Directors' reports

The fourth Anti-Money Laundering Directive aims to strengthen the anti-money laundering regime across the EU. The main proposed changes are in relation to the definition of "beneficial owner"; the central registers of beneficial owners; the treatment of politically exposed persons ("PEPs"); risk assessments; due diligence; and cash transactions.

The implementation of the CRD IV and its supporting Regulation in January 2014 has seen the introduction of more detailed financial reporting and a new section of the FCA's handbook, the IFPRU sourcebook, which we expect will see the Group become a "significant IFPRU firm" in 2016. This will require us to undertake further stress testing of the Group's business plan and the effect on our resources.

The FCA introduced new CASS rules in 2014, with their implementation over three phases in July and December 2014 and June 2015. These and the pension legislative changes that have resulted in new FCA rules around communication with clients regarding their retirement income options, may impact on Group and its operations.

Results and key performance indicators

The profit after tax for the financial year was £14,079 (2014: £279,854). This was in line with Directors' expectations. The key performance indicators the Board uses to assess financial performance are:

	2015	2014
	£	£
Assets under management	9,068,788,558	7,807,689,863
Turnover	28,956,914	23,604,254
Operating profit	51,932	290,770
Profit after tax	14,079	279,854
Net assets	3,510,380	3,541,015

The Directors also monitor the regulatory capital position of the Company and Group on an ongoing basis.

Directors' report

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2015.

Future Developments

Details on future developments are included in the Strategic report.

Risk management framework

The Board's objective with regard to risk management is to deliver the Nucleus strategy and business plan supported by a robust, scalable and enterprise-wide governance, risk management and control framework. Consequently, in assigning risk management responsibilities, Nucleus operates an approach to risk management that is commonly referred to as the "three lines of defence" model.

The activities within each of the three lines are:

- First line of defence

Business lines have responsibility for managing their identified risks through a sound set of processes and controls.

- Second line of defence

The risk, compliance and finance functions constitute the major part of the second line of defence and are predominantly oversight functions.

The role of the second line functions is to develop and maintain the risk management policies and framework, review the effectiveness of the operation of the risk management practices by operational management. It also provides support and advice to the business risk owners in reporting risk related information within the Group, including management information on risk matters to the Audit and Risk Committee and the Board.

- Third line of defence

Nucleus engages Grant Thornton as an appointed internal audit function to serve as its third line of defence and to obtain independent assurance on the effectiveness of its control environment. Internal audit, through a risk based approach, provides assurance to the Audit and Risk Committee and the Board on how effectively risks are assessed and managed. Findings arising from these audit processes are reported to both the Audit and Risk Committee and the Board.

The Company is required to prepare a Pillar 3 statement. This includes additional information on the firm's capital, risk exposures and risk assessment processes. The Pillar 3 statement is available on the Group's website – www.nucleusfinancial.com or available from the Company secretary on request.

Strategic and Directors' reports

Financial risk management

Included in the Strategic report above are details of the principal risks and uncertainties to which the Company and Group are exposed. Outlined below are the specific principal financial risks and uncertainties faced by the Company.

Exposure to securities markets

Nucleus' income is derived from a tiered basis point fee that is applied to client assets under management. This income is exposed to the value of the underlying investment assets which can be affected by market movements. Although some of this risk is mitigated within aspects of the cost base, the Group is ultimately exposed to volatility in its financial results because of market movements beyond its control.

Liquidity risk

Liquidity risk is the risk that a company will fail or incur losses because it is unable to secure the necessary funds or is forced to obtain funds at higher interest rates than under normal conditions due to a mismatch between the maturity profile of its assets and its liabilities. The Group manages its liquidity risk through an ongoing evaluation of its working capital requirements against available cash balances and credit facilities.

Operational risk

The nature of the activities performed by the Group is such that a degree of operational risk is unavoidable in relation to losses that could be incurred by the Group or by others as a consequence of errors or omissions for which the Group is ultimately liable. The Group operates a risk framework through which it is able to systematically identify actual and potential risk events and seeks to put in place appropriate policies and controls as safeguards. Additional information can be found in our Pillar 3 disclosures.

Credit risk

The Group holds the surplus of corporate cash balances over and above its working capital requirements on deposit with its operational banking services provider, Royal Bank of Scotland plc. The Group is therefore exposed to counterparty credit risk and a failure of the bank would impact the Group's resources and its ability to meet its solvency and liquidity requirements.

Going concern

With regard to the assessment of the Company's ability to continue as a going concern, the Directors evaluate this taking into account:

- the latest business plan projections of the Company, stressed for significant events that would have a material impact on the Company's profitability, liquidity, solvency and its regulatory capital position;
- actual performance to date;
- access to capital to meet operational and regulatory requirements;
- known risks and uncertainties in relation to known and prospective regulatory developments and possible interventions;
- known risks and uncertainties with consideration of the impact of these on the Company's solvency and liquidity position;
- known and expected changes in the regulatory environment impacting on platform operators; and
- the results of the Company's ICAAP which is formally reviewed annually and approved by the Directors.

The Directors also consider their approach to assessing the Company's ability to continue as a going concern with reference to guidance from the Financial Reporting Council and the recommendations from the Sharman Inquiry of 2012 which sought to identify lessons for companies and auditors addressing going concern and liquidity risks following the credit crisis.

Having regard to these matters, the Directors believe it is appropriate to prepare the financial statements on a going concern basis.

Strategic and Directors' reports

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements unless otherwise stated were:

A C D Bloch

P R Bradshaw (Chairman)

D R Ferguson

S J Geard

J P Gibson

J A A Samuels

M D Seddon

S J Tucker

L van der Walt (resigned 20 January 2016)

Company secretary

N C Megaw

Provision of information to independent auditors

Each of the persons who are Directors at the time when these Strategic and Directors' Reports are approved has confirmed that:

- so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware, and
- they have taken all the steps that ought to have been taken as a Director in order to be aware of any information needed by the Company's auditors in connection with preparing its report and to establish that the Company's auditors are aware of that information.

Statement of directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for the maintenance and integrity of the Company's corporate website. The Directors understand that uncertainty regarding legal requirements is compounded as information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements.

The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

This report was approved by the Board on 22 April 2016 and signed on its behalf.

S J Geard
Director

Independent auditors' report

Independent auditors' report to the members of Nucleus Financial Services Limited

Report on the financial statements

Our opinion

In our opinion, Nucleus Financial Services Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Financial Statements (the "Annual Report"), comprise:

- the Balance Sheet as at 31 December 2015;
- the Profit and Loss Account for the year then ended;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume 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 our prior consent in writing.

Independent auditors' report

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Catrin Thomas (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
22 April 2016

Profit and loss account

	Note	2015 £	2014 £
Turnover	4	28,956,914	23,604,254
Cost of sales		(23,110,074)	(18,918,530)
Gross profit		5,846,840	4,685,724
Administrative expenses		(6,647,434)	(4,394,954)
Other operating income	5	852,526	-
Operating profit	6	51,932	290,770
Interest receivable and similar income		1,046	6,375
Interest payable and similar charges	9	(27,580)	(10,728)
Profit on ordinary activities before taxation		25,398	286,417
Tax charge on profit on ordinary activities	10	(11,319)	(6,563)
Profit for the financial year		14,079	279,854

All amounts relate to continuing operations.

All profit for the financial year is attributable to owners of the parent.

The notes on pages 15 to 26 form part of these financial statements.

Statement of comprehensive income

	Note	2015 £	2014 £
Profit for the financial year		14,079	279,854
Unrealised (loss)/gain on investments	13	(44,714)	87,628
Total comprehensive (loss)/income for the financial year		(30,635)	367,482

All total comprehensive income is attributable to owners of the parent.

The notes on pages 15 to 26 form part of these financial statements.

Balance sheet as at 31 December 2015

	Note	2015 £	2015 £	2014 £	2014 £
Fixed assets					
Investments	11		1,001		1,001
Current assets					
Investments	13	72,670		117,384	
Debtors	14	6,865,259		5,736,909	
Cash at bank and in hand		3,987,680		2,918,603	
		10,925,609		8,772,896	
Creditors: amounts falling due within one year	15	(7,366,230)		(5,182,882)	
Net current assets			3,559,379		3,590,014
Total assets less current liabilities			3,560,380		3,591,015
Creditors: amounts falling due after more than one year	16		(50,000)		(50,000)
Net assets			3,510,380		3,541,015
Capital and reserves					
Called up share capital	18		2,595,000		2,595,000
Profit and loss account			872,466		858,387
Fair value reserve			42,914		87,628
Total shareholders' funds			3,510,380		3,541,015

The notes on pages 15 to 26 form part of these financial statements.

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 22 April 2016.

S J Geard
Director

Statement of changes in equity

	Called up share capital	Profit and loss account	Fair value reserve	Total
	£	£	£	£
Balance as at 1 January 2014	2,595,000	578,533	-	3,173,533
Profit for the financial year	-	279,854	-	279,854
Unrealised gain on investments	-	-	87,628	87,628
Balance as at 31 December 2014	2,595,000	858,387	87,628	3,541,015
Balance as at 1 January 2015	2,595,000	858,387	87,628	3,541,015
Profit for the financial year	-	14,079	-	14,079
Unrealised loss on investments	-	-	(44,714)	(44,714)
Balance as at 31 December 2015	2,595,000	872,466	42,914	3,510,380

All profit and comprehensive income is attributable to owners of the parent.

The notes on pages 15 to 26 form part of these financial statements.

Notes to the financial statements

1. Statement of compliance

The financial statements of Nucleus Financial Services Limited ("the Company") have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006, under the provision of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

2. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The Company has adopted FRS 102 in these financial statements and details of the transition to FRS 102 are disclosed in note 22.

2.1 Basis of preparation of financial statements

These financial statements are prepared on a going concern basis, under the historical cost convention as modified by the recognition of certain financial assets measured at fair value. The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

2.2 Going concern

After reviewing the Company's forecasts and projections, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least 12 months from the date of signing of the financial statements. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

2.3 Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions. The Company has taken advantage of the following disclosure exemptions as detailed in FRS 102 1.12.

- the requirement to prepare a statement of cash flows
- disclosure of key management personnel compensation

2.4 Foreign currency

The Company's functional and presentation currency is the Pound Sterling and no rounding is used. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of transactions are recognised in the profit and loss account.

2.5 Turnover

Turnover comprises fees earned by the Company from the provision of a wrap platform service to UK financial advisers and their clients. Fees are recognised net of Value Added Tax, rebates and discounts and are recorded in the year to which they relate and can be reliably measured. Fees are calculated on a basis point rate applied on a daily basis to assets under administration on the platform.

2.6 Interest income

Interest received is recognised in the profit and loss account as it is earned.

2.7 Expense recognition

Expenditure incurred by the Company is recognised in the year to which it relates. Any expenses relating to a year that have not yet been invoiced are accrued and expenses paid but which relate to future years are classified as prepayments within the balance sheet.

2.8 Finance costs

Interest expense is recognised in the profit and loss account in the year to which it relates.

2.9 Defined contribution pension scheme

Nucleus Financial Group Limited operates a defined contribution pension scheme. The pension charge represents the amounts payable by the Company to the scheme in respect of the year and contributions are recognised as an expense when they are due. Once the contributions have been paid, the Company has no further payment obligations. The assets of the scheme are held separately from those of Nucleus Financial Group Limited in an independently administered fund.

2.10 Fixed asset investments

Investments in subsidiaries are valued at cost less any provision for impairment. At each reporting date, the Directors assess whether there is any indication that an asset may be impaired. If any such indication exists, the Directors will estimate the recoverable amount of the asset. There was no impairment during the year.

2.11 Current asset investments

The Company has investments held by it on the platform for operational purposes. These are recognised and measured at fair value with gains and losses recognised immediately in the statement of comprehensive income.

Notes to the financial statements

2. Accounting policies continued

2.12 Bad and doubtful debt provision

Full provision is made for debts that are considered to be irrecoverable or unlikely to be recovered within 12 months of the balance sheet date.

2.13 Deferred tax

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse, based on tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are not discounted.

3. Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Bad debt provision for Offshore Bond Withholding Tax reclaim

The RL360 offshore bond wrapper was launched on the Nucleus platform in 2008. This product is registered in the Isle of Man and, as such, clients invested in this product are entitled to receive interest distributions gross of tax from UK funds. However between 2008 and 2013 some distributions were paid by fund managers net of UK income tax. Nucleus has applied the tax incorrectly withheld at source to clients' accounts and is currently liaising with fund managers to process reclaims of this tax. There is a possibility that some fund managers will not process the reclaim of tax and therefore the debtor due has been impaired to the extent that these reclaims have not been refunded or agreed to be refunded as at the date of signing of these financial statements.

Impairment of debtors

The Company makes an estimate of the recoverable value of debtors. When assessing impairment of debtors, management considers factors including the ageing profile of debtors and historical experience. Included within other debtors is a balance of cash prefunded on the wrap platform as required by our terms and conditions. Where this prefunding has been outstanding for more than six months, it has been fully provided for.

4. Turnover

All turnover is attributable to the principal activity of the Company and arose within the United Kingdom (2014: all United Kingdom).

5. Other operating income

Other operating income includes reimbursement costs which are non-recurring and relate to the firm's costs incurred in the course of our contract with a third-party operational service provider.

Notes to the financial statements

6. Operating profit

Operating profit is stated after charging:

	2015	2014
	£	£
Movement in bad debt provision	12,737	(23,161)
Gain on foreign exchange	(176)	(54)
Audit fees payable to the Company's auditor:		
- for the audit of the Company's financial statements	30,580	26,000
- in respect of the client assets audit	103,191	53,573
- in respect of all other services	112,800	54,000

Notes to the financial statements

7. Staff costs

The staff who manage the affairs of the Company are employed by Nucleus Financial Group Limited.

Staff costs, including Directors' remuneration, recharged to the Company were as follows:

	2015	2014
	£	£
Wages and salaries	2,975,951	2,266,332
Social security costs	333,179	232,753
Pension costs	240,047	183,185
	3,549,177	2,682,270

The equivalent average monthly number of employees who manage the affairs of the Company, including the Directors, during the year was as follows:

	2015	2014
	Number	Number
Wrap administration services	69	53

Notes to the financial statements

8. Directors' remuneration

	2015	2014
	£	£
Aggregated emoluments	301,979	447,256
Company pension contributions to defined contribution pension schemes	16,646	22,832

The Directors are employed by the holding company Nucleus Financial Group Limited.

During the year retirement benefits were accruing to 2 Directors (2014: 3) in respect of defined contribution pension schemes.

The highest paid Director received remuneration of £137,152 (2014: £163,564).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £9,255 (2014: £8,986).

9. Interest payable and similar charges

	2015	2014
	£	£
Interest payable on bank overdrafts	26,080	10,728
Interest payable on preference shares	1,500	-
	27,580	10,728

Notes to the financial statements

10. Tax on profit on ordinary activities

	2015	2014
	£	£
Analysis of tax charge in the year:		
Current tax		
UK corporation tax at 20% (2014: 20%)	3,129	-
Deferred tax		
Origination and reversal of timing differences	6,768	6,563
Effect of tax rate change on opening balance	1,422	-
Total deferred tax charge	8,190	6,563
Tax charge on profit on ordinary activities	11,319	6,563

	2015	2014
	£	£
Provision for deferred tax:		
Short term timing differences	(20,247)	(28,437)

	2015	2014
	£	£
Movement in provision:		
Provision at start of year	(28,437)	(35,000)
Deferred tax charge in the profit and loss account for the year	8,190	6,563
Provision at end of year	(20,247)	(28,437)

Notes to the financial statements

10. Tax on profit on ordinary activities (continued)

	2015	2014
	£	£
Factors affecting tax charge for the year:		
Profit on ordinary activities before tax	25,398	286,417
Profit on ordinary activities multiplied by small companies' rate of corporation tax in the UK of 20% (2014: 20%)	5,079	57,283
Effects of:		
Expenses not deductible for tax purposes	5,174	278
Group relief claimed	-	(50,998)
Adjust closing deferred tax to average rate of 20%	1,066	-
Tax charge for the year	11,319	6,563

11. Fixed asset investments

	Shares in Group undertakings
	£
Cost	
At 1 January 2015	1,001
Additions	-
At 31 December 2015	1,001

Details of the subsidiary undertakings are shown in note 12.

The Directors believe that the carrying values of the investments are supported by underlying net assets.

Notes to the financial statements

12. Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Company name	Percentage Shareholding	Nature of business
NFS (Nominees) Limited	100% ordinary shares	Vehicle to ensure appropriate registration of title of client assets for the purposes of the client asset rules as defined by the Financial Conduct Authority
Nucleus Trustee Company Limited	100% ordinary shares	To act as trustee of the self-invested personal pension operated by Nucleus Financial Services Limited

NFS (Nominees) Limited is incorporated in England and Wales. Nucleus Trustee Company Limited is incorporated in Scotland.

NFS has taken advantage of the exemption under section 400 of the Companies Act 2006 whereby an intermediate parent Company is not required to prepare group financial statements.

13. Current asset investments

	Other investments
	£
Valuation	
At 1 January 2015	117,384
Unrealised loss on investments	(44,714)
At 31 December 2015	72,670

Notes to the financial statements

14. Debtors

	2015	2014
	£	£
Other debtors	1,214,389	1,185,667
Less: bad debt provision	(164,576)	(151,839)
	1,049,813	1,033,828
Amounts due from HMRC	2,534,803	2,116,306
Prepayments and accrued income	3,260,396	2,558,338
Deferred tax asset	20,247	28,437
	6,865,259	5,736,909

Included within other debtors is a balance of cash prefunded on the wrap platform as required by our client terms and conditions. This fluctuates due to timing.

Bad debt provision for Offshore Bond Withholding Tax reclaim

The RL360 offshore bond wrapper was launched on the Nucleus platform in 2008. This product is registered in the Isle of Man and, as such, clients invested in this product are entitled to receive interest distributions gross of tax from UK funds. However between 2008 and 2013 some distributions were paid by fund managers net of UK income tax. Nucleus has applied the tax incorrectly withheld at source to clients' accounts and is currently liaising with fund managers to process reclaims of this tax. There is a possibility that some fund managers will not process the reclaim of tax and therefore the debtor due has been impaired to the extent that these reclaims have not been refunded or agreed to be refunded as at the date of signing of these financial statements.

Notes to the financial statements

15. Creditors

Amounts falling due within one year:

	2015	2014
	£	£
Bank overdraft	-	1,133,939
Trade creditors	2,787,475	1,784,724
Amounts owed to Group undertakings	1,679,447	1,012,014
Amounts due to HMRC	494,704	213,682
Taxation and social security	738	-
Corporation tax	3,129	-
Sundry creditors	678,068	32,134
Accruals	1,722,669	1,006,389
	7,366,230	5,182,882

Ammounts owed to Group undertakings are interest free and have agreed repayment terms.

16. Creditors

Amounts falling due after more than one year:

	2015	2014
	£	£
50,000 (2014: 50,000) Preference shares of £1 each	50,000	50,000

Preference share dividends due in the year are included within amounts owed to Group undertakings (note 15).

The holder of preference shares, Nucleus Financial Group Limited, has the right to receive a non cumulative fixed preferential dividend, calculated at the rate of 3% per annum on the amounts paid up or treated as paid up on such shares.

At the discretion of the Directors, preference shares can be redeemed at their nominal value, or the nominal value treated as paid up on the preference shares, not less than five years and one day after the preference shares were first allotted.

On winding up of the Company, preference shares will rank ahead of all other shares in sharing the Company's assets. The holder of preference shares will be entitled to the amount paid up on the preference share and the amount of any dividend which is due for payment on or after the date the winding up commenced.

The holder of the preference shares is entitled to receive notice of general meetings, and to attend, speak and vote at general meetings in relation to proposed resolutions which affect the rights of preference shareholders.

Notes to the financial statements

17. Contingent liabilities

During the current and previous year, the Company remediated clients affected by errors following its system migration in June 2014. The net cost to the Company of these errors was not material, individually or in aggregate.

At the end of the year, a small number of scenarios requiring remediation remained and the Company is in the process of addressing these. Although the Company does not expect there to be any net liability, at this point in time it is not possible to quantify the financial impact to the Company or any amounts due from other parties and, as a result, the Company has not made any provision in its accounts.

18. Called up share capital

	2015	2014
	£	£
Allotted and fully paid		
2,595,000 (2014: 2,595,000) Ordinary shares of £1 each	2,595,000	2,595,000

There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

19. Reserves

Called up share capital – Represents the nominal value of shares that have been issued.

Profit and loss account – Includes all current and prior year retained profits and losses.

Fair value reserve – Investments held on the platform for operational purposes are recognised and measured at fair value with gains and losses recognised in the fair value reserve.

20. Related party transactions

As a 100% subsidiary of Nucleus Financial Group Limited, the Company is exempt from disclosing transactions with entities that are part of the Group, in accordance with the requirements of Financial Reporting Standard 102 paragraph 33.1A

Notes to the financial statements

21. Ultimate parent undertaking and controlling party

Nucleus Financial Services Limited is a Company incorporated in England and Wales. The immediate parent undertaking is Nucleus Financial Group Limited, a Company incorporated in England and Wales.

The key shareholders of Nucleus Financial Group Limited are Sanlam UK Limited, a Company incorporated in England and Wales and Nucleus IFA Company Limited, a Company incorporated in Scotland. There is no one controlling party.

Nucleus Financial Group Limited is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements at 31 December 2015. The consolidated financial statements of Nucleus Financial Group Limited can be obtained from Companies House or the Company Secretary at 22 Thistle Street Lane North West, Edinburgh, EH2 1EA or the Group's website www.nucleusfinancial.com

22. Transition to FRS 102

This is the first year that the Company has presented its results under FRS 102. The last financial statements under UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2014. There have been no changes to total equity as at 1 January 2014, 31 December 2014 or profit for the financial year ended 31 December 2014 as previously reported.

23. Events after the reporting period

On 10 March 2016, the Company agreed an overdraft facility of £5,000,000 with The Royal Bank of Scotland plc for working capital purposes in support of the Company's discretionary commitment to prefund tax relief on eligible pension contributions. Interest is charged on this facility at 3% plus base rate up to an overdrawn amount of £5,000,000 and 5% plus base rate on any amount over £5,000,000. The overdraft is secured by a fixed and floating charge over all the Company's assets.

Notes

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