Nucleus Financial Group Limited

Annual report and financial statements

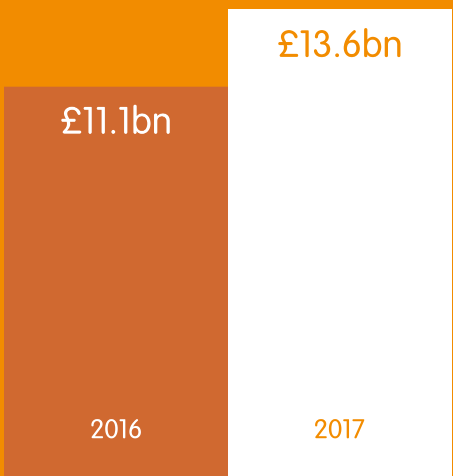
for the year ended
31 December 2017

Company registration number: 05522098

2017 highlights

Assets under administration

22% increase



53
new firms

800+
adviser firms

Net inflows

72% increase

Revenue

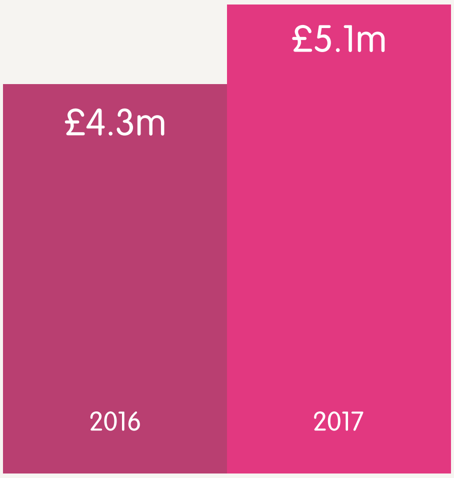
21% increase

15.66m
trading transactions

88,244
clients on the platform

Operating profit

19% increase



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Our values and purpose

Our values

Accountable
Taking full ownership for solving problems and delivering a solution. Being accountable is being aware, responsible and delivering.

Authentic
Having confidence to be ourselves and not shying away from candid conversations. Being authentic is being respectful, honest and open.

Energetic
Driving our business forward and making a difference for our customers. Being energetic is being proactive, innovative and tenacious.

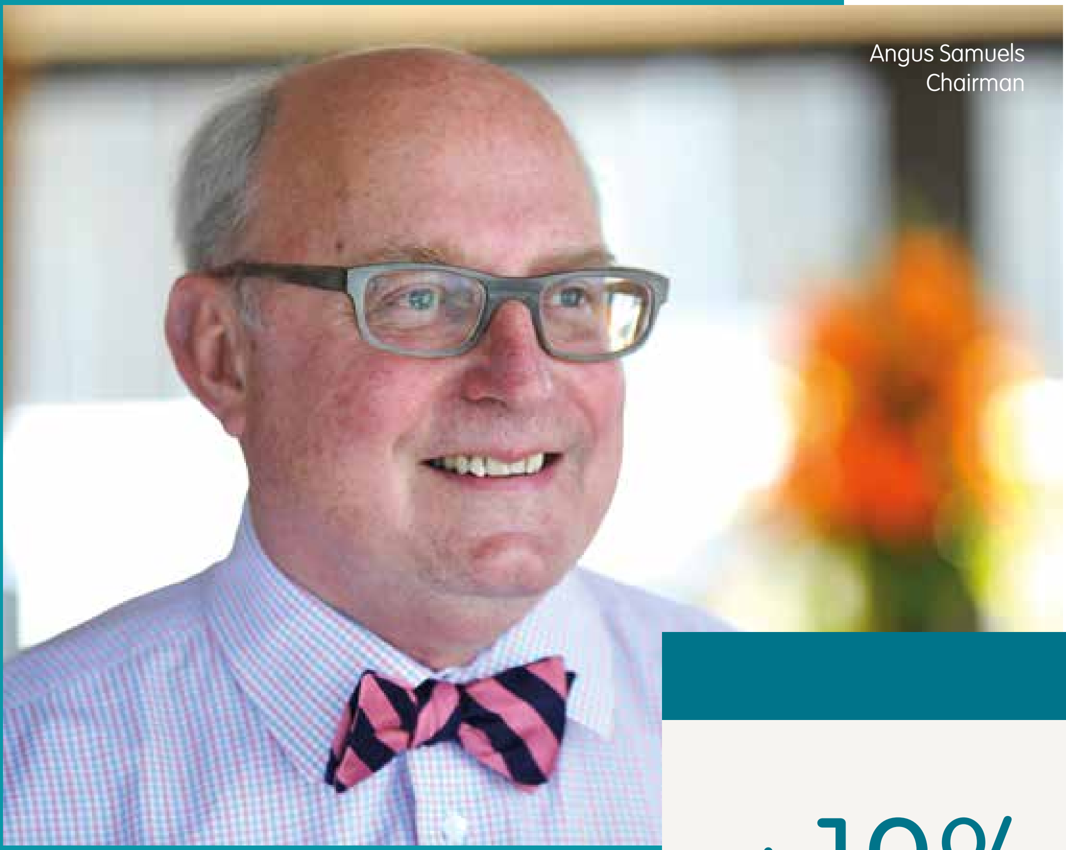
Inspiring
Pushing the boundaries and generating better ways of doing things. Being inspiring is being engaging, excellent and challenging.

Our purpose

To transform financial services and create better outcomes for clients and their advisers

Strategic report

Chairman's statement



Angus Samuels
Chairman

2017 was the start of Nucleus' second decade in business and a significant one for many reasons. As I noted in last year's report, we started the year with the tragic loss of our founding chairman, Paul Bradshaw, noting at the time that the most fitting way to mark his passing was to press on with the execution of the plans he endorsed.

+19%

Increase in operating profit

We took the opportunity to share the financial success of recent years with our users to

reduce prices for clients with larger portfolios.

Financial performance

We have done just that, and 2017 has been our most successful to date from a financial perspective. The platform saw strong asset growth throughout the year with assets under administration increasing by 22% to £13.6bn against a FTSE All-Share growth of 9% and a sector increase of 20%*, fuelled in part by pension freedoms. Net inflows increased by 72% to £1.7bn outperforming a sector increase of 51%* and, as a result, revenue increased by 21% to just over £40m.

We took the opportunity during the year to share the financial success of recent years with our users and to use our growing scale to reduce prices for clients with larger portfolios. As a consequence, revenue margin fell slightly from 33.5bps to 32.6bps.

Despite this planned reduction, operating profit grew 19% from £4.3m in 2016 to £5.1m in 2017.

Dividend

The strength of our performance along with careful cash management has allowed the payment of an historic first interim dividend of £4.3m in August 2017, representing a payment of £2.43 per share. The interim dividend included a mix of ordinary profit-based dividend and a one-off distribution of historical surplus reserves.

It is our expectation that the board will resolve to pay a further interim dividend in the second quarter of the year.

Outlook

The retail advised platform market has a very positive outlook and is predicted to grow by a compound annual growth rate of 22% over the next five years to over £900bn**. At the same time, the market is experiencing an unprecedented change with a number of competitor platforms going through a fundamental re-platforming of their core technology putting over £260bn of their client money and assets at risk of disturbance over the course of the next 2-3 years. We were the first platform to embark on such an exercise and in 2017 made a further substantial upgrade to our core technology and underlying software. This puts us in a very good position to capitalise on the opportunities that will undoubtedly present themselves as competitors grapple with the complexity of large-scale technology change.

We do, of course, remain very aware of our responsibilities to continually hone and sharpen our standards of governance and controls, in what is an ever demanding regulatory environment. Much of 2017 was geared towards compliance with the second Markets in Financial Instruments Directive (Mifid II), and we are currently engaged with implementing the General Data Protection Regulation (GDPR) and await the outcome of the regulator's ongoing platform market study with considerable interest.

People

Regarding board matters, I would like to welcome John Levin, co-founder of insurance technology platform, Certua, who joined the board as an independent non-executive director in the first half of 2017 and brings a wealth of experience in the fintech sector.

Finally, I would like to thank the entire Nucleus team, the senior management and my board colleagues for their help and support throughout my first year as chairman. It has been a pleasure to help steer the business through 2017 and I am confident that Nucleus is in very good shape to deliver on its future plans.

Angus Samuels
Chairman

*Fundscape Platform report Q4 2017, retail advised market only

**Fundscape Platform report Q3 2017, retail advised projected market growth on a realistic basis

Strategic report

Chief executive's report

2017 was another year of strong growth in assets under administration, revenue and profit for Nucleus. With sustainable profitability and a solid balance sheet, we can continue to invest further in people, product, service, technology and resilience while managing our liquidity and solvency positions responsibly. The business is better positioned than ever to take advantage of the significant growth opportunities in the platform sector.

+22%

Assets under administration increased by 22% to £13.6bn against a FTSE All-Share growth of 9%

We were the first platform to fundamentally re-platform our technology in 2014 and true to our commitment,

2017 saw a further upgrade of our core software.

David Ferguson
Founder and chief executive

Annual conference 2017

Strategic development

We aim to create the most efficient and scalable end-to-end customer experience, delivered online through our investments in next generation technology and offline with the highest quality customer service.

We were the first platform to fundamentally re-platform our technology in 2014 and true to our commitment, 2017 saw a further upgrade of our core software.

We have now invested heavily in large-scale infrastructure initiatives over the last three years to lay the foundations for the next phase of our growth. Moving our data centres in 2017 was one of the final pieces of this jigsaw and is fundamental to the security of adviser and client data. We believe data protection and cyber security are emerging as major themes for advisers and that these themes will be particularly apparent in light of the new GDPR regulations due to be implemented in May.

As a regulated business, complying with legislative change is fundamental and a good part of our attention was focused on implementing the industry-wide requirements of Mifid II. A broad-reaching directive, Mifid II required changes to product governance, client reporting and transaction reporting, the majority of which have now been delivered.

Improving user experience and client engagement was key to our developments this year and we further extended our reporting capabilities to include improved capital gains functionality.

Service levels continued to improve throughout the year and this was highlighted in the CoreData award for 'Best medium-sized platform', which we were awarded for the sixth year in succession. We were particularly pleased to be awarded the UK Platform of the Year award for the second consecutive year, one of only two companies to ever achieve this.

Adviser engagement has been strong throughout the year and the bulk of our marketing activity has focused on the provision of practice management support for adviser businesses through our innovative and now widely recognised Illuminate programme.

Sector outlook

Our immediate market is undergoing significant upheaval as firms re-platform away from obsolete technology, failing platforms are merged or withdrawn from the market and new entrants emerge. Over £260bn of client money and assets are currently at risk of disturbance at an industry cost of over £1bn, which will ultimately be suffered by shareholders or recouped through client charges or cross-selling. This disturbance creates significant opportunity and we are well positioned to capitalise on this change but acknowledge that any opportunities created by wide-scale re-platforming will be time-bound.

The regulator concluded a market study into asset management during the year and while short on specific actions, it is widely expected that further consultation will lead to reforms that will drive retail fund management toward institutional pricing and accountability. At the same time, an unintended consequence of the Mifid II legislation has seen asset management pricing come into sharp focus with disclosed fees on the platform rising on average 25% between 31 December 2017 and 3 January 2018. While these fees were always there and were always being charged, they have not been disclosed before now. Transparency within asset management has well and truly arrived.

The asset management review became the catalyst for a separate Financial Conduct Authority (FCA) platform market study which kicked off during the year and we expect the output to focus on vertical integration, cross-subsidy and the inherent lack of transparency within. We believe that regulatory pressure for greater transparency will combine with depressed long-term returns to intensify the focus on fees and value for money across the value chain. Given the apparent regulatory focus we do not anticipate a negative consequence of the study.

Having re-priced mid-way through last year, we believe we are in a healthy competitive position and are confident that short-term pressure on our platform price has abated while asset management firms will face increased scrutiny and pressure on both price and margins.

The advised platform market continues to grow strongly and is now expected to reach £900bn* over the next five years. Our audience continues to thrive and we expect this to continue despite medium-term challenges to fee levels. Advisers will be required to become more efficient in delivering financial planning and embrace digital interfaces as a key part of their future business models and we aim to help facilitate this transition as much as we can.

The year ahead

Our founding purpose 'to transform financial services and create better outcomes for clients and their advisers' remains legitimate and a great place to start for the journey to come. The strength of our relationship with advisers has long been a key strategic advantage and our strategy is simple – to have a compelling value proposition for customers, an attractive profit/value proposition for shareholders and a motivating people proposition to inspire high-quality execution.

Having spent much of the last few years getting the right infrastructure in place to ensure future scalability, in the next two years we plan to introduce greater innovation to our product. We have a number of initiatives planned with the first major project being the release of a new client portal which is expected to be available in beta form in the second quarter of 2018.

Overall, our plans are guided by the following five principles:

- collaborate to generate greater alignment of ourselves, our users and our customers;
- tighten our focus on higher quality, aligned advisers and wealth managers;
- deepen automation to improve operational performance, control and user experience;
- promote an inclusive, performance culture by hiring quality people and developing them; and
- maintain the highest standards of conduct, supported by excellent risk management and governance.

Annual conference 2017

Kirsty Lynagh
Chief people officer

*Fundscape Platform report Q3 2017, retail advised projected market growth on a realistic basis

People

Our people are our business and I would like to take the opportunity to thank every one of them for helping us to achieve our best financial year ever. A core component of our people strategy is to ensure we're nurturing an inclusive and inspiring working environment and towards the end of the year we completed our move to a new office in Greenside, central Edinburgh, and in doing so have created a workplace which promotes collaboration and from which the business and our people can flourish.

Inclusion and diversity has been a central theme throughout the year and I'm proud to say we signed up to the Women in Finance initiative and the Tech Talent Charter as a commitment to improving the gender balance in the business.

We recognise that while we have a good gender balance across our team with a 55/45 male/female split, we have work to do to grow the number of women in leadership roles. As at 31 December 2017, 18% of our senior leadership positions were held by women and we have pledged to improve this by setting a target of no less than 40% female representation at senior leadership level by the end of 2020.

This is absolutely not a tick-box exercise, it's a commercial imperative. There is a very clear link between diversity, inclusion and business performance. Endless studies have confirmed that more diverse teams outperform less diverse ones. However, we still have work to do and believe by starting with a specific focus on gender will be a catalyst for other under-represented groups.

Leadership

We re-structured the executive team mid-year to ensure we had the right focus for the future.

Stuart Geard moved to the role of chief financial officer, Doug Heron moved to chief operating officer and Barry Neilson took on responsibility for the client relations team as an extension to his current sales and communications responsibilities to become chief customer officer. Andrew Smith continued in his role as chief technology officer and the executive team was expanded to include Kirsty Lynagh, chief people officer, and Nicola Megaw, chief legal officer, both of whom have very quickly brought new insight and fresh challenge to our executive meetings.

Finally, I would like to thank our users for their continued support and whose ongoing engagement, collaboration and challenge ensure we remain focused only on the things that really matter.

David Ferguson
Founder and chief executive

"The advised platform market continues to grow strongly and is now expected to reach £900bn over the next five years."

About Nucleus

Nucleus is an online wrap platform, launched in 2006 with a group of seven financial adviser firms who set out to create a platform with a difference. Together we created a new model, putting the adviser and client at the heart of the process, focusing on a client-aligned approach rather than a product-led one, to develop a platform that was committed to transparency and banishing complexity.

Barry Neilson
Chief customer officer

Our mission has always been to change the industry for the better. Our model puts advisers in control, users are free to manage their client's portfolio to meet their personal objectives. We continue to campaign rigorously for flexibility within the industry, more transparent charging and less product complexity.

Our revenue model is simple and 100% of our revenue is generated from the provision of wrap platform services. Fees are calculated based on a basis point rate applied daily to assets under administration.

Nucleus Financial Group Limited ("the company") is the parent company of a group of companies comprising Nucleus Financial Group Limited and its subsidiaries, Nucleus Financial Services Limited (NFS), Nucleus IFA Services Limited (NIFAS) and Nucleus IMX Limited (IMX) ("the group" or "Nucleus").

The company's principal activity is that of a holding company. The group's principal activity is that of a wrap platform service provider.

NFS is authorised and regulated by the FCA and is classified as a Significant IFPRU limited licence investment firm. In addition, NFS has additional FCA and 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"). NFS 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").

Until the transfer of its trade and assets to NFS on 1 April 2017, NIFAS provided services encompassing sales, marketing and platform development services exclusively to NFS.

IMX was incorporated on 3 April 2017 and is currently dormant.

Strategic report

Chief financial officer's report

Stuart Geard
Chief financial officer

2017 was another very positive year for Nucleus from a financial perspective, with almost all headline and underlying financial metrics continuing to display positive trends including strong growth in assets under administration, gross inflows, net inflows, revenue and operating profit.

53

New advisory firms signed up to the platform in 2017

12,432

New clients onto the platform in 2017

£13.6bn

Assets under administration to close the year

Financial key performance indicators

	2017	2016	2015	2014	2013
Group	£'000	£'000	£'000	£'000	£'000
Assets under administration*	13,576,703	11,143,757	9,068,789	7,807,690	6,184,390
Gross inflows	2,607,759	1,854,830	1,977,783	1,944,335	1,705,835
Net inflows	1,668,237	970,263	1,229,625	1,441,099	1,265,499
Revenue**	40,365	33,281	28,957	23,604	18,765
Operating profit**	5,118	4,316	4,790	2,467	1,465
Profit for the financial year**	4,111	3,387	4,300	2,472	1,719
Dividend	4,813	nil	nil	nil	nil
Operating profit margin	12.7%	13.0%	16.5%	10.5%	7.8%

Revenue

Assets under administration continued to grow at encouraging levels, increasing by 22% over the year from £11.1bn to £13.6bn as a result of rising market levels and very healthy net inflows over the course of the year.

Gross inflows, which increased by 41% to £2.6bn, continued to benefit from increased investor confidence, the now well-established industry adoption of platforms, the success of our adviser audience, as well as specific industry themes, including the pension freedoms introduced in 2015 and transfers from defined benefit pension schemes. The increase in net inflows of 72%, from £1bn to £1.7bn (and representing a net/gross ratio of 64%), was even more encouraging, with the level of outflows from the platform remaining within expectations.

53 advisory firms (representing 200 additional advisers) signed up to the platform as new users in 2017, bringing the total number of registered users to over 2,300. Collectively they added 12,432 new clients in 2017, a 6% increase on the previous year, bringing the total number of clients to 88,244.

As a consequence of the increase in assets under administration, our revenue increased by 21% to £40.4m. Our revenue margin fell slightly from 33.5bp in 2016 to 32.6bp in 2017, reflecting the impact of the price reduction for larger portfolios that we were able to introduce with effect from July 2017.

Profit

The group produced an operating profit of £5.1m in 2017 (2016: £4.3m), an increase of 19%. This is reflective of the increase in gross profit arising from the increase in assets under administration and the corresponding ad valorem costs (relating to outsourced administration services, core software licences and tax wrapper fees); the continued investment in our people (inclusive of recruitment, salaries, benefits and incentivisation costs), which saw our total headcount increase from 176 to 193 over the year; incremental investment in our infrastructure; and continued development of our proposition (inclusive of an upgrade to a later version of our core software that was completed in October 2017; changes necessitated by regulatory requirements, most notably Mifid II; functionality enhancements; and service, operational and performance improvements). It also includes the cost of share-based payments (£0.8m), exploratory work in respect of a number of strategic initiatives, the requirement for additional office space throughout 2017 and the move to our new HQ at the end of the year.

Our profit margin (operating profit as a percentage of revenue) at 12.7% was marginally lower than in 2016 as a result of the continued investment in our people, proposition, service and infrastructure, but is in accordance with our longer-term strategy of building a scalable, resilient, secure and sustainable business.

**2017, 2016 and 2015 reported on an IFRS basis; 2014 reported under FRS102 and 2013 reported under UK GAAP

Tax

The group's effective tax rate of 19.8% is higher than the standard rate of UK corporation tax rate for 2017 (19.25%), in the main due to certain expenses not being deductible for tax purposes. Although the group is tax paying overall, the company has utilised some of its £1.6m historic tax losses, reducing its tax liability to nil. None of these historic tax losses are available for group relief and therefore we expect to continue to utilise these losses within the company, and for the first time have recognised a deferred tax asset in relation to these in 2017.

Earnings per share and dividend

As set out in the chairman's statement, we were very pleased to pay the group's first dividend of £4.3m to ordinary and B ordinary shareholders in August 2017, representing a dividend of £2.43 per share. This was followed by a dividend payment of £0.5m in December 2017 to holders of realised G ordinary shares, again representing a dividend of £2.43 per share.

It is anticipated that a further interim dividend will be resolved to be paid to shareholders in the second quarter of 2018.

Group financial position

	2017	2016	2015	2014	2013
	£'000	£'000	£'000	£'000	£'000
Consolidated net assets*	16,182	16,192	12,167	7,368	4,320
Capital adequacy ratio**	15.3%	20.6%	12.1%	9.7%	n/a
Capital adequacy ratio – underlying***	21.7%	27.5%	20.5%	16.4%	n/a
Excess capital – above 8% regulatory requirement	5,369	7,425	2,355	765	n/a

Financial position

Nucleus continues to retain a clean balance sheet, without any debt and with all free capital held in cash. Consistent with the previous year, the group does not capitalise any development expenditure and holds no goodwill or other intangible assets on its balance sheet.

The increasing profitability of the group has allowed it to build up sufficient capital and liquidity reserves so as to enable the inaugural dividend payment in 2017, maintain adequate surplus capital in excess of minimum regulatory requirements, and retain sufficient liquidity to support the ongoing operations of the business under both normal and stressed conditions. We also continue to pre-fund the HMRC tax relief on client pension contributions, and use our available resources for these purposes.

These funding requirements can increase significantly over the period leading up to the UK personal tax year-end of 5 April, but we monitor these positions closely and during 2017 did not require to utilise the external credit facilities made available for this purpose.

Stuart Geard
Chief financial officer

*2017, 2016 and 2015 reported on an IFRS basis; 2014 reported under FRS102 and 2013 reported under UK GAAP
**2013 not reported under CRD IV
*** Includes current year profits

New offices

During the year we entered into a ten-year lease, and invested in our new Edinburgh headquarters, which is now able to accommodate all of our people in a single location and in a modern, collaborative working environment.

Strategic report

Principal risks and uncertainties

The following principal risks relate to the group's business and the wider 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.

The group operates a risk framework through which it can systematically identify actual and potential risk events and seeks to put in place appropriate policies and controls as safeguards. Our key risk categories as set out in our risk taxonomy are summarised below and are managed within the risk appetites set by the board on an annual basis. Additional information can be found in our Pillar 3 disclosures.

The group operates a risk framework through which it can systematically identify actual and potential risk events and seeks to put in place appropriate policies and controls as safeguards.

Strategic and business model risks

Relationship with financial advisers

As with all operators in the advised platform market, attracting, engaging and retaining advisers and their clients is an important part of the group's growth plans. Specifically, the group provides a white label platform solution to Paradigm Partners LLP and in 2017 approximately one quarter of new business originated through this arrangement. Changes in the environment due to regulatory 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

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

Competition

There can be no assurance that other companies will not compete more than at present with the group. 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 the group.

Operational and regulatory risks

Operational

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 because of errors or omissions for which the group is ultimately liable.

Particular operational risks for the group are considered to be:

- people risks – we consider that the two most significant risks are the risk of failure to attract and retain core skills and knowledge in the company, and people-related errors in core processes;
- operational control failures in core processes – there is always a risk of failure in core processes, either directly by the company and/ or by third parties which would result in operational losses, poor client outcomes and reputational damage; and
- systems-related risks including cyber-attacks, data leakage and business continuity events.

Regulatory

Any change in regulations affecting NFS, or any other member of the group, could have a material adverse effect on the group's 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 several risks which arise from the group's regulatory status and the most significant of these are:

(i) Impact of a breach of FCA and product related regulations

If NFS or any other member of the group, 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 financial 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) New and forthcoming regulation

The UK Treasury has decided to extend the Senior Managers and Certification Regime to all financial services firms in 2018. Senior managers will be held responsible in the event of failings and will need to prove that they took all reasonable steps to prevent conduct breaches. Furthermore, the Certification Regime covers the remaining significant influence function holders plus other staff who can cause 'significant harm' to the firm and/or customers. They must be self supervised and 'certified' as fit and proper by the firm annually.

The FCA published its final report on its asset management market study, which suggested that there is weak price competition in a number of areas of the asset management industry. The FCA exposed the lack of price competition in a number of areas, no clear relationships between charges and performance, a lack of investor awareness and focus on charges. As a result, it has suggested a package of remedies.

Nucleus participated in, and awaits the results of the FCA's platform market study. This study was initiated as a result of the competition concerns identified in the asset management study. We expect the interim results to be published during summer 2018.

The regulatory stage at European level has also brought and is bringing into force regulations that will affect the operations of the group. These include the Fourth Anti Money Laundering Directive (MLD IV), Mifid II, Packaged Retail Insurance based Investment Products Regulation (Priips) and GDPR.

MLD IV aims to strengthen the anti money laundering regime across the EU. The main changes are in relation to the definition of 'beneficial owner', the central registers of beneficial owners, the treatment of politically exposed persons, risk assessments, due diligence and cash transactions.

Andrew Smith
Chief technology officer

Mifid II came into force in January 2018, with broad reaching impact on the industry in which the group operates. The main changes required by the group were in respect of product governance, client reporting and transaction reporting.

The Priips regulation also came into force in January 2018. This required standardised key information documents, with the aim of providing more clarity and comparability for investors.

GDPR will be effective from May 2018. The concept of accountability is at the heart of the GDPR rules: it means that organisations will need to be able to demonstrate that they have analysed the GDPR's requirements in relation to their processing of personal data and that they have implemented a system or programme that allows them to achieve compliance. Consent must be clear and distinguishable from other matters and provided in an intelligible and easily accessible form, using clear and plain language. It must be as easy to withdraw consent as it is to give.

Financial and liquidity risks

Solvency (including access to capital)

The group is required to maintain and have available to it a sufficient level of capital as determined by the requirements applicable to a limited licence investment firm and a non insured Sipp operator. The group may require access to additional capital in the longer term due to changes in a range of factors including increased regulatory capital requirements.

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

Liquidity

The group's liquidity position is subject to a range of factors that may generate liquidity strain in the short or medium term. The group manages its liquidity risk through an ongoing evaluation of its working capital requirements against available cash balances and credit facilities.

The strategic report was approved by the board of directors on 30 April 2018 and signed on its behalf by

David Ferguson
Director

Stuart Geard
Director

Governance

Risk management framework

The board's objective regarding risk management is to deliver the group's strategy and business plan supported by a robust, scalable and enterprise wide governance, risk management and control framework.

Our framework is concerned with:

- demonstrating that it is proportionate and effective in the governance and performance of risk management for a Significant IFPRU firm;
- evidencing that our business strategy and business planning process are aligned with the risk management framework;
- demonstrating that we manage our risk appetite tolerances and limits across agreed risk categories;
- demonstrating that we meet all applicable regulatory principles and requirements on an ongoing basis and do so based on strong and effective risk management culture and structures;
- embedding a risk aware culture with risk management recognised as a management competence, critical to the delivery of our business strategy and performance targets.

In assigning risk management responsibilities, the group operates an approach to risk management that is commonly referred to as the "three lines of defence" model.

We use a clearly defined risk framework to effectively identify, assess, manage and report the group's risks. The framework is set out in our risk management policy and is subject to annual review and challenge by the risk committee.

In assigning risk management responsibilities, the group 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 policies, 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 roles of the second line functions are to develop and maintain the risk and compliance management policies and frameworks. Review of the effectiveness of the performance of the risk management practices performed by operational management is evidenced through effective assurance reporting to management and the audit committee. The second line also provides support and advice to the business risk owners in reporting risk related information within the group, including management information on risk and assurance matters to the audit and risk committees and the board.

Third line of defence

The group engaged Grant Thornton UK LLP as an appointed internal audit function to serve as its third line of defence on a fully outsourced basis. Through the model the group obtains independent assurance on the effectiveness of its control environment for material processes. Internal audit, through a risk-based approach, provides assurance to the audit committee and the board on how effectively risks are assessed and managed, and the effectiveness of the risk management framework. Findings arising from these audit processes are reported to the audit committee.

On 15 December 2017 the group approved the change of internal auditor from Grant Thornton UK LLP to Deloitte LLP. Following a period of transition, the Deloitte engagement commenced on 1 April 2018.

The group also engages external audit to deliver independent assurance for the purposes of its Cass handbook arrangements, information security arrangements and statutory financial management obligations.

Annual conference 2018

Governance

Corporate governance report

In this section we have highlighted our approach to governance and effective decision making and provided further information on our group corporate governance arrangements, including how the board and its committees operate. We recognise, through our company culture and values, that applying sound governance principles is essential to the successful running of the group.

8 board members

2 executive directors
6 non-executive directors

13 board meetings

2 strategy days
11 board meetings

22 committee meetings

4 nominations
5 risk
6 remuneration and HR
7 audit

Company leadership

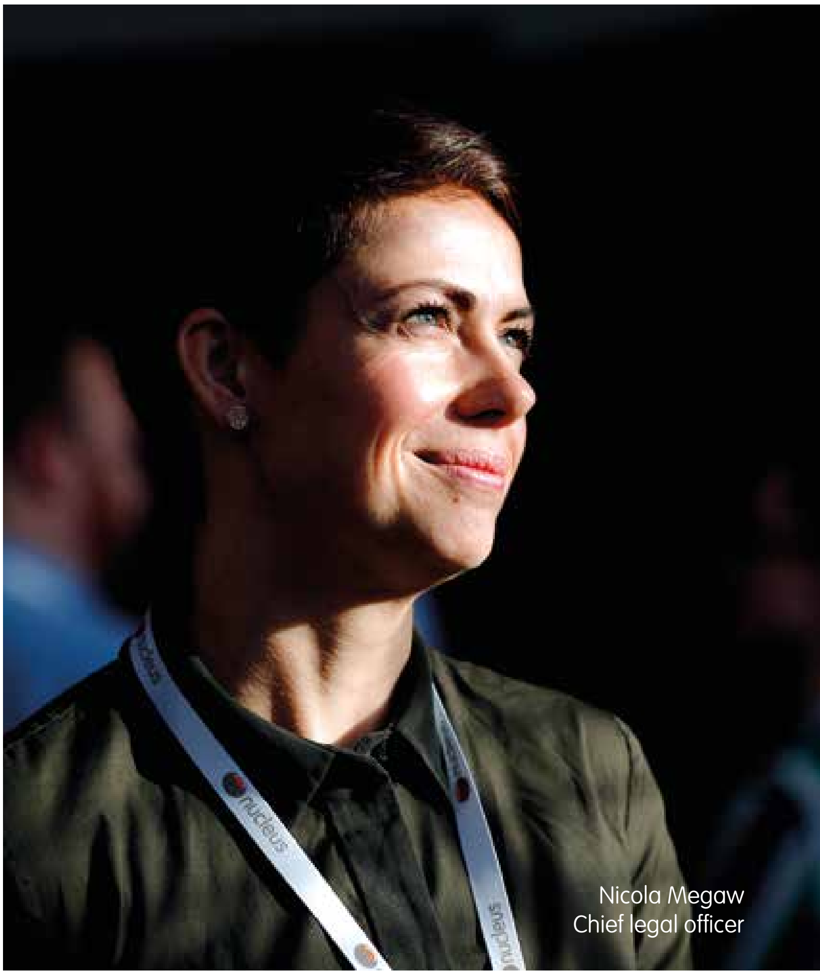
As reported in our annual report and financial statements for the year ended 31 December 2016, Nucleus suffered the very sad loss of our founding chairman, Paul Bradshaw, at the start of 2017. Paul was succeeded by Angus Samuels, who has been a non-executive member of the board since July 2006 and who now leads the board in our responsibility to our shareholders and our accountability for setting and overseeing the delivery of the group's strategy. As a board, we also recognise our ultimate responsibility for the direction, management, governance, culture, risk management and internal control framework, and performance of the group.

During the year, the board comprised six non-executive directors (Angus Samuels (Chairman), Jeremy Gibson, Stephen Tucker, Mike Seddon, Jonathan Polin and John Levin (appointed on 11 April 2017)) and two executive directors (David Ferguson and Stuart Geard).

The executive management team is responsible for the management of the group within the remit given to it by the board and comprises the chief executive officer, chief financial officer, chief customer officer, chief legal officer, chief operating officer, chief people officer and chief technology officer. During the year, and as mentioned in the chief executive's report, a number of changes were made to the executive team structure to support business growth and to ensure that we had the appropriate strategic focus going forward.

The role of the board

The board is responsible for the leadership and management of the group. The board's powers are derived from the group's articles of association, corporate governance manual, shareholders' agreement and other supporting documents. The board meets at least four times per year and more regularly as required. During the year, the board met nine times in addition to its regular quarterly meetings in order to focus on matters such as the 2017 ICAAP process, methodology and result, specific key business projects, the move to new offices and the payment of the group's first dividend. The board also met for two separate strategy days.



Nicola Megaw
Chief legal officer

Board of directors

Angus Samuels
Chairman

Angus Samuels has over 30 years' experience in the investment industry. Angus started his career in South Africa as a stockbroker and was a partner in Fergusson Bros, Hall Stewart & Co before emigrating to the UK in 1986. He is currently chairman of Punter Southall Group, a UK-based financial services group with over 500 employees.

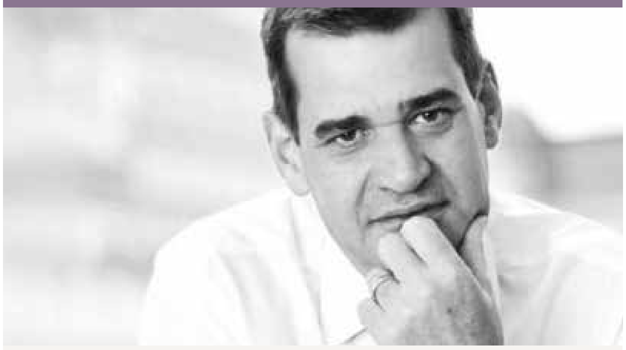
David Ferguson
Chief executive officer

The formative years of David's career were spent as a trainee actuary with Life Association of Scotland, Ivory & Sime, Scottish Life International and strategic consultancy The Abacus. In 1998 he embarked on a mission to create the UK's first genuinely collaborative platform, which resulted in the creation of Nucleus in 2006.

John Levin
Non-executive director

John joined the board in April 2017. He focuses predominantly on the provision of technology and advice to the insurance, banking and financial services industries. He co-founded and is chairman of technology platform Certua and the Quanis Group of companies, which provides business technology solutions for the insurance industry.

Jonathan Polin
Non-executive director



Jonathan became a director in July 2016. He is also group chief executive officer of Sanlam UK, which he joined in 2015. Before joining Sanlam, he was group chief executive of Ashcourt Rowan plc where he transformed the business from a loss-making entity with a market cap of £22 million to a business worth £129 million.

Jeremy Gibson
Non-executive director

Jeremy joined Sanlam UK in September 2012 and was subsequently appointed to the boards of Sanlam UK, Sanlam Investments and Pensions and Sanlam Wealth Planning as Finance director. A qualified chartered accountant, Jeremy qualified in South Africa before moving to the UK in 1996 and has since worked in a broad range of financial services organisations.

Mike Seddon
Non-executive director

Mike started his financial services career in 1986 as a 'man from the Pru' before moving on to a major UK life office. In 2003, Mike teamed up with Grayside Financial Services and is now their managing director and a major shareholder. In 2012, he achieved Chartered Financial Planner status, which led to Grayside obtaining Chartered Financial Planners status.

Stephen Tucker
Non-executive director

Stephen is chairman and managing director of The Fry Group. He joined Fry's in 1995 as a financial planner and became director of the UK Division in 2004. Prior to this he specialised in tax and pension based planning within the accountancy profession having begun his career with HM Revenue and Customs.

Stuart Geard
Chief financial officer

Stuart joined Nucleus as managing director in October 2012 and became CFO in August 2017. He has previously worked for Sanlam in the UK since 2005, where he was finance director of Sanlam UK Ltd and served as a board member and audit and risk committee chairman of most of the Sanlam Group's interests in the UK.

Meeting attendance

Committee	Board (inclusive of 2 strategy days)	Audit committee	Risk committee	Nominations committee	Remuneration and HR committee
	Meetings attended / eligible to attend				
Non-executive director					
J A A Samuels (chairman)	13/13	7/7	5/5	4/4	6/6
J P Gibson	12/13	7/7	5/5	n/a	n/a
J A Levin (appointed April 2017)	7/7	n/a	n/a	n/a	n/a
J C Polin	12/13	n/a	n/a	3/4	6/6
M D Seddon	10/13	2/4*	n/a	n/a	n/a
S J Tucker	10/13	2/3**	3/5	4/4	6/6
Executive director					
D R Ferguson	13/13	n/a	n/a	n/a	n/a
S J Geard	12/13	n/a	n/a	n/a	n/a

*member from July 2017 **member until July 2017 n/a – non-member

Board responsibilities

The board is collectively responsible for the direction and success of Nucleus and sets out the group's values and standards. It ensures its obligations to shareholders and other stakeholders are understood and met and is predominantly responsible for:

- co-ordinating and monitoring the activities of all subsidiary companies;
- setting risk appetite and co-ordinating the overall risk management process;
- approving the strategic and business plan including budget;
- reviewing and approving the ICAAP, the approach and methodology of which must be considered in advance by the risk committee;
- ensuring the regulated business of the group complies with all regulatory requirements and the group is organised so that it can be controlled effectively;
- approving appointments or removal of professional advisers, board members and the company secretary; and
- monitoring the company's policy and approach to conduct risk.

A small number of matters are reserved to Nucleus' voting shareholders. Beyond that, the board, with the support of its committees and through the group's other corporate governance arrangements, including delegated authorities to senior management, also approves and manages the business decisions of the group, including changes to accounting policies, capital structure, pension schemes, approving annual financial statements and reviewing any significant people issues.

Board committees

The board has established four principal committees. Each committee operates under its own terms of reference to clearly determine delegated authority and to assist the board in its oversight responsibilities for the group.

Audit committee report

The audit committee comprises three non-executive directors (Jeremy Gibson (chairman), Angus Samuels and Mike Seddon from July 2017 when he took over from Stephen Tucker, who was a member from January 2017). Other permanent attendees include the chief executive officer, chief financial officer, chief legal officer, head of compliance, head of risk, chief technology officer and the Cass oversight function holder.

The committee meets at least four times a year and additional meetings might be called and attendees invited as appropriate at the discretion of the chairman. The committee is ultimately responsible for:

- setting and overseeing the overall standard for financial reporting, compliance, internal controls and ethical conduct;
- reviewing and assessing the quality of the work done by the professionals responsible for financial reporting, compliance and internal control;
- overseeing the risk assurance work; and
- monitoring the effectiveness of the compliance function and company organisational arrangements.

To fulfil its delegated responsibilities, the committee receives regular reports on finance, legal, operations, compliance, financial crime, Cass compliance, risk assurance and internal audit, and pro-actively oversees the group's three lines of defence model. The committee also plays a pivotal role in reviewing the external statutory and Cass audits.

The committee met seven times during the year, notably to review and recommend to the board the approval of the financial statements for the year ended 31 December 2016, to monitor compliance and internal audit findings and follow up actions, to challenge management on the Cass environment and compliance with the heightened Financial Reporting Council (FRC) standards, to review internal systems and controls, to review Mifid II readiness and to review and recommend a change in internal audit provider to the board.

Risk committee report

The risk committee comprises three non-executive directors Jeremy Gibson (chairman), Angus Samuels and Stephen Tucker. Other permanent attendees include the chief executive officer, chief financial officer, chief legal officer, head of compliance, head of risk, chief technology officer and the Cass oversight function holder.

The committee meets at least four times a year and additional meetings might be called and attendees invited as appropriate at the discretion of the chairman. The committee is ultimately responsible for:

- advising the board on current risk exposure and future risk strategy;
- monitoring the effectiveness of business risk management processes in the group;
- reviewing and assessing the quality of the work done by the professionals responsible for risk management;
- reviewing remuneration incentives in accordance with regulatory requirements;
- reviewing and approving the approach and methodology of the annual ICAAP process; and
- reviewing and approving company policies (subject to its terms of reference).

The committee receives regular reports on risk, policy and the ICAAP process.

The committee met five times during the year, notably to review and approve a number of new and existing group policies, to review the group's existing and forecast risk profile, and to review and approve the approach and methodology of the 2017 ICAAP process.

Nominations committee report

The nominations committee comprises three non-executive directors (Stephen Tucker (chairman), Angus Samuels and Jonathan Polin). Other permanent attendees include the chief executive officer, chief financial officer and chief people officer. The committee meets at least four times a year and additional meetings might be called as appropriate by the chairman. The committee is ultimately responsible for reviewing and making suggestions on board composition and considering succession planning requirements for the board and senior management.

The committee met four times during the year, notably to consider and recommend the appointment of John Levin to the board, and to consider and approve the restructuring of the executive committee in August.

Remuneration and HR committee report

The remuneration and HR committee comprises three non-executive directors (Stephen Tucker (Chairman), Angus Samuels and Jonathan Polin). Other permanent attendees include the chief executive officer, chief financial officer and chief people officer. The committee meets at least four times a year and additional meetings might be called as appropriate by the chairman. The committee is ultimately responsible for the review and recommendation to the board of group remuneration policy and practice (including annual salary reviews, bonus schemes, pension arrangements and other benefits, and long-term incentivisation), monitoring market remuneration practice and reviewing and recommending for approval group people and development policies and strategies.

The committee met six times during the year, notably to review and recommend for approval the annual employee salary increases, to review and recommend for approval the management group, staff and sales bonus schemes and performance in respect of them, to review and approve a change in the group's healthcare provider and to review the group's long-term incentivisation arrangements. The committee was also heavily involved in the latter part of the year in overseeing the realisation of a significant proportion of the group's existing growth share scheme.

Board performance evaluation

We undertake an annual performance evaluation of our board and its committees. The chairman typically leads this process, supported by the group company secretary.

During the year, a board evaluation was conducted by way of a board evaluation survey with the results presented at the following board meeting for review and consideration. The committees of the board also undertook an evaluation of their performance, in accordance with their terms of reference, following the same process as the board.

Induction and training

All new board members receive a personalised induction programme to provide him or her with a detailed overview of the group. During the year, one new non-executive director, John Levin, was appointed to the board. As part of his initial induction, John was provided with an introduction to the business, a presentation of the company's business plan, meetings with the executive committee and other members of senior management and an overview of the company's risk and controls and governance framework.

The chairman is responsible for ongoing training of board members. The group seeks to support the chairman in assessing specific and general training needs and sourcing appropriate training (including by subject matter experts within the company). Nucleus also offers and provides the board with ongoing training, for example during the year specific board training was organised on the FCA's client money and asset rules.

Diversity and inclusion

The board is committed to taking a pro-active approach to the achievement of its diversity and inclusion strategy as evidenced by the group's recent commitment to the Women in Finance Charter and the Tech Talent Charter, as well as the appointment during the year of two female executive team members.

Sponsored by our chief executive officer, the group is seeking to make its diversity policy applicable to all employees and to strengthen its diversity commitment and the structures in place to ensure its realisation. The principles contained in the policy are incorporated in our commitment to diversity and inclusion statement available on the group's website at https://nucleusfinancial.com/about-us/inclusion-and-diversity/, which also sets the targets that we have committed to, to increase the under-represented gender (currently female) in our board and senior leadership positions from 18% to 40% by the end of 2020.

Illuminate live event 2017

Diversity and inclusion event 2018

Governance

Directors' report

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2017.

The review of the business and principal risks and uncertainties are disclosed within the strategic report.

The audited financial statements of the group and NFS along with the group'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.

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.

The group has a 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.

Review of business

A detailed business review is set out in the strategic report in pages 6 to 21.

Future developments

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. Further plans for our year ahead can be found in the strategic report.

Result and dividend

The group has reported its consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). The group's profit for the year was £4.1m (2016: £3.4m). Revenue increased by 21% to £40.4m, (2016: 15% to £33.3m), with operating profit up 19% to £5.1m (2016: down 10% to £4.3m). The full results are set out in the accompanying financial statements and notes. Further information on group performance, including dividends, is also disclosed within the strategic report.

Directors

The directors who served during the year and up to the date of signing the financial statements were:

- P R Bradshaw (deceased 12 January 2017)
- D R Ferguson
- S J Geard
- J P Gibson

- J A Levin (appointed 11 April 2017)
- J C Polin
- J A A Samuels (Chairman)
- M D Seddon
- S J Tucker

Political donations

No political donations were made by the group or the company during the year under review (2016: nil).

Share capital structure

During the year, the group undertook steps to simplify its legal entity structure and improve the flow of capital and liquidity resources within the group.

To achieve this NIFAS transferred its trade and assets to fellow subsidiary, NFS, on 1 April 2017. To enable NFS to meet its increased capital requirements following the transfer of trade from NIFAS, NFS increased its capital resources by way of issue of 5 million £1 ordinary shares to the company on 29 March 2017.

Prior to this, on 29 March 2017, the company was granted shareholder approval to create distributable reserves through elimination of its accumulated realised losses by way of a capital reduction using the solvency statement procedure.

In December 2017, the company repurchased 1,277 ordinary shares at £49 each. The company also repurchased 29,230 G1, 20,757 G2, 3,637 G3 and 3,581 G4 ordinary shares under the bad leaver provisions of the growth share scheme and a consideration of £15 (£1 per G shareholder per share class held) was paid in January 2018. All shares repurchased were subsequently cancelled.

Events after the reporting period

On 29 March 2018 the directors approved a change of trustee for the group's employee share ownership trust (Esot). Both the new and the incumbent trustee are aware of the board's intention of this change, which will take effect when the relevant documentation is completed.

During December 2017 231,496 of the 237,174 eligible G1 and G2 shares became realised and on 29 January 2018, in line with the growth share scheme, 142,362 G1 and 95,404 G2 shares converted into 124,448 and 113,318 Nucleus ordinary and deferred shares. The deferred shares hold no voting, capital or dividend rights and are only entitled to a small share of assets in a winding up.

Going concern

With regard to the assessment of the group and the company's ability to continue as a going concern, the directors evaluate this taking into account:

- the latest business plan projections of the group and the company, stressed for significant events that would have a material impact on the group and the company's profitability, liquidity, solvency and 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 group's solvency and liquidity position;
- known and expected changes in the regulatory environment impacting on platform operators; and
- the results of the group's ICAAP which is formally reviewed and approved by the directors on an annual basis.

The directors also consider their approach to assessing the group and the company's ability to continue as a going concern with reference to guidance from the FRC 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.

Disclosure of information to auditors

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the company and the group's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company and the group's auditors are aware of that information.

This report was approved by the board on 30 April 2018 and signed on its behalf.

Stuart Geard
Director

Governance

Directors' responsibility statement

The directors are responsible for preparing the group strategic report, the directors' report and the consolidated 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 elected to prepare the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). 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 the group and of the profit or loss of the group for that period.

In preparing these financial statements, the directors are required to

- select suitable accounting policies for the group's financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable IFRS as adopted by the European Union (EU) have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements and other information included in directors' reports may differ from legislation in other jurisdictions.

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.

Doug Heron
Chief operating officer

Financials

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

Report on the audit of the group financial statements

Opinion

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

- give a true and fair view of the state of the group's affairs as at 31 December 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "annual report"), which comprise: the consolidated statement of financial position as at 31 December 2017; the consolidated income statement and statement of comprehensive income, the consolidated statement of cash flows, and the consolidated statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the strategic report and directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic report and directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the strategic report and directors' report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and its environment obtained in the course of the audit, we did not identify any material misstatements in the strategic report and directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the directors' responsibility statement set out on page 34, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 directors are responsible for assessing the group'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 directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the parent 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.

Other required reporting

Companies Act 2006 exception reporting

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
- certain disclosures of directors' remuneration specified by law are not made.

We have no exceptions to report arising from this responsibility.

We have reported separately on the parent company financial statements of Nucleus Financial Group Limited for the year ended 31 December 2017.

Catrin Thomas (senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

Edinburgh

30 April 2018

Consolidated income statement

	Note	2017 £'000	2016 £'000	2015 £'000
Continuing operations				
Revenue	3	40,365	33,281	28,957
Cost of sales		(14,495)	(11,695)	(10,523)
Gross profit		25,870	21,586	18,434
Other operating income	4	36	76	877
Administrative expenses		(20,788)	(17,346)	(14,521)
Operating profit		5,118	4,316	4,790
Finance income	8	9	13	9
Finance costs	8	(3)	-	(26)
Profit before income tax	5	5,124	4,329	4,773
Income tax	10	(1,013)	(942)	(473)
Profit for the financial year		4,111	3,387	4,300
Profit attributable to:				
Owners of the parent		4,111	3,387	4,300
Earnings per share (pence)				
Basic		190	159	205
Diluted		190	159	205

Consolidated statement of comprehensive income

	Note	2017 £'000	2016 £'000	2015 £'000
Profit for the financial year		4,111	3,387	4,300
Items that may be subsequently reclassified to profit or loss				
Unrealised loss on investments	15	(1)	(3)	(44)
Total comprehensive income for the financial year		4,110	3,384	4,256
Total comprehensive income attributable to:				
Owners of the parent		4,110	3,384	4,256

The notes on pages 45 to 87 form part of these financial statements.

Registered number: 05522098

Consolidated statement of financial position

	Note	31 December 2017 £'000	31 December 2016 £'000	31 December 2015 £'000	1 January 2015 £'000
Assets					
Non-current assets					
Property, plant and equipment	13	1,780	638	469	342
Trade and other receivables	14	-	482	367	48
Deferred tax	23	158	50	66	358
		1,938	1,170	902	748
Current assets					
Trade and other receivables	14	9,739	9,853	7,225	6,275
Investments	15	99	69	72	116
Tax receivable		17	-	-	-
Cash and cash equivalents	16	16,992	13,839	12,858	6,812
		26,847	23,761	20,155	13,203
Total assets		28,785	24,931	21,057	13,951
Equity					
Shareholders' equity					
Called up share capital	20	21	22	21	21
Share premium	21	-	15,747	15,746	15,744
Capital redemption reserve	21	1	-	-	-
Share-based payment reserve	21	2,646	1,931	1,292	751
Fair value reserve	21	39	40	43	87
Retained earnings/(accumulated losses)	21	13,475	(1,548)	(4,935)	(9,235)
Total equity		16,182	16,192	12,167	7,368

Consolidated statement of financial position

	Note	31 December 2017 £'000	31 December 2016 £'000	31 December 2015 £'000	1 January 2015 £'000
Liabilities					
Non-current liabilities					
Financial liabilities	18	93	63	-	-
Deferred tax	23	46	32	45	-
		139	95	45	-
Current liabilities					
Financial liabilities	18	107	42	-	9
Trade and other payables	17	10,707	7,474	8,238	6,522
Tax payable		1,124	940	135	-
Provisions	26	526	188	472	52
		12,464	8,644	8,845	6,583
Total liabilities		12,603	8,739	8,890	6,583
Total equity and liabilities		28,785	24,931	21,057	13,951

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 30 April 2018.

S J Geard
Director

The notes on pages 45 to 87 form part of these financial statements.

Consolidated statement of changes in equity

	Called up share capital £'000	Retained earnings/ (accumulated losses) £'000	Share premium £'000
Balance at 1 January 2015	21	(9,235)	15,744
Changes in equity			
Issue of share capital	-	-	2
Profit for the financial year	-	4,300	-
Unrealised loss on investments	-	-	-
Share-based payments charge	-	-	-
Balance at 31 December 2015	21	(4,935)	15,746
Changes in equity			
Issue of share capital	1	-	1
Profit for the financial year	-	3,387	-
Unrealised loss on investments	-	-	-
Share-based payments charge	-	-	-
Balance at 31 December 2016	22	(1,548)	15,747
Changes in equity			
Redemption of shares	(1)	(63)	-
Transfer on capital reduction	-	15,747	(15,747)
Transfer on exercise of options	-	41	-
Dividends paid	-	(4,813)	-
Unrealised loss on investments	-	-	-
Profit for the financial year	-	4,111	-
Share-based payments charge	-	-	-
Balance at 31 December 2017	21	13,475	-

Consolidated statement of changes in equity

	Capital redemption reserve £'000	Share-based payment reserve £'000	Fair value reserve £'000	Total equity £'000
Balance at 1 January 2015	-	751	87	7,368
Changes in equity				
Issue of share capital	-	-	-	2
Profit for the financial year	-	-	-	4,300
Unrealised loss on investments	-	-	(44)	(44)
Share-based payments charge	-	541	-	541
Balance at 31 December 2015	-	1,292	43	12,167
Changes in equity				
Issue of share capital	-	-	-	2
Profit for the financial year	-	-	-	3,387
Unrealised loss on investments	-	-	(3)	(3)
Share-based payments charge	-	639	-	639
Balance at 31 December 2016	-	1,931	40	16,192
Changes in equity				
Redemption of shares	1	-	-	(63)
Transfer on capital reduction	-	-	-	-
Transfer on exercise of options	-	(41)	-	-
Dividends paid	-	-	-	(4,813)
Unrealised loss on investments	-	-	(1)	(1)
Profit for the financial year	-	-	-	4,111
Share-based payments charge	-	756	-	756
Balance at 31 December 2017	1	2,646	39	16,182

The notes on pages 45 to 87 form part of these financial statements

Consolidated statement of cash flows

	Note	2017 £'000	2016 £'000	2015 £'000
Cash flows from operating activities				
Cash inflow from operations	27	10,509	1,579	7,518
Interest paid		-	-	-
Interest received		1	2	1
Income tax paid		(940)	(135)	-
Net cash inflow from operating activities		9,570	1,446	7,519
Cash flows from investing activities				
Purchase of tangible fixed assets		(1,373)	(454)	(313)
Purchase of investments		(31)	-	-
Redemption of shares		(63)	-	-
Net cash outflow from investing activities		(1,467)	(454)	(313)
Cash flows from financing activities				
Interest paid		(3)	-	(26)
Interest received		8	11	8
Repayment of finance leases		(139)	(21)	(9)
Issue of ordinary shares		-	1	2
Repayment of bank overdraft		-	-	(1,134)
Dividend paid		(4,813)	-	-
Net cash outflow from financing activities		(4,947)	(9)	(1,159)
Increase in cash and cash equivalents		3,156	983	6,047
Cash and cash equivalents at beginning of year		13,839	12,858	6,812
Effects of exchange rate changes		(3)	(2)	(1)
Cash and cash equivalents at end of year		16,992	13,839	12,858

The notes on pages 45 to 87 form part of these financial statements.

Notes to the consolidated financial statements

1. Accounting policies

Basis of preparation

The financial statements comply with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have been prepared on a going concern basis, under the historical cost convention as modified by the recognition of certain financial assets measured at fair value.

These are the group's first financial statements prepared in accordance with IFRS and IFRS 1 First-time Adoption of International Financial Reporting Standards. Unless otherwise stated, the accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing the opening IFRS statement of financial position as at the transition date of 1 January 2015. An explanation of how the transition to IFRS has impacted the reported financial position, financial performance and cash flows of the group and company is provided in note 36.

The preparation of the financial statements in compliance with EU adopted IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the group and company's accounting policies. The areas where significant judgements and estimates have been made in the preparation of the financial statements are detailed in note 2.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the company and all its subsidiary undertakings.

Subsidiaries are entities controlled by the company. Control is achieved where the group has existing rights that give it the current ability to direct the relevant activities that affect the returns and exposure or rights to variable returns from the entity. Subsidiaries are included in the consolidated financial statements of the group from the date control of the subsidiary commences until the date that control ceases. Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Uniform accounting policies have been applied across the group.

Going concern

After reviewing the group and the company's forecasts and projections, the directors have a reasonable expectation that the group and 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 group and the company therefore continues to adopt the going concern basis in preparing its financial statements.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the executive committee (the Chief Operating Decision Maker). The board tasks responsibility to the executive committee to assess the financial performance and the position of the group, and make strategic decisions and allocate resources.

Nucleus' principal activities are the provision of wrap administration services and there is only one reporting and operating segment as defined under IFRS 8 Operating Segments. This is reviewed on a regular basis. It is considered appropriate that management review the performance of the group by reference to total results against budget.

The main financial performance measures are assets under administration on the platform, gross and net inflows onto the platform, revenue, consolidated operating profit, consolidated profit after tax and consolidated net assets. These are disclosed in the chief financial officer's report, the consolidated income statement and the consolidated statement of financial position.

Revenue

Revenue comprises fees earned by the company from the provision of a wrap platform service to UK financial advisers and their clients. Fees are recognised exclusive of Value Added Tax and net of large case discounts. They 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.

Interest income

Interest received is recognised in the income statement as it is earned.

Finance costs

Interest expense is recognised in the income statement in the year to which it relates.

Expense recognition

Expenditure incurred by the group 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 statement of financial position.

Notes to the consolidated financial statements

Foreign currency

The group and company's functional and presentation currency is the Pound Sterling. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. At each year end, foreign currency monetary items are translated using the closing rate. Foreign exchange gains and losses resulting from the settlement of transactions at year end exchange rates of monetary assets denominated in foreign currencies are recognised in the statement of profit and loss.

Dividends

Dividends are recorded in the financial statements in the year in which they are approved by the shareholders. Interim dividends are recognised when paid.

Property, plant and equipment

Tangible fixed assets are stated at historic cost less depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Impairment reviews are performed by the directors at each reporting date. There was no impairment of fixed assets in the year.

Depreciation is charged so as to allocate the cost of the assets less their residual value over their estimated useful lives, using the straight-line method.

The estimated useful lives range as follows:

Fixtures and fittings	4 years straight line
Office equipment	3 years straight line
Short term leasehold property	5 or 10 years straight line

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

Finance leases

Where assets are financed by leasing agreements that give rights approximating to ownership, the assets are treated as if they had been purchased outright. The amount capitalised is the lower of the fair value of the leased asset and the present value of the minimum lease payments. Office equipment acquired under finance leases is depreciated over its useful life of three years on a straight-line basis. Depreciation on the relevant assets is charged to the income statement. Interest on the finance lease is recognised in the income statement using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks. Bank overdrafts are shown within current liabilities due less than one year. Cash equivalents are highly liquid investments that mature no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Defined contribution pension scheme

Nucleus Financial Group Limited operates a defined contribution pension scheme. The pension charge represents the amounts payable by the group and 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 group and the company have no further payment obligations. The assets of the scheme are held separately from those of Nucleus Financial Group Limited in an independently administered fund.

Operating lease commitments

Rentals under operating leases are charged to the income statement on a straight-line basis over the lease term.

Incentives received to enter into an operating lease are credited to the statement of profit and loss, to reduce the lease expense, on a straight-line basis over the period of the lease.

Share-based payments

(a) Share options

The company operated an equity settled share based payment compensation plan, under which the group received services from directors and senior managers as consideration for equity instruments (options) of the company. These were accounted for in accordance with IFRS 2 Share-based payments. The fair value of services received in exchange for the grant of options is recognised as an expense over the vesting period of these options.

Notes to the consolidated financial statements

The total amount to be expensed is determined by reference to the fair value of the options at the grant date and the number of options expected to vest. Service conditions are included in the assumptions about the number of options expected to vest. The relevant charge to the income statement is recognised over the vesting period on a straight-line basis.

At the end of each reporting period, the company revised its estimate of the number of options that were expected to vest to reflect latest expectations on the employee's ability to achieve the specified performance criteria and actual or anticipated leavers from the scheme. The company recognised the impact of any revision to the prior year's estimates in the income statement, with a corresponding adjustment to equity.

(b) Growth shares

The company also operates a growth share scheme under which the group receives services from directors and staff as consideration for unrealised G ordinary shares. This scheme is accounted for as an equity settled share based payment in accordance with IFRS 2 Share-based payments. Consequently, the fair value of services received in exchange for the grant of growth shares is recognised as an expense in the income statement during the vesting period.

Unrealised G ordinary shares are issued in tranches, each tranche determined by the date of issue and the applicable performance conditions attached. As at the date of signing, six tranches of shares have been issued. Unrealised G ordinary shares form part of the share capital of the company, are not transferable, are eligible to receive dividends, are eligible to participate in a capital distribution and do not have any voting rights. Holders of unrealised G ordinary shares are subject to good and bad leaver provisions and enter into individual subscription agreements that specify certain performance targets that are to be achieved during the period to their vesting date. If these performance targets are met these shares can be determined by the company's remuneration and HR committee to be realised. In addition, a proportion of Unrealised G ordinary shares issued will not be subject to the requirement to achieve performance targets during the vesting period.

In the event of a sale (or other exit event such as a listing) of the company occurring prior to the vesting date, the company's remuneration and HR committee may determine some or all of the unrealised ordinary shares, that are subject to performance targets, to be realised. In that scenario, those G shares that are not subject to performance targets, would automatically become realised.

G shares are also deemed to have become realised on the earlier of the vesting date or a listing of the company on a recognised stock exchange.

Any G ordinary shares that are deemed to have become realised are converted into ordinary shares at a rate determined by the relative open market values of G ordinary shares and ordinary shares. In the event of a sale or listing, the company also has the option to settle at the vesting date the value of the realised G ordinary shares in cash rather than issue ordinary shares. The realised G ordinary shares only participate in any capital distribution or sale of the company to the extent that the value generated exceeds a specified hurdle. This valuation hurdle is also taken into consideration in determining the open market value of a realised G ordinary share.

Taxation

Current taxes are based on the results shown in the financial statements and are calculated according to local tax rules, using tax rates enacted or substantially enacted by the statement of financial position date.

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 statement of financial position date.

Deferred tax assets and liabilities are not discounted.

Notes to the consolidated financial statements

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 statement of financial position date.

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 is fully provided for.

Provisions for liabilities

Provisions are made where an event has taken place that gives the group or the company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the income statement in the year that the group or the company becomes aware of the obligation, and are measured at the best estimate at the statement of financial position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the statement of financial position.

Financial instruments

Financial assets and financial liabilities are initially recognised at fair value on the group's statement of financial position when the group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights to the cash flows expire, or the group no longer retains the significant risks or rewards of ownership of the financial asset. Financial liabilities are derecognised when the obligation is discharged, cancelled or expires.

The group classifies its financial assets and liabilities into the following categories:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The group's loans and receivables comprise trade and other receivables and cash and cash equivalents.

They are included in current and non-current assets, depending on the nature of the transaction. Loans and receivables are subsequently measured at amortised cost using the effective interest method less any provision for impairment.

Financial liabilities at amortised cost

Financial liabilities at amortised cost comprise finance lease obligations and trade and other payables. They are classified as current and non-current liabilities depending on the nature of the transaction, are subsequently measured at amortised cost using the effective interest method.

The fair value measurement of the group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy').

Level 1 – Quoted prices in active markets

Level 2 – Observable direct or indirect inputs other than Level 1 inputs

Level 3 – Inputs that are not based on observable market data

The group measures financial instruments relating to platform holdings at fair value using Level 1.

Current asset investments

The group has investments held by it on the platform for operational purposes. These are recognised and measured at fair value using the most recent available market price with gains and losses recognised immediately in the statement of comprehensive income.

Future standards, amendments to standards and interpretations not early-adopted in the 2017 financial statements

As at the date of authorisation of these financial statements the following standards, amendments to standards, and interpretations, which are relevant to the company (or group) have been issued by the International Accounting Standards Board (IASB):

IFRS 9 Financial instruments

IFRS 9 will replace the classification and measurement models for financial instruments currently contained in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 was endorsed by the EU in November 2016 and is effective for accounting periods beginning on or after 1 January 2018. The main changes from IAS 39 include the following:

- financial assets are to be classified and measured based on the business model for managing the financial and the cash flow characteristics of the financial asset, either at fair value or amortised cost

Notes to the consolidated financial statements

- a financial asset or liability that would otherwise be at amortised cost may only be designated as at fair value through profit or loss if such a designation reduces an accounting mismatch
- for financial liabilities designated as at fair value through profit or loss, a further requirement is that all changes in the fair value of financial liabilities attributable to credit risk be transferred to other comprehensive income with no recycling through profit or loss on disposal

The impairment model in IFRS 9 is based on the premise of providing for expected losses. IFRS 9 requires that the same impairement model apply to all of the following:

- financial assets measured at amortised cost
- financial assets mandatorily measured at fair value through other comprehensive income
- financial guarantee contracts to which IFRS 9 is applied
- lease receivables within the scope of IFRS 17 Leases
- contract assets within the scope of IFRS 15 Revenue from contracts with customers

The adoption of the standard is not expected to have a significant impact on the company (and group).

IFRS 15 Revenue from contracts with customers

The standard provides a comprehensive new model for revenue recognition, addressing various issues such as identifying distinct performance obligations, accounting for contract modifications and accounting for the time value of money.

This standard is effective for accounting periods beginning on or after 1 January 2018. The directors have reviewed this standard and are of the opinion that, given the simple revenue model and the absence of long term contracts, the implementation of IFRS 15 will not have a significant impact on the financial performance of the group.

IFRS 16 Leases

The new standard brings most leases on balance sheet for lessees under a single lease accounting model, eliminating the distinction between operating and finance leases.

This standard is effective for accounting periods beginning on or after 1 January 2019. The directors have performed an initial review of this standard and concluded this will not have a significant effect on the group and company's profit for the financial year, but will result in reclassifications on the statement of financial position and income statement. Subject to short term and low value exemption, all leases will be capitalised and brought on balance sheet with the main impacts being around the capitalisation of various IT equipment leases and the operating lease for the company's office premises at Blenheim Place. The directors continue to assess the financial impact of this standard on the group and company.

IFRS 2 Share-based payments

IFRS 2 has been amended by Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2). These changes affect accounting for cash-settled share-based payment transactions, classification of share-based payment transactions with net settlement features and modifications of share-based payment transactions from cash-settled to equity-settled. As Nucleus does not operate any cash settled share based payment schemes, the amendment to this standard will not apply.

Notes to the consolidated financial statements

2. Critical accounting judgements and key sources of 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. The critical accounting judgements and the key sources of estimation uncertainty are as follows:

Impairment of debtors

The group 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. Management believes, based on past experience, that prefunding over 6 months old is unlikely to be recovered and is therefore provided for. The total provided was £168,788 (2016: £455,467, 2015: £164,576).

Income taxes

The group is subject to income taxes. Judgement is required in determining the extent to which it is probable that taxable profits will be available in future against which deferred tax assets can be utilised. Based on forecasts, the group expects to materially recover its deferred tax assets within the next two to three years.

Share-based payments

The group assesses the fair value of shares under the options and growth share schemes at the grant date using the Black-Scholes model. At the end of each reporting period, the company revises its estimate of the number of options and shares under the growth share scheme that are expected to vest to reflect latest expectations on the group's ability to achieve the specified performance criteria and actual or anticipated leavers from the schemes. The company recognises the impact of any revision to the prior year's estimates in the income statement, with a corresponding adjustment to equity.

Provisions

The group has recognised provisions in respect of client compensation, outsourced service and dilapidations. Further detail on these provisions, the rationale behind their recognition and the timing of future cash flow is included in note 26.

Notes to the consolidated financial statements

3. Revenue

All revenue arose within the United Kingdom (2016: all United Kingdom, 2015: all United Kingdom)

4. Other operating income

	2017 £'000	2016 £'000	2015 £'000
Other operating income	36	76	877

Other operating income in 2015 included reimbursement costs which were non-recurring and related to the firm's costs incurred in the course of our contract with a third-party operational service provider.

5. Profit before income tax

The profit before taxation is stated after charging:

	2017 £'000	2016 £'000	2015 £'000
Depreciation of tangible fixed assets	410	262	183
Loss on disposal of fixed assets	55	-	4
Foreign exchange differences	3	2	1
Movement in bad debt provision	(287)	291	13
Operating lease rentals	516	328	196
Share-based payments charge	756	639	541

Notes to the consolidated financial statements

6. Employees

Staff costs, including directors' remuneration, were as follows:

	2017	2016	2015
	£'000	£'000	£'000
Wages and salaries	11,005	8,916	7,373
Social security costs	1,335	1,072	864
Other pension costs	798	714	588
Cost of employee share schemes	756	639	541
	13,894	11,341	9,366

The average monthly number of employees during the year was as follows:

	2017	2016	2015
Employees	180	166	138

Notes to the consolidated financial statements

7. Directors' remuneration

	2017 £'000	2016 £'000	2015 £'000
Directors' remuneration	778	744	770
Company contributions to defined contribution pension schemes	49	42	42
Cost of directors' participation in share schemes	310	292	287
	1,137	1,078	1,099

The number of directors to whom retirement benefits were accruing was as follows:

	2017	2016	2015
Defined contribution pension schemes	2	2	2

Information regarding the highest paid director is as follows:

	2017 £'000	2016 £'000	2015 £'000
Remuneration	365	336	343
Company contributions to defined contribution pension schemes	24	23	23
	389	359	366

Notes to the consolidated financial statements

8. Net finance income/(cost)

	2017 £'000	2016 £'000	2015 £'000
Finance income:			
Bank interest receivable	1	2	1
Other interest income	8	11	8
	9	13	9

	2017 £'000	2016 £'000	2015 £'000
Finance costs:			
Interest on bank overdraft	-	-	(26)
Other interest	-	-	-
Interest on finance leases	(3)	-	-
	(3)	-	(26)
Net finance income/(cost)	6	13	(17)

9. Auditors' remuneration

The group paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the group:

	2017 £'000	2016 £'000	2015 £'000
Audit of the financial statements	92	78	102
Client assets audit services	240	85	103
All other services	-	74	113
	332	237	318

Notes to the consolidated financial statements

10. Income tax

Analysis of tax expense

	2017 £'000	2016 £'000	2015 £'000
Current tax:			
Tax on profits for the year	1,124	940	135
Adjustments in respect of previous periods	(17)	-	-
Deferred tax:			
Origination and reversal of timing differences	(94)	2	320
Effect of tax rate change on opening balance	-	-	18
Tax expense in income statement	1,013	942	473

Factors affecting the tax expense

The tax assessed for the year is higher than (2016: higher than, 2015: lower than) the standard rate of corporation tax in the UK of 19.25% (2016: 20%, 2015: 20.25%). The differences are reconciled below.

	2017 £'000	2016 £'000	2015 £'000
Profit before taxation	5,124	4,329	4,773
Profit before taxation multiplied by the standard rate of corporation tax in the UK of 19.25% (2016: 20%, 2015: 20.25%)	986	866	966
Effects of:			
Expenses not deductible for tax purposes	252	166	144
Fixed asset differences	2	-	1
Share schemes differences	(42)	-	-
Income not taxable for tax purposes	-	(6)	(3)
Adjustments to tax charge in respect of prior periods	(17)	-	-
Adjustments to deferred tax in respect of prior periods	21	-	-
Adjust closing deferred tax to average rate of 19.25% (2016: 20%, 2015: 20.25%)	3	12	21
Adjust opening deferred tax to average rate of 19.25% (2016: 20%, 2015: 20.25%)	(3)	(17)	(16)
Deferred tax not recognised	(69)	(79)	(643)
Recognition of deferred tax asset	(122)	-	-
Adjustments to brought forward values	-	-	(18)
Losses eliminated	-	-	18
Timing differences not recognised in the computation	-	-	3
Tax credits	2	-	-
	1,013	942	473

Notes to the consolidated financial statements

11. Dividends

	2017 £'000	2016 £'000	2015 £'000
Ordinary share dividend (243p per share)	2,399	-	-
B ordinary share dividend (243p per share)	1,851	-	-
G1 share dividend (243p per realised share)	338	-	-
G2 share dividend (243p per realised share)	225	-	-
	4,813	-	-

The Esot waived their right to receive a dividend during the year.

12. Earnings per share

Basic earnings per share

Basic earnings per share has been calculated by dividing the total profit for the year by the weighted average number of ordinary shares in issue during the year.

	2017 £'000	2016 £'000	2015 £'000
Profit for the year	4,111	3,387	4,300

	2017	2016	2015
Weighted average number of ordinary shares	2,101,610	2,137,280	2,099,093

	2017	2016	2015
Basic/diluted earnings per ordinary share (pence)	196	158	205

Diluted earnings per share

The diluted earnings per share calculation does not differ from basic earnings per share. Any share options to be exercised are held by the Esot resulting only in a change in ownership and not a change in the weighted average number of ordinary shares in issue.

Notes to the consolidated financial statements

13. Property, plant and equipment

	Short-term leasehold property £'000	Fixtures and fittings £'000	Office equipment £'000	Total £'000
Cost				
At 1 January 2017	27	229	1,343	1,599
Additions	837	303	468	1,608
Disposals	(27)	(175)	(508)	(710)
At 31 December 2017	837	357	1,303	2,497
Depreciation				
At 1 January 2017	19	159	783	961
Charge for year	11	36	363	410
Eliminated on disposal	(23)	(161)	(470)	(654)
At 31 December 2017	7	34	676	717
Net book value				
At 31 December 2017	830	323	627	1,780

	Short-term leasehold property £'000	Fixtures and fittings £'000	Office equipment £'000	Total £'000
Cost				
At 1 January 2016	27	190	979	1,196
Additions	-	39	539	578
Disposals	-	-	(175)	(175)
At 31 December 2016	27	229	1,343	1,599
Depreciation				
At 1 January 2016	16	131	580	727
Charge for year	3	28	231	262
Eliminated on disposal	-	-	(28)	(28)
At 31 December 2016	19	159	783	961
Net book value				
At 31 December 2016	8	70	560	638

Notes to the consolidated financial statements

13. Property, plant and equipment (continued)

	Short-term leasehold property £'000	Fixtures and fittings £'000	Office equipment £'000	Total £'000
Cost				
At 1 January 2015	32	170	686	888
Additions	-	27	288	315
Disposals	(5)	(2)	-	(7)
Transfers between categories	-	(5)	5	-
At 31 December 2015	27	190	979	1,196
Depreciation				
At 1 January 2015	12	106	428	546
Charge for year	5	27	151	183
Eliminated on disposal	(1)	(1)	-	(2)
Transfers between categories	-	(1)	1	-
At 31 December 2015	16	131	580	727
Net book value				
At 31 December 2015	11	59	399	469

The net book value of office equipment includes £232,113 (2016: £104,474, 2015: £nil) in respect of assets held under finance leases.

Notes to the consolidated financial statements

14. Trade and other receivables

	2017 £'000	2016 £'000	2015 £'000
Non-current:			
Amounts owed by related parties	-	434	319
Other debtors	-	48	48
	-	482	367

	2017 £'000	2016 £'000	2015 £'000
Current:			
Other debtors	2,156	1,616	1,179
Amounts owed by HMRC	1,831	3,446	2,535
Trade debtors	481	275	-
Prepayments and accrued income	5,271	4,516	3,511
	9,739	9,853	7,225
Aggregate amounts	9,739	10,335	7,592

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.

15. Current asset investments

	2017 £'000	2016 £'000	2015 £'000
Valuation:			
At 1 January	69	72	116
Purchase of investments	31	-	-
Unrealised loss	(1)	(3)	(44)
At 31 December	99	69	72

Notes to the consolidated financial statements

16. Cash and cash equivalents

	2017	2016	2015
	£'000	£'000	£'000
Cash at bank and in hand	16,992	13,839	12,858

During the year, the group had an uncommitted overdraft facility of £5,000,000 with The Royal Bank of Scotland plc for working capital purposes in support of the group'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 £5,000,00 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.

17. Trade and other payables

	2017	2016	2015
	£'000	£'000	£'000
Current:			
Trade creditors	4,767	2,808	3,943
Social security and other taxes	336	270	239
Other creditors	644	372	690
Amounts owed to HMRC	117	79	495
Accruals	4,843	3,945	2,871
	10,707	7,474	8,238

Notes to the consolidated financial statements

18. Financial liabilities

	2017 £'000	2016 £'000	2015 £'000
Non-current:			
Finance leases	93	63	-
Current:			
Finance leases	107	42	-

Terms and debt repayment schedule

	1 year or less £'000	1-2 years £'000	2-5 years £'000	Totals £'000
2017				
Finance leases	107	87	6	200
2016				
Finance leases	42	42	21	105
2015				
Finance leases	-	-	-	-

Notes to the consolidated financial statements

19. Finance leases

Minimum lease payments under finance leases fall due as follows:

	2017 £'000	2016 £'000	2015 £'000
Gross obligations payable:			
Within one year	109	42	-
Between one and five years	94	63	-
	203	105	-
Finance charges repayable:			
Within one year	2	-	-
Between one and five years	1	-	-
	3	-	-
Net obligations repayable:			
Within one year	107	42	-
Between one and five years	93	63	-
	200	105	-

Notes to the consolidated financial statements

20. Called up share capital

	2017 £'000	2016 £'000	2015 £'000
Allotted, called up and fully paid:			
998,723 (2016: 1,000,000, 2015: 1,000,000) ordinary shares of £0.01 each	10	10	10
761,028 (2016: 761,028, 2015: 761,028) B ordinary shares of £0.01 each	8	8	8
173,074 (2016: 202,304, 2015: 202,304) G1 ordinary shares of £0.01 each	2	2	2
104,430 (2016: 125,187, 2015: 125,187) G2 ordinary shares of £0.01 each	1	1	1
40,727 (2016: 44,364, 2015: 44,364) G3 ordinary shares of £0.01 each	-	1	-
25,676 (2016: 29,257, 2015: nil) G4 ordinary shares of £0.01 each	-	-	-
	21	22	21

There have been no share issues by the company during the year.

On 19 December 2017, the company repurchased 29,230 G1, 20,757 G2, 3,637 G3 and 3,581 G4 ordinary shares under the bad leaver provisions of the scheme, documented in the share-based payments accounting policy in note 1. A consideration of £1 per G share holder per share class held was paid on 12 January 2018 and the total liability of £15 is included in other creditors in the financial statements.

On 29 December 2017, the company repurchased 1,277 ordinary shares at £49 each. The company paid £62,573 in respect of these shares.

In 2016, 29,257 G4 ordinary shares were issued at 5p each. The company received consideration totalling £1,463 in respect of these shares.

In 2015, 44,364 G3 ordinary shares were issued at 5p each. The company received consideration totalling £2,219 in respect of these shares.

Notes to the consolidated financial statements

21. Reserves

Share premium

Includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Capital redemption reserve

This is a non-distributable reserve into which amounts are transferred following the redemption or purchase of the company's own shares.

Share-based payment reserve

The fair value of services received in exchange for the grant of options and growth shares is recognised over their vesting period. At the end of the vesting period the fair value of services received is transferred to retained earnings.

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.

Retained earnings

Retained earnings includes all current and prior year retained profits and losses.

22. Financial instruments

The principal financial instruments, from which financial instrument risk arises, are as follows:

- Trade and other receivables
- Cash and cash equivalents
- Investments in securities
- Trade and other payables

As explained in note 1, financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changed in fair value are recognised in the income statement or statement of other comprehensive income. The following tables show the carrying values of assets and liabilities for each of these categories.

Notes to the consolidated financial statements

22. Financial instruments (continued)

	Fair value through other comprehensive income £'000	Financial liabilities at amortised cost £'000	Loans and receivables £'000	Total £'000
2017				
Financial assets				
Investments in securities	99	-	-	99
Cash and cash equivalents	-	-	16,992	16,992
Trade and other receivables	-	-	9,739	9,739
Total financial assets	99	-	26,731	26,830
Non-financial assets				1,955
Total assets				28,785
Financial liabilities				
Finance lease obligations	-	200	-	200
Trade and other payables	-	10,707	-	10,707
Total financial liabilities	-	10,907	-	10,907
Non-financial liabilities				1,696
Total liabilities				12,603

Notes to the consolidated financial statements

22. Financial instruments (continued)

	Fair value through other comprehensive income	Financial liabilities at amortised cost	Loans and receivables	Total
	£'000	£'000	£'000	£'000
2016				
Financial assets				
Investments in securities	69	-	-	69
Cash and cash equivalents	-	-	13,839	13,839
Trade and other receivables	-	-	10,335	10,335
Total financial assets	69	-	24,174	24,243
Non-financial assets				688
Total assets				24,931
Financial liabilities				
Finance lease obligations	-	105	-	105
Trade and other payables	-	7,474	-	7,474
Total financial liabilities	-	7,579	-	7,579
Non-financial liabilities				1,160
Total liabilities				8,739

Notes to the consolidated financial statements

22. Financial instruments (continued)

	Fair value through other comprehensive income £'000	Financial liabilities at amortised cost £'000	Loans and receivables £'000	Total £'000
2015				
Financial assets				
Investments in securities	72	-	-	72
Cash and cash equivalents	-	-	12,858	12,858
Trade and other receivables	-	-	7,592	7,592
Total financial assets	72	-	20,450	20,522
Non-financial assets				535
Total assets				21,057
Financial liabilities				
Trade and other payables	-	8,238	-	8,238
Total financial liabilities	-	8,238	-	8,238
Non-financial liabilities				652
Total liabilities				8,890

Financial instruments measured at fair value – fair value hierarchy

The table overleaf classifies financial assets that are categorised on the statement of financial position at fair value in a hierarchy that is based on significance of the inputs used in making the measurements. The levels of hierarchy are disclosed in note 1.

Investments in securities are held for the benefit of platform functionality and are reported on a separate line in the statement of financial position. The assets are held at fair value with any gains or losses being taken to the statement of other comprehensive income.

Notes to the consolidated financial statements

22. Financial instruments (continued)

The following tables show the group's financial assets measured at fair value through the statement of comprehensive income, classed according to the relevant level of the fair value hierarchy.

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
2017				
Investments in securities	99	-	-	99

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
2016				
Investments in securities	69	-	-	69

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
2015				
Investments in securities	72	-	-	72

Credit risk

The group holds the surplus of corporate cash balances over and above its working capital requirements on deposit with its corporate banking services providers, Royal Bank of Scotland plc and Bank of Scotland plc. The group is therefore exposed to counterparty credit risk and a failure of either bank would impact the group's resources and its ability to meet its solvency and liquidity requirements. Credit risk is managed within the risk appetites set by the board on an annual basis.

Supply of wrap platform services to clients results in trade receivables which the management consider to be of low risk, other receivables are likewise considered to be low risk. The management do not consider that there is any concentration of risk within either trade or other receivables.

Included in other receivables is a balance of cash prefunded on the wrap platform as required by our terms and conditions. This balance fluctuates due to timing. Where this prefunding has been outstanding for more than six months, it is fully provided for. The provision as at 31 December 2017 was £168,788 (2016: £455,467, 2015: £151,839)

Liquidity risk

The group's liquidity position is subject to a range of factors that may generate liquidity strain in the short or medium term. The group manages its liquidity risk through an ongoing evaluation of its working capital requirements against available cash balances and credit facilities.

Exposure to securities markets

The group's income is derived from a tiered basis point fee that is applied to client assets under administration. 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 components of the cost base, the group is ultimately exposed to volatility in its financial results because of market movements beyond its control.

Notes to the consolidated financial statements

22. Financial instruments (continued)

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 because of errors or omissions for which the group is ultimately liable.

Particular operational risks for the group are considered to be:

- People risks – we consider that the two most significant risks are the risk of failure to attract and retain core skills and knowledge in the company, and people-related errors in core processes;
- Operational control failures in core processes – there is always a risk of failure in core processes, either directly by the company and/or by third parties which would result in operational losses, poor client outcomes and reputational damage; and
- Systems-related risks including cyber-attacks, data leakage and business continuity events.

The following tables show an analysis of the financial assets and financial liabilities by remaining expected maturities.

2017

Financial assets	< 3 months £'000	3-12 months £'000	1-5 years £'000	> 5 years £'000	Total £'000
Cash and cash equivalents	16,992	-	-	-	16,992
Investments	-	99	-	-	99
Trade and other receivables	9,069	670	-	-	9,739
	26,061	769	-	-	26,830

2016

Financial assets	< 3 months £'000	3-12 months £'000	1-5 years £'000	> 5 years £'000	Total £'000
Cash and cash equivalents	13,839	-	-	-	13,839
Investments	-	69	-	-	69
Trade and other receivables	9,461	392	482	-	10,335
	23,300	461	482	-	24,243

2015

Financial assets	< 3 months £'000	3-12 months £'000	1-5 years £'000	> 5 years £'000	Total £'000
Cash and cash equivalents	12,858	-	-	-	12,858
Investments	-	72	-	-	72
Trade and other receivables	7,042	183	367	-	7,592
	19,900	255	367	-	20,522

Notes to the consolidated financial statements

22. Financial instruments (continued)

2017

Financial liabilities	< 3 months	3-12 months	1-5 years	> 5 years	Total
	£'000	£'000	£'000	£'000	£'000
Trade and other payables	10,413	279	15	-	10,707
Finance lease obligations	27	80	93	-	200
	10,440	359	108	-	10,907

2016

Financial liabilities	< 3 months	3-12 months	1-5 years	> 5 years	Total
	£'000	£'000	£'000	£'000	£'000
Trade and other payables	7,320	146	8	-	7,474
Finance lease obligations	11	31	63	-	105
	7,331	177	71	-	7,579

2015

Financial liabilities	< 3 months	3-12 months	1-5 years	> 5 years	Total
	£'000	£'000	£'000	£'000	£'000
Trade and other payables	8,101	133	4	-	8,238
	8,101	133	4	-	8,238

Notes to the consolidated financial statements

23. Deferred tax

The deferred tax asset is made up of the following balances:

	Accelerated capital allowances £'000	Short term differences £'000	Losses and other deductions £'000	Total £'000
At 1 January 2015	93	31	234	358
(Charge)/credit to income statement	(89)	31	(234)	(292)
At 31 December 2015	4	62	-	66
Charged to income statement	(1)	(15)	-	(16)
At 31 December 2016	3	47	-	50
(Charge)/credit to income statement	(8)	(6)	122	108
At 31 December 2017	(5)	41	122	158

As a result of the uncertainty in the opinion of the directors regarding the timing and extent of future profit generation by the group, a deferred tax asset of £118,824 (2016: £216,877, 2015: £296,634) has not been recognised.

The deferred tax liability is made up of the following balances:

	Accelerated capital allowances £'000	Short term differences £'000	Losses and other deductions £'000	Total £'000
At 1 January 2015	-	-	-	-
Charged to income statement	(45)	-	-	(45)
At 31 December 2015	(45)	-	-	(45)
Credit to income statement	13	-	-	13
At 31 December 2016	(32)	-	-	(32)
Charged to income statement	(14)	-	-	(14)
At 31 December 2017	(46)	-	-	(46)

Notes to the consolidated financial statements

24. Share-based payments: share options

Certain directors and senior management held options that entitled them to purchase 11,500 ordinary shares provided they remain in full time employment and subject to satisfactory performance appraisals when the options were due to vest. The options vested in tranches between 31 December 2012 and 28 February 2015 and had a last expiry date of 30 June 2017. 4,000 options were exercised on 28 February 2017 with the remaining 7,500 exercised on 26 June 2017.

	Weighted average exercise price (pence) 2017	Number 2017	Weighted average exercise price (pence) 2016	Number 2016	Weighted average exercise price (pence) 2015	Number 2015
Directors' scheme	1,320	-	1,320	4,000	1,320	4,000
Senior management scheme	1,320	-	1,320	7,500	1,320	7,500
Outstanding at the end of the year		-		11,500		11,500

	Grant date 27/07/2010	Grant date 28/01/2010
Option pricing model used	Black Scholes	Black Scholes
Price of the underlying ordinary share	£13.20	£13.20
Effective strike price of the option	£13.20	£13.20
Expected volatility of the share price	50%	50%
Risk free interest rate over the life of the option	1.72%	1.72%
Dividend yield	Nil	Nil
Fair value per option at grant date	£1.37	£1.41

The volatility measured is based on historical volatility of similar listed entities over 2008, 2009 and 2010.

During the year £nil (2016: £nil, 2015: £39) was charged to the income statement in respect of this scheme.

Notes to the consolidated financial statements

25. Share-based payments: G shares

G1, G2, G3 and G4 ordinary shares are granted to directors and employees. Details of the rights and the conditions attached to these shares are included in note 1.

The G shares granted were valued as at the date of grant or entitlement using the Black Scholes model. The significant assumptions used are shown in the table below:

	G1 shares	G1 shares	G2 shares	G2 shares	G3 shares	G4 shares
Date granted	15/10/2012	19/09/2013	19/07/2013	14/03/2014	6/10/2015	17/11/2016
Par value	£0.05	£0.05	£0.05	£0.05	£0.05	£0.05
Realisable	31/12/2017	31/12/2017	31/12/2017	31/12/2017	31/12/2019	31/12/2020
Shares realised 31/12/2017	44,000	95,130	91,803	563	-	-
Shares in issue 31/12/2017	45,000	128,074	103,843	587	40,727	25,676
Shares in issue 31/12/2016	45,000	157,304	124,600	587	44,364	29,257
Shares in issue 31/12/2015	45,000	157,304	124,600	587	44,364	-
Price of the underlying share (£)	£28.22	£28.43	£28.43	£28.43	£34.41	£44.35
Effective strike price of the G ordinary share	£24.10	£24.10	£31.24	£31.24	£34.41	£44.35
Expected volatility of the share price	40%	40%	40%	25%	25%	28%
Risk free interest rate over the life of the G ordinary share	0.79%	1.47%	1.08%	1.36%	1.05%	0.55%
Dividend yield	Nil	Nil	Nil	Nil	Nil	Nil
Fair value per G ordinary share at grant date	£11.82	£11.44	£8.91	£4.95	£7.61	£10.34

The volatility measured is based on historical volatility of similar listed entities between 2008 and 2015. During the year £756,210 (2016: £639,367, 2015: £540,787) was charged to the income statement in respect of these shares. On 29 January 2018 the realised G1 and G2 ordinary shares converted into 124,448 and 113,318 ordinary and deferred shares respectively.

Notes to the consolidated financial statements

26. Provisions

	2017 £'000	2016 £'000	2015 £'000
Client compensation	98	85	390
Outsourced service	204	-	-
Dilapidations	224	103	82
	526	188	472
Analysed as follows:			
Current	526	188	472

	Client compensation £'000	Outsourced service £'000	Dilapidations £'000	Total £'000
At 1 January 2015	52	-	-	52
Utilised during year	(3)	-	-	(3)
Unused amounts reversed during year	(24)	-	-	(24)
Provided during year	365	-	82	447
At 31 December 2015	390	-	82	472
Utilised during year	(307)	-	-	(307)
Unused amounts reversed during year	(33)	-	-	(33)
Provided during year	35	-	21	56
At 31 December 2016	85	-	103	188
Unused amounts reversed during year	(5)	-	-	(5)
Utilised during year	(28)	-	-	(28)
Provided during year	46	204	121	371
At 31 December 2017	98	204	224	526

Notes to the consolidated financial statements

26. Provisions (continued)

Client compensation

The group remediates clients affected by errors on the platform, ensuring the client does not suffer a financial loss as a result. The compensation provision represents the group's best estimate of its present obligation arising from such events which remained unresolved at 31 December 2017. Amounts are provided and reversed against the administrative expenses line in the income statement. A resolution of outstanding issues is expected to be agreed in the first half of 2018 and following this the provision will be utilised or reversed as appropriate.

Outsourced service

As part of the commercial agreement with our outsourced service provider, Genpact, should they fail any key performance criteria, the group is entitled to receive a discount on the wrap administration fees charged. Where failures are agreed between both parties, the credit is recognised in the income statement and those that remain in dispute are recognised as a provision in the statement of financial position. The total amount disputed at 31 December 2017 was £203,716. Discussions continue with Genpact to ascertain liability and we expect to reach an agreement in the first half of 2018. The timing and amount of the cash flow will be dependent on the outcome of these negotiations.

Dilapidations

The company has recognised a dilapidations provision relating to its office premises. This is calculated using the Building Cost Information Service survey (part of the Royal Institution of Chartered Surveyors) of average settlement figures for offices, adjusted for inflation, and the square footage of the company's leasehold premises. The provision will be utilised in the first three months of 2018 following the termination of the company's leases at Thistle Street Lane and Hanover Street.

27. Reconciliation of profit before income tax to cash generated from operations

	2017	2016	2015
	£'000	£'000	£'000
Profit before income tax	5,124	4,329	4,773
Depreciation	410	262	183
Loss on disposal of fixed assets	55	148	4
Share-based payments charge	756	639	541
Bad debt provision	(287)	291	13
Increase in trade and other receivables	(351)	(1,182)	(1,241)
Decrease/(increase) in operational platform prefunding	1,234	(1,851)	(42)
Increase/(decrease) in trade and other payables	3,233	(788)	2,849
Increase/(decrease) in other provisions	338	(258)	420
Interest paid	3	-	26
Interest received	(9)	(13)	(9)
Net exchange differences	3	2	1
	10,509	1,579	7,518

Operational platform prefunding includes prefunding of client pension tax relief and temporary funding required under the client money and client assets rules.

Notes to the consolidated financial statements

28. Reconciliation of liabilities arising from financing activities

	At 1 January 2015	Non-cash changes	Cash flows	At 31 December 2015
	£'000	£'000	£'000	£'000
Bank overdraft	1,134	-	(1,134)	-
Finance lease liabilities	9	-	(9)	-
	1,143	-	(1,143)	-

	At 1 January 2016	Non-cash changes	Cash flows	At 31 December 2016
	£'000	£'000	£'000	£'000
Finance lease liabilities	-	126	(21)	105
	-	126	(21)	105

	At 1 January 2017	Non-cash changes	Cash flows	At 31 December 2017
	£'000	£'000	£'000	£'000
Finance lease liabilities	105	234	(139)	200
	105	234	(139)	200

29. Operating leases

The group's future minimum lease payments under non-cancellable operating leases are as follows:

	2017	2016	2015
	£'000	£'000	£'000
Within one year	38	404	158
Between one and five years	1,880	1,337	691
In more than five years	2,564	177	-
	4,482	1,918	849

During the year, the company exercised its right to break the existing leases for its office premises at Thistle Street Lane and Hanover Street. These leases terminated on 31 January 2018.

On 28 November 2017, the company entered into a new lease for its office premises at Blenheim Place and this agreement contains an initial rent-free period of 18 months.

Notes to the consolidated financial statements

30. Employee share ownership trust

An Esot was established on 2 December 2010. At inception the Esot purchased 23,500 ordinary shares from former employees and consultants that had become "bad leavers" under the terms of the company's shareholder agreement. The company gifted £235 to facilitate this initial purchase. Thereafter, the Esot has disposed of 3,475 shares to employees exercising options under the 2008 Share Option Scheme and 11,500 to directors and senior management who exercised their options in 2017. The company has agreed to provide a loan facility to the Esot to enable the Esot to meet its external expenses. As at the balance sheet date £53,530 (2016: £51,580, 2015: £47,990) was due to the company from the Esot and this is included in external debtors on the company and group balance sheets. The company has not consolidated the results of the Esot on the grounds of materiality.

31. Pension commitments

The group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The pension cost charge represents contributions payable by the group to the fund and amounted to £797,500 (2016: £714,320, 2015: £588,254). Contributions totalling £81,740 (2016: £67,364, 2015: £56,287) were payable to the fund at the balance sheet date.

32. Controlling party

The key shareholders of NFG are Sanlam UK Limited ("Sanlam"), a company incorporated in England and Wales and Nucleus IFA Company Limited ("NIFAC"), a company incorporated in Scotland. There is no one controlling party.

Notes to the consolidated financial statements

33. Related party transactions

Entities with control, joint control or significant influence over the company

NIFAC and Sanlam both have significant interest in the shareholding of Nucleus Financial Group Limited ("NFG"). Transactions with NIFAC and Sanlam were as follows:

	2017	2016	2015
NIFAC	£'000	£'000	£'000
Additional loans provided by NFG to NIFAC	28	80	37
Subordinated loan facility cap	450	450	425
Interest charged to NIFAC at 2.5% (2016: 2.5%)	1	2	2
Interest charged to NIFAC at 3.0% (2016: 3.0%)	7	9	6
Amounts owed to NFG	10	434	319
Board fees paid by NFG on behalf of NIFAC	-	11	6
Board fees due to be paid by NFG on behalf of NIFAC	-	1	1
Board fees due to be paid by NFG to Sanlam on behalf of NIFAC	-	4	7
Dividend paid to NIFAC by NFG	1,082	-	-

	2017	2016	2015
Sanlam	£'000	£'000	£'000
Amounts owed to Sanlam in respect of board fees	89	18	4
Amounts owed to Sanlam in respect of fees for the Onshore Bond	65	52	40
Amounts charged by Sanlam in respect of the Onshore Bond	369	283	215
Amounts owed to Sanlam in respect of tax collected from the Onshore Bond	83	165	93
Dividend paid to Sanlam by NFG	2,427	-	-

Subsidiaries

NFG owns 100% of the share capital of NFS, NIFAS and IMX. There were no transactions with IMX and transactions with NFS and NIFAS are as follows:

	2017	2016	2015
NFS	£'000	£'000	£'000
Amounts owed to NFG by NFS	2,025	5,627	670
NIFAS			
Amounts owed to NFG by NIFAS	-	595	2,316

Notes to the consolidated financial statements

33. Related party transactions (continued)

Other related parties

During the year the company was charged £150,000 (2016: £nil, 2015: £nil) for services provided by Craven Street Capital Limited, of which J A A Samuels is a director. An amount of £102,000 (2016: £nil, 2015: £nil) is accrued.

Key management personnel

Key management personnel are considered to be members of the executive committee and remuneration for the year is as follows:

	2017	2016	2015
	£'000	£'000	£'000
Short term employee benefits	1,518	1,254	1,195
Post-employment benefits	106	89	84
Share-based payments	473	384	365
	2,097	1,727	1,644

During the year key management personnel received dividend totalling £378,566 (2016: £nil, 2015: £nil).

34. Events after the reporting period

On 29 March 2018 the directors approved a change of trustee for the group's Esot. Both the new and the incumbent trustee are aware of the board's intention of this change, which will take effect when the relevant documentation is completed.

During December 2017 231,496 of the 237,174 eligible G1 and G2 shares became realised and on 29 January 2018, in line with the growth share scheme, 142,362 G1 and 95,404 G2 shares converted into 124,448 and 113,318 Nucleus ordinary and deferred shares. The deferred shares hold no voting, capital or dividend rights and are only entitled to a small share of assets in a winding up.

35. Contingent asset

During the year NIFAS submitted an amended 2015 corporation tax return following a claim for research and development (R&D) tax relief. This reduced NIFAS' taxable profit which was offset in full by group relief claimed from NFG. As a result, NIFAS is potentially due a tax refund in relation to 2015 of £132,319. However, this is contingent on the R&D claim being approved by HMRC which is currently not certain, hence the asset has not been recognised in the financial statements.

Notes to the consolidated financial statements

36. Transition to IFRS

This is the first year that the group has presented its results under IFRS. The last financial statements for the year ended 31 December were prepared under FRS 102. The group's date of transition to IFRS is 1 January 2015. Set out below are the changes in accounting which reconcile profit for the financial year ended 31 December 2015 and 31 December 2016 and the total equity as at 1 January 2015, 31 December 2015 and 31 December 2016 between IFRS and previously reported FRS 102.

Reconciliation of equity as at transition date of 1 January 2015

	FRS 102	Effect of transition to IFRS	IFRS
	£'000	£'000	£'000
Assets			
Non-current assets			
Property, plant and equipment	342	-	342
Trade and other receivables	48	-	48
Deferred tax	-	358	358
	390	358	748
Current assets			
Trade and other receivables	6,275	-	6,275
Investments	116	-	116
Cash and cash equivalents	6,812	-	6,812
Deferred tax	358	(358)	-
	13,561	(358)	13,203
Total assets	13,951	-	13,951
Equity			
Shareholders' equity			
Called up share capital	21	-	21
Share premium	15,744	-	15,744
Share-based payment reserve	751	-	751
Fair value reserve	87	-	87
Accumulated losses	(9,235)	-	(9,235)
		-	
Total equity	7,368	-	7,368

Notes to the consolidated financial statements

36. Transition to IFRS (continued)

	FRS 102 £'000	Effect of transition to IFRS £'000	IFRS £'000
Liabilities			
Current liabilities			
Trade and other payables	6,574	(52)	6,522
Financial liabilities	9	-	9
Provisions	-	52	52
	6,583	-	6,583
Total liabilities	6,583	-	6,583
Total equity and liabilities	13,951	-	13,951

During the transition to IFRS, the group identified the mis-classification of certain items, as detailed below.

Provisions

The group has re-classified a client compensation provision of £52,043 from trade and other payables to provisions.

Deferred tax

The group has re-classified its deferred tax asset, resulting in a £358,433 movement from current assets to non-current assets.

Notes to the consolidated financial statements

36. Transition to IFRS (continued)

Reconciliation of equity as at 31 December 2015

	FRS 102	Effect of transition to IFRS	IFRS
	£'000	£'000	£'000
Assets			
Non-current assets			
Property, plant and equipment	469	-	469
Trade and other receivables	367	-	367
Deferred tax	-	66	66
	836	66	902
Current assets			
Trade and other receivables	7,225	-	7,225
Investments	72	-	72
Cash and cash equivalents	12,858	-	12,858
Deferred tax	21	(21)	-
	20,176	(21)	20,155
Total assets	21,012	45	21,057
Equity			
Shareholders' equity			
Called up share capital	21	-	21
Share premium	15,746	-	15,746
Share-based payment reserve	1,292	-	1,292
Fair value reserve	43	-	43
Accumulated losses	(4,935)	-	(4,935)
Total equity	12,167	-	12,167

Notes to the consolidated financial statements

36. Transition to IFRS (continued)

	FRS 102 £'000	Effect of transition to IFRS £'000	IFRS £'000
Liabilities			
Non-current liabilities			
Deferred tax	-	45	45
	-	45	45
Current liabilities			
Trade and other payables	8,710	(472)	8,238
Tax payable	135	-	135
Provisions	-	472	472
	8,845	-	8,845
Total liabilities	8,845	45	8,890
Total equity and liabilities	21,012	45	21,057

During the transition to IFRS, the group identified the mis-classification of certain items, as detailed below.

Provisions

The group has re-classified a client compensation provision of £389,601 and dilapidations provision of £82,017 from trade and other payables to provisions.

Deferred tax

The group has now recognised its deferred tax asset and liabilities separately as there is no right of offset. This has resulted in non-current assets increasing by £66,341, current assets decreasing by £21,058 and non-current liabilities increasing by £45,283.

Notes to the consolidated financial statements

36. Transition to IFRS (continued)

Reconciliation of equity as at 31 December 2016

	FRS 102 £'000	Effect of transition to IFRS £'000	IFRS £'000
Assets			
Non-current assets			
Property, plant and equipment	638	-	638
Trade and other receivables	482	-	482
Deferred tax	-	50	50
	1,120	50	1,170
Current assets			
Trade and other receivables	9,853	-	9,853
Investments	69	-	69
Cash and cash equivalents	13,839	-	13,839
Deferred tax	18	(18)	-
	23,779	(18)	23,761
Total assets	24,899	32	24,931
Equity			
Shareholders' equity			
Called up share capital	22	-	22
Share premium	15,747	-	15,747
Share-based payment reserve	1,931	-	1,931
Fair value reserve	40	-	40
Accumulated losses	(1,548)	-	(1,548)
Total equity	16,192	-	16,192

Notes to the consolidated financial statements

36. Transition to IFRS (continued)

	FRS 102 £'000	Effect of transition to IFRS £'000	IFRS £'000
Liabilities			
Non-current liabilities			
Financial liabilities	63	-	63
Deferred tax	-	32	32
	63	32	95
Current liabilities			
Financial liabilities	42	-	42
Trade and other payables	7,662	(188)	7,474
Tax payable	940	-	940
Provisions	-	188	188
	8,644	-	8,644
Total liabilities	8,707	32	8,739
Total equity and liabilities	24,899	32	24,931

During the transition to IFRS, the group identified the mis-classification of certain items, as detailed below.

Provisions

The group has re-classified a client compensation provision of £85,111 and dilapidations provision of £103,318 from trade and other payables to provisions.

Deferred tax

The group has now recognised its deferred tax asset and liabilities separately as there is no right of offset. This has resulted in non-current assets increasing by £50,323, current assets decreasing by £18,419 and non-current liabilities increasing by £31,904.

Notes to the consolidated financial statements

36. Transition to IFRS (continued)

Reconciliation of profit for the year ended 31 December 2015

	FRS 102	Effect of transition to IFRS	IFRS
	£'000	£'000	£'000
Revenue	28,957	-	28,957
Cost of sales	(10,523)	-	(10,523)
Gross profit	18,434	-	18,434
Other operating income	877	-	877
Administrative expenses	(14,517)	(4)	(14,521)
Operating profit	4,794	(4)	4,790
Finance income	9	-	9
Finance costs	(26)	-	(26)
Loss on disposal of fixed assets	(4)	4	-
Profit before income tax	4,773	-	4,773
Income tax	(473)	-	(473)
Profit for the financial year	4,300	-	4,300
Profit attributable to:			
Owners of the parent	4,300	-	4,300

Loss on disposal of fixed assets

On transition, the loss on disposal of fixed assets has been reallocated to administrative expenses as it is not a statutory requirement to disclose this on the face of the income statement.

Notes to the consolidated financial statements

36. Transition to IFRS (continued)

Reconciliation of profit for the year ended 31 December 2016

	FRS 102	Effect of transition to IFRS	IFRS
	£'000	£'000	£'000
Revenue	33,281	-	33,281
Cost of sales	(11,695)	-	(11,695)
Gross profit	21,586	-	21,586
Other operating income	76	-	76
Administrative expenses	(17,346)	-	(17,346)
Operating profit	4,316	-	4,316
Finance income	13	-	13
Finance costs	-	-	-
Profit before income tax	4,329	-	4,329
Income tax	(942)	-	(942)
Profit for the financial year	3,387	-	3,387
Profit attributable to:			
Owners of the parent	3,387	-	3,387

There has been no change to the profit for the year ended 31 December 2016 on transition to IFRS.

Financials

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

Report on the audit of the parent company financial statements

Opinion

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

- give a true and fair view of the state of the parent company's affairs as at 31 December 2017 and of its cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the annual report and financial statements (the "annual report"), which comprise: the company statement of financial position as at 31 December 2017; the company statement of cash flows, the company statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the parent company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the annual report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the strategic report and directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic report and directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the strategic report and directors' report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the parent company and its environment obtained in the course of the audit, we did not identify any material misstatements in the strategic report and directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the directors' responsibility statement set out on page 34, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 directors are responsible for assessing the parent company'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 directors either intend to liquidate the parent company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the parent 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.

Other required reporting

Companies Act 2006 exception reporting

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

We have reported separately on the group financial statements of Nucleus Financial Group Limited for the year ended 31 December 2017.

Catrin Thomas (senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

Edinburgh

30 April 2018

Company statement of financial position

	Note	31 December 2017 £'000	31 December 2016 £'000	1 January 2016 £'000
Assets				
Non-current assets				
Property, plant and equipment	4	830	8	12
Investments	5	7,645	2,645	2,645
Trade and other receivables	6	-	482	2,683
Deferred tax	10	158	36	46
		8,633	3,171	5,386
Current assets				
Trade and other receivables	6	2,655	6,896	1,030
Cash and cash equivalents	7	3,540	6,467	8,870
		6,195	13,363	9,900
Total assets		14,828	16,534	15,286
Equity				
Shareholders' equity				
Called up share capital	14	21	22	21
Share premium	17	-	15,747	15,746
Capital redemption reserve	17	1	-	-
Share-based payment reserve	17	2,646	1,931	1,292
Retained earnings/(accumulated losses)	17	8,058	(3,771)	(3,453)
Total equity		10,726	13,929	13,606
Liabilities				
Current liabilities				
Trade and other payables	8	3,876	2,496	1,598
Tax payable		2	6	-
Provisions	9	224	103	82
Total liabilities		4,102	2,605	1,680
Total equity and liabilities		14,828	16,534	15,286

In accordance with section 408 of the Companies Act 2006, the company is exempt from the requirement to present its own income statement and statement of comprehensive income. The company's profit for the year was £917,448 (2016: £317,710 loss). Included in this amount is dividends received of £1,500,000 (2016: £nil), which are recognised when the right to receive payment is established. The company recognised no other income or expenses in either the current or prior year, other than the profit for each year.

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 30 April 2018.

S J Geard
Director

The notes on pages 93 to 107 form part of these financial statements.

Company statement of changes in equity

	Called up share capital	Retained earnings (accumulated losses)	Share premium
	£'000	£'000	£'000
Balance at 1 January 2016	21	(3,453)	15,746
Changes in equity			
Issue of share capital	1	-	1
Loss for the financial year	-	(318)	-
Balance at 31 December 2016	22	(3,771)	15,747
Changes in equity			
Redemption of shares	(1)	(63)	-
Transfer on capital reduction	-	15,747	(15,747)
Transfer on exercise of options	-	41	-
Dividends paid	-	(4,813)	-
Profit for the financial year	-	917	-
Share-based payments charge	-	-	-
Balance at 31 December 2017	21	8,058	-

	Capital redemption reserve	Share-based payment reserve	Total equity
	£'000	£'000	£'000
Balance at 1 January 2016	-	1,292	13,606
Changes in equity			
Issue of share capital	-	-	2
Profit for the financial year	-	-	(318)
Share-based payments charge	-	639	639
Balance at 31 December 2016	-	1,931	13,929
Changes in equity			
Redemption of shares	1	-	(63)
Transfer on capital reduction	-	-	-
Transfer on exercise of options	-	(41)	-
Dividends paid	-	-	(4,813)
Profit for the financial year	-	-	917
Share-based payments charge	-	756	756
Balance at 31 December 2017	1	2,646	10,726

The notes on pages 93 to 107 form part of these financial statements.

Company statement of cash flows

	Note	2017 £'000	2016 £'000
Cash flows from operating activities			
Cash inflow/(outflow) from operations	12	6,285	(2,413)
Income tax paid		(6)	-
Net cash inflow/(outflow) from operating activities		6,279	(2,413)
Cash flows from investing activities			
Purchase of tangible fixed assets		(837)	-
Dividend received		1,500	-
Dividend paid		(4,813)	-
Investments		(5,000)	-
Net cash outflow from investing activities		(9,150)	-
Cash flows from financing activities			
Interest received		8	10
Issue of ordinary shares		-	1
Share buyback		(63)	-
Net cash (outflow)/inflow from financing activities		(55)	11
Decrease in cash and cash equivalents		(2,926)	(2,402)
Cash and cash equivalents at beginning of year		6,467	8,870
Effects of exchange rate changes on cash and cash equivalents		(1)	(1)
Cash and cash equivalents at end of year		3,540	6,467

The notes on pages 93 to 107 form part of these financial statements.

Notes to the company financial statements

1. Accounting policies

Nucleus Financial Group Limited ("the company") is a limited company incorporated in the United Kingdom and registered in England and Wales.

The significant accounting policies applied in the preparation of these company financial statements are the same as those set out in note 1 to the consolidated financial statements with the addition of the following:

Investments in subsidiaries

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.

Changes in accounting policies

These are the first financial statements of the company prepared in accordance with IFRS. The company's date of transition to IFRS is 1 January 2016. Note 20 details the impact of transitioning to IFRS on the company's previously presented financial information.

In accordance with Section 408 of the Companies Act 2006, the company is exempt from the requirement to produce its own income statement and statement of comprehensive income.

2. Critical accounting judgements and key sources of 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. The estimates and judgements applied in the preparation of these company financial statements are the same as those set out in note 2 to the consolidated financial statements.

3. Staff costs

Staff costs paid by the company and the number of employees are detailed in note 6 to the consolidated financial statements. The company recharges an element of this cost to NFS and NIFAS.

The company's pension commitments are disclosed in note 31 to the consolidated financial statements.

Directors' remuneration and compensation of key management personnel is disclosed in notes 7 and 33 to the consolidated financial statements.

Notes to the company financial statements

4. Property, plant and equipment

	Short-term leasehold property £'000
Cost	
At 1 January 2017	27
Additions	837
Disposals	(27)
At 31 December 2017	837
Depreciation	
At 1 January 2017	19
Charge for year	11
Eliminated on disposal	(23)
At 31 December 2017	7
Net book value	
At 31 December 2017	830
At 31 December 2016	8

5. Investments

	Investment in subsidiary companies £'000
Cost	
At 1 January 2017	2,645
Additions	5,000
At 31 December 2017	7,645
Net book value	
At 31 December 2017	7,645
At 31 December 2016	2,645

Notes to the company financial statements

5. Investments (continued)

Subsidiary undertakings

The following are subsidiary undertakings of the company:

Nucleus Financial Services Limited

Registered office: United Kingdom
Class of shares: Ordinary
Holding: 100%
Principal activity: Provision of wrap investment administration services to selected financial advisers in the United Kingdom.

	2017	2016
	£'000	£'000
Aggregate capital and reserves	12,926	3,507
Profit for the financial year	4,420	-

Nucleus IFA Services Limited

Registered office: United Kingdom
Class of shares: Ordinary
Holding: 100%
Principal activity: Provision of platform technology, sales, marketing and platform development services to NFS.

	2017	2016
	£'000	£'000
Aggregate capital and reserves	125	1,351
Profit for the financial year	274	3,705

Nucleus IMX Limited

Registered office: United Kingdom
Class of shares: Ordinary
Holding: 100%
Principal activity: Non-trading subsidiary

	2017	2016
	£	£
Aggregate capital and reserves	1	-
Profit for the financial year	-	-

Notes to the company financial statements

6. Trade and other receivables

	2017 £'000	2016 £'000
Non-current:		
Amounts owed by related party	-	434
Other debtors	-	48
	-	482

	2017 £'000	2016 £'000
Current:		
Amounts owed by group undertakings	2,025	6,222
Other debtors	114	141
Prepayments and accrued income	516	533
	2,655	6,896
Aggregate amounts	2,655	7,378

Amounts owed by group undertakings are unsecured, interest free and have agreed repayment terms.

7. Cash and cash equivalents

	2017 £'000	2016 £'000
Cash at bank and in hand	3,540	6,467

8. Trade and other payables

	2017 £'000	2016 £'000
Trade creditors	315	204
Social security and other taxes	334	267
Other creditors	-	7
Accruals	3,227	2,018
	3,876	2,496

Notes to the company financial statements

9. Provisions

	2017 £'000	2016 £'000
Current:		
Dilapidations	224	103

	£'000
At 1 January 2016	82
Provided during year	21
At 31 December 2016	103
Provided during year	121
At 31 December 2017	224

Dilapidations

The company has recognised a dilapidations provision relating to its office premises based on the square footage in use.

Notes to the company financial statements

10. Deferred tax

	Accelerated capital allowances	Short term timing differences	Losses and other deductions	Total
	£'000	£'000	£'000	£'000
At 1 January 2016	4	42	-	46
Charged to income statement	-	(10)	-	(10)
At 31 December 2016	4	32	-	36
(Charge)/credit to income statement	(9)	9	122	122
At 31 December 2017	(5)	41	122	158

The total potential deferred tax asset arising in respect of unutilised tax losses and timing differences at 31 December 2017 is £276,517 (2016: £252,897). As a result of the uncertainty in the opinion of the directors regarding the timing and extent of future profit generation by the company, a deferred tax asset of £118,824 (2016: £216,877) has not been recognised.

Notes to the company financial statements

11. Financial instruments

	Financial liabilities at amortised cost £'000	Loans and receivables £'000	Total £'000
2017			
Financial assets			
Cash and cash equivalents	-	3,540	3,540
Trade and other receivables	-	2,655	2,655
Total financial assets	-	6,195	6,195
Non-financial assets			8,633
Total assets			14,828
Financial liabilities			
Trade and other payables	3,876	-	3,876
Total financial liabilities	3,876	-	3,876
Non-financial liabilities			226
Total liabilities			4,102

Notes to the company financial statements

11. Financial instruments (continued)

	Financial liabilities at amortised cost £'000	Loans and receivables £'000	Total £'000
2016			
Financial assets			
Cash and cash equivalents	-	6,467	6,467
Trade and other receivables	-	7,378	7,378
Total financial assets	-	13,845	13,845
Non-financial assets			2,689
Total assets			16,534
Financial liabilities			
Trade and other payables	2,496	-	2,496
Total financial liabilities	2,496	-	2,496
Non-financial liabilities			109
Total liabilities			2,605

Notes to the company financial statements

11. Financial instruments (continued)

Financial assets maturity schedule

2017	< 3 months £'000	3-12 months £'000	1-5 years £'000	> 5 years £'000	Total £'000
Cash and cash equivalents	3,540	-	-	-	3,540
Trade and other receivables	2,602	53	-	-	2,655
	6,142	53	-	-	6,195

2016	< 3 months £'000	3-12 months £'000	1-5 years £'000	> 5 years £'000	Total £'000
Cash and cash equivalents	6,467	-	-	-	6,467
Trade and other receivables	6,844	52	482	-	7,378
	13,311	52	482	-	13,845

Financial liabilities maturity schedule

2017	< 3 months £'000	3-12 months £'000	1-5 years £'000	> 5 years £'000	Total £'000
Trade and other payables	3,582	279	15	-	3,876
	3,582	279	15	-	3,876

2016	< 3 months £'000	3-12 months £'000	1-5 years £'000	> 5 years £'000	Total £'000
Trade and other payables	2,341	147	8	-	2,496
	2,341	147	8	-	2,496

Notes to the company financial statements

12. Reconciliation of profit before tax to cash generated from operations

	2017	2016
	£	£
Profit/(loss) before income tax	797	(302)
Depreciation charges	11	4
Loss on disposal of fixed assets	4	-
Share based payments charge	756	639
Decrease/(increase) in trade and other receivables	4,723	(3,665)
Increase in trade and other payables	1,380	899
Increase in provisions	121	21
Finance costs	-	-
Finance income	(8)	(10)
Net exchange differences	1	1
Dividend received	(1,500)	-
Cash inflow/(outflow) from operations	6,285	(2,413)

Notes to the company financial statements

13. Dividends

Details of dividends paid are disclosed in note 11 to the consolidated financial statements.

14. Called up share capital

Details of the share capital of the company are disclosed in note 20 to the consolidated financial statements.

15. Operating lease commitments

Details of the company's operating lease commitments are disclosed in note 29 to the consolidated financial statements.

16. Share based payments

For details of the company's share schemes, including the valuation models used, refer to notes 24 and 25 to the consolidated financial statements.

17. Reserves

Details of the company's reserves are disclosed in note 21 to the consolidated financial statements.

18. Related party transactions

Details of related party transactions are disclosed in note 33 to the consolidated financial statements.

19. Controlling party

Details of the ultimate controlling party are disclosed in note 32 to the consolidated financial statements.

Notes to the company financial statements

20. Transition to IFRS

Reconciliation of equity as at 31 December 2016

This is the first year that the company has presented its results under IFRS. The last financial statements for the year ended 31 December were prepared under FRS 102. The company's date of transition to IFRS is 1 January 2016. Set out below are the changes in accounting which reconcile profit for the financial year ended 31 December 2016 total equity as at 1 January 2016 and 31 December 2016 between IFRS and previously reported FRS 102.

	FRS 102	Effect of transition to IFRS	IFRS
	£'000	£'000	£'000
Assets			
Non-current assets			
Property, plant and equipment	8	-	8
Investments	2,645	-	2,645
Trade and other receivables	482	-	482
Deferred tax	-	36	36
	3,135	36	3,171
Current assets			
Trade and other receivables	6,932	(36)	6,896
Cash and cash equivalents	6,467	-	6,467
	13,399	(36)	13,363
Total assets	16,534	-	16,534

Notes to the company financial statements

20. Transition to IFRS (continued)

	FRS 102 £'000	Effect of transition to IFRS £'000	IFRS £'000
Equity			
Shareholders' equity			
Called up share capital	22	-	22
Share premium	15,747	-	15,747
Share-based payment reserve	1,931	-	1,931
Accumulated losses	(3,771)	-	(3,771)
Total equity	13,929	-	13,929
Liabilities			
Current liabilities			
Trade and other payables	2,599	(103)	2,496
Tax payable	6	-	6
Provisions	-	103	103
Total liabilities	2,605	-	2,605
Total equity and liabilities	16,534	-	16,534

During the transition to IFRS, the company identified the mis-classification of certain items as noted below:

Provisions

The company has re-classified a dilapidations provision of £103,318 from trade and other payables to provisions.

Deferred tax

The company has re-classified its deferred tax asset, resulting in a £36,020 movement from current assets to non-current assets.

Notes to the company financial statements

20. Transition to IFRS (continued)

Reconciliation of equity as at 1 January 2016

	FRS 102	Effect of transition to IFRS	IFRS
	£'000	£'000	£'000
Assets			
Non-current assets			
Property, plant and equipment	12	-	12
Investments	2,645	-	2,645
Trade and other receivables	2,683	-	2,683
Deferred tax	-	46	46
	5,340	46	5,386
Current assets			
Trade and other receivables	1,076	(46)	1,030
Cash and cash equivalents	8,870	-	8,870
	9,946	(46)	9,900
Total assets	15,286	-	15,286
Equity			
Shareholders' equity			
Called up share capital	21	-	21
Share premium	15,746	-	15,746
Share-based payment reserve	1,292	-	1,292
Accumulated losses	(3,453)	-	(3,453)
Total equity	13,606	-	13,606

Notes to the company financial statements

20. Transition to IFRS (continued)

	FRS 102	Effect of transition to IFRS	IFRS
	£'000	£'000	£'000
Liabilities			
Current liabilities			
Trade and other payables	1,680	(82)	1,598
Provisions	-	82	82
Total liabilities	1,680	-	1,680
Total equity and liabilities	15,286	-	15,286

During the transition to IFRS, the company identified the mis-classification of certain items as noted below:

Provisions

The company has re-classified a dilapidations provision of £82,018 from trade and other payables to provisions.

Deferred tax

The company has re-classified its deferred tax asset, resulting in a £46,094 movement from current assets to non-current assets.

Reconciliation of profit for the year ended 31 December 2016

The company has taken advantage of the exemption in Section 408 of the Companies Act 2006 not to produce its own income statement. There have been no adjustments on transition to IFRS that have impact the prior year's company loss of £317,710.

Company information

Directors

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J P Gibson
J A Levin
J C Polin
J A A Samuels
M D Seddon
S J Tucker

Company secretary

N C Megaw

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