Nucleus Financial Group Ltd
Annual report and accounts 2013

Company information

Directors	A C D Bloch P R Bradshaw D R Ferguson S J Geard J P Gibson A J Mathieson J A A Samuels L van der Walt N B Wilson
Company secretary	N C Megaw
Registered number	05522098
Registered office	One London Wall London United Kingdom EC2Y 5AB
Independent auditors	PricewaterhouseCoopers LLP Atria One 144 Morrison Street Edinburgh EH3 8EX
Bankers	The Royal Bank of Scotland Aldgate Union 7th Floor 10 Whitechapel High Street London E1 8DX Bank of Scotland plc PO Box 17235 Edinburgh EH11 1YH

Contents

Adviser partners

Number of new firms using Nucleus during the year

65

Total number of advisers represented

1,590

Total assets under managment (AUM) at year end

£6.2bn

Chairman's report
Paul Bradshaw

"Nucleus' base of customer-focused advisers have emerged as clear winners from the Retail Distribution Review (RDR) with their incumbent business model barely impacted by the change."

Assets under management up

37%

Operating profit

£1.5m

2013 was a successful and profitable year for the company with all key financial targets being surpassed. Net inflows of £1.3bn (2012 £1bn) and an ebullient stock market combined to give us year-end platform assets of £6.2bn (2012: £4.5bn) and an operating profit of £1.5m (2012: £0m).

Our rate of operating profit generation in 2013, compared with total shareholder capital invested, is now at an acceptable level of 9%, in some contrast to most of our competitors, and the recurring nature of our revenue model should ensure that, now we have reached a critical scale, these results can be built upon for the foreseeable future.

Operational standards were maintained throughout the year with considerable development resource allocation to an upgrade of our core operating system to a technology which will serve us for many years to come. I would particularly like to record appreciation for the extraordinarily detailed and diligent work performed by Stuart and his team as they confronted the intricacies of this upgrade, while still bedding in our relationships with core outsource providers.

We would all also recognise that the future competitive landscape will be dominated by service, functionality and connectivity and the patience of our users at the relative lack of development in 2013 is both appreciated and valued.

Nucleus' base of customer-focused advisers have emerged as clear winners from the Retail Distribution Review (RDR) with their incumbent business model barely impacted by the change. It is important though that we recognise that the safe and profitable waters which David has steered us to are surrounded by more stormy environments.

Weaker advisers, perhaps dependent both emotionally and financially on legacy providers have clearly struggled with the practical independence which RDR has brought and no doubt their future will require ties to stronger parents.

Also, as the RDR extends its reach into direct to customer and legacy business the mutual fund industry is in grave danger of totally confusing its customers with a proliferation of clean (which may be more expensive), dirty and super clean (which may just be a euphemism for poor performing) share classes. These complications have cost us time and money, but I fear the industry will lose sight of the fact that trust is based on comprehension and help accelerate the dramatic flows we already witness into index-tracking vehicles to become the dominant investment medium for customers. That will not harm our business, but it would ultimately have a significant, and potentially undesirable, effect on capital markets.

Nucleus is well positioned for the future, with the right advisers in the right market and, post upgrade, a market-leading technology solution. The changes in the 2014 budget are obviously hugely beneficial for our customers, advisers and of course our business. It is most satisfying to see the Treasury reflecting the needs and desires of our customers at the expense in particular of legacy pension models.

Increasingly too we have a really first-class management team with strength in depth and a culture which feels perfectly suited to the FCA's re-energised focus on customer outcomes.

Equally we recognise that, once competitors regroup with organisational structures and systems fit for purpose in this post RDR world, the competition will become more intense and we must ensure that we are fully prepared to meet the ever increasing service demands of advisers and customers.

I would once more like to particularly thank my Board colleagues whose advice and counsel has been invaluable both to myself and the business and of course all the staff who are forever positive and cheerful - that makes everything possible.

Strategic report

The Directors present their Strategic and Directors' Reports and the audited consolidated financial statements for the period ended 31 December 2013. 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 and Nucleus IFA Services Limited ("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.

The Company has two subsidiaries Nucleus Financial Services Limited ("NFS") and Nucleus IFA Services Limited ("NIFAS").

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

NIFAS is not regulated and it provides services encompassing sales, marketing and platform development exclusively to NFS.

Both subsidiaries' financial statements and NFS' Pillar 3 statement can be found on the Group's corporate website www.nucleusfinancial.com.

The Nucleus wrap allows clients to invest directly, or via various 'tax wrappers' into a broad range of underlying assets, including cash, unit trusts, Oeics, ETFs, investment trusts and other securities.

Nucleus has a particular commitment to transparency and desire to put the client centre stage. This is delivered via our culture and the influence of our users.

The first year following the implementation of RDR was good for Nucleus but our operating environment is changing rapidly and we must not become complacent. Banning commission for advisers and introducing new rules regarding platform remuneration and product bias were always going to have significant medium and long-term impact on the business models of adviser firms, asset managers, life insurers and platforms and we remain in the early stages of sector reorganisation.

While the early indications are positive for Nucleus, and crucially for our users, we recognise that the full strategic impact remains uncertain and unexpected, and undesirable consequences may yet emerge.

We believe that our operating model and culture are consistent with the FCA's desire to see a more customer-centric model emerge. We welcome the renewed focus on conduct risk and believe this offers us a source of competitive advantage.

While we view the move to clean share classes as a positive development we will incur an operational overhead in moving clients away from rebate-bearing holdings. While our approach requires us to absorb greater operational cost than if we had implemented a blanket switch regardless of client impact, we consider our approach consistent with the FCA's guidance.

The year closed with £6.2bn of assets under administration, representing an increase of 37% from the end of 2012.

Overall we added £1.7bn of gross inflows (£1.3bn net) and 65 new firms and we now represent 1,590 advisers. Group financial performance was excellent with turnover up 37% to £18.8m and profit after tax rising to £1.7m (2012: £0.1m). Consolidated profit margin increased to 9% from around 1% and began to substantiate the anticipated operational gearing benefit of scale. Successful delivery of our 2014 plan will reinforce this theme.

We believe that the future success of each adviser platform will be significantly defined by the success of its audience and we continue to believe we are very well positioned in this regard. Working only with firms which meet our acceptance criteria and working with Paradigm to reach a wider audience are core to our strategy and mean we continue to operate with, we believe, the lowest sales and marketing costs in the sector.

During 2013 we were voted 2nd in the Aberdeen Platform of the Year awards and retained our best medium-sized platform status from CoreData. We also gained a five star service award from Financial Adviser. We continued to invest heavily in service, functionality and connectivity in order to develop our market position and will continue this during 2014.

2013 saw further margin compression across the platform market. As a result of this we reduced our prices for larger portfolios. Against this we are keen to diversify revenue with the target of at least replacing margin lost to competitive pressures.

Turnover up

37%

"We continued to invest heavily in service, functionality and connectivity in order to develop our market position and will continue this during 2014."

Future Developments

Our platform capability continues to develop with the engagement of users. While a technology upgrade meant we made less development progress than hoped for last year, we have planned and budgeted to catch up over the course of 2014. Successful delivery and a new back office servicing contract with Citigroup should provide a strong operational foundation for the next few years.

Nucleus IFA Company ("NIFAC") (the investment company through which most adviser shareholders in Nucleus hold their investment) continues to consider its future purpose and we continue to support its decision-making process. To support this, in March 2014, we extended the expiry of the existing loan agreement from an earliest 1 October 2014 to 1 July 2015, at which point Nucleus can request repayment on three months' notice.

A referendum on Scottish independence is planned for 18 September 2014 and accordingly we have noted the Scottish National Party's white paper and the many issues which will be pertinent to September's vote and, in the event of a 'yes' vote, thereafter. These issues include EU membership and the currency, regulatory, taxation and employment characteristics of an independent Scotland.

In the event of a 'Yes' vote, it is proposed that independence might take effect 18 months after the referendum. It remains impossible to be precise while so many matters remain outstanding. However the board believes that both the Group's corporate structure and our agreements with major partners provide the flexibility we might need to implement swiftly any changes necessary. Any changes made would be with the objective of optimising our post-referendum structure and protecting the interests of our staff, our customers (the significant majority of whom reside in England), and our shareholders. In such a process it may prove helpful that NFS, which is the principal trading company providing wrap platform services and is regulated by the FCA, is registered in England and Wales.

Principal risks and uncertainties

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

Regarding our future shareholding arrangements, we are also exploring how we might allow firms using the platform, who are currently not shareholders in Nucleus, to invest in Nucleus in the future whilst recognising the various commercial and regulatory matters which need to be given due consideration.

The Group operates in a heavily regulated industry

Any change in regulations affecting NFS, or any other member of Nucleus, could have a material adverse effect on Nucleus' ability to carry on its activities, which in turn could have a material adverse effect on the Company's performance and returns to shareholders. There are a number of risks which emanate from Nucleus' regulatory status and the most significant of these, at the date of signing, are as follows:

(i) Impact of a breach of FCA regulations

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

(ii) Requirement to hold sufficient regulatory capital

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

Strategic report
Cont'd

(iii) New and forthcoming regulation

With regard to developments in the platform sector, the implementation of the Retail Distribution Review in January 2013 and the impact this has on platform operators and Nucleus' target audience continues to be a focus as the FCA considers the effectiveness of the industry's adoption of the new requirements.

Finally, the FCA is in consultation with relevant participants with regard to aspects of regulation that impact Nucleus' operations, such as client money, Capital Requirements Directive IV and outsourcing. Any changes to these regulations could have an impact on the operational and regulatory capital requirements that Nucleus is required to adhere to.

Reliance on financial advisers

As with all platform operators in the financial adviser market, the recruitment and retention of financial advisers is an important part of the Group's growth plans. Changes in the regulatory and/or the competitive environment may render the Group's service offerings unattractive to financial advisers and have an adverse effect on the Group's revenues.

Nucleus also provides a platform solution to Paradigm and in 2013 approximately one third of new business arose through this arrangement which is currently fixed until 2016.

Reliance on key suppliers

Nucleus relies on the following main suppliers:

- Citigroup International plc ("Citi") to which platform administration services are outsourced. In the delivery of its services Citi outsources platform technology to Bravura Solutions Limited;
- Scottish Friendly Assurance Society and Sanlam UK Limited which provide the onshore bonds;
- RL360 which provides the offshore bond;
- Royal Bank of Scotland plc and Bank of Scotland plc who provide operational and corporate banking facilities.

Access to capital

Nucleus is an unlisted private company limited by shares. The provisions of the Company's shareholder agreement ordinarily restrict the ability of the Company to raise additional capital from its existing shareholders. However, where additional capital is required in order to meet its regulatory obligations the Directors are empowered to access other sources of capital outside of the immediate shareholder community.

Competition risk

There can be no assurance that other companies will not compete more aggressively than at present with Nucleus. This may be in terms of winning new clients, attracting advisers and sourcing acquisition targets. Competition may come from companies that have greater development, marketing, financial and personnel resources than the Group. Competitors may develop products and services that are more effective or economically viable than those developed by Nucleus.

Results and key performance indicators

The consolidated profit after tax for the financial year was £1,719,382 (2012: £137,762). This was in line with Directors' expectations. The key performance indicators the Board uses to assess financial performance are:

	2013 £	2012 £
Assets under administration	6,184,389,936	4,502,079,419
Turnover	18,764,827	13,641,555
Consolidated operating profit	1,465,328	17,875
Consolidated profit after tax	1,719,382	137,762
Net assets	4,319,829	2,378,613

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

Directors' report

The Directors present their report and the audited financial statements of the Group and the Company for the year ended 31 December 2013.

Future Developments

Details on future developments are included in the Strategic Report.

Risk management framework

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

The activities within each of the three lines are:

- First line of defence

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

- Second line of defence

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

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

- Third line of defence

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

Financal risk management

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

Exposure to securities markets

Nucleus' income is currently derived from a fully variable basis point fee applied to client assets under administration. As such, Nucleus' income is exposed to variations in this fee due to external market movements. Whilst there is some mitigation of this risk within aspects of the Nucleus' cost base, Nucleus is ultimately exposed to variations in its financial results due to market movements outside of its control.

Liquidity risk

Liquidity risk is the risk that a company will incur losses because it is unable to secure the necessary funds or is forced to obtain funds at higher interest rates than under normal conditions due to a mismatch between the maturities of its assets and liabilities. Nucleus manages its liquidity risk through an evaluation of its working capital requirements supported by reviewing its cash and cash facilities on an ongoing basis.

Going concern

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

- the latest five year business plan projections of the Company and the Group, stressed for significant events that would have a material impact on the Company and the Group's profitability, liquidity, solvency and its regulatory capital position;
- actual performance to date;
- access to capital to meet operational and regulatory requirements;
- known risks and uncertainties with consideration of the impact of these on the Group's solvency and liquidity position; and
- known and anticipated changes in the regulatory environment impacting platform operators.

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

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

Board of directors

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

Paul Bradshaw
Chairman

Paul originally qualified as an actuary in 1974 and has led insurance and investment companies in the UK and EU over many years. Highlights were being privileged to be a founder of Skandia in the UK, which he led until 1991, assisting in the formation of St James Place and completing his executive career as CEO of Abbey's (now Santander) UK insurance businesses.

He is married (41 years), with two children and four grandchildren and lives in London.

David Ferguson
Chief Executive Officer

Born and bred in Edinburgh, David started his career as a trainee actuary with Life Association of Scotland before stints with Ivory & Sime, Scottish Life International and strategic consultancy The Abacus.

Having formed a belief that the industry wasn't fit for purpose, David embarked on a journey in 1998 which culminated in the 2006 formation of Nucleus, the UK's first and only adviser-controlled wrap platform. He is immensely proud to lead the small team that has driven Nucleus to become a credible player, particularly at a time when honesty and accountability have never mattered more.

David lives with his sparkling wife Monique and precious baby daughter Nicole in Edinburgh, and enjoys dining in, dining out, live music and following the city's 2012 Scottish Cup winning Heart of Midlothian FC.

Aileen Mathieson
Chief Financial Officer

Appointed a director and chief financial officer, responsible for finance, risk and compliance, in April 2010 having previously been chief operating officer of Standard Life Savings Ltd. Before this she had been head of business performance at Standard Life Investments.

Aileen had joined Standard Life in January 2007 from Diageo plc where she had held a number of senior finance roles across the Group. Aileen qualified as a chartered accountant with KPMG in Scotland in 1993 after which she worked for Spider Systems, EMI Music plc and Motorola before joining Diageo plc in 1999.

Aileen is also treasurer of Edinburgh Cyrenians.

Aileen has two sons and a daughter and lives in Edinburgh.

Stuart Geard
Managing director

Stuart joined Nucleus as Managing director in October 2012, having 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.

Stuart was born and raised in South Africa, and now resides in Edinburgh with his wife and three children.

Danby Bloch
Non-executive director

Danby Bloch is editorial director and co-founder of Taxbriefs Financial Publishing which produces many of the UK's Chartered Insurance Institute's examination learning texts and CPD content. The company also produces customised newsletters and other publications for firms of financial planners and accountants. Taxbriefs is part of the Centaur Media Group.

Danby is chairman of City of London IFAs Helm Godfrey and has been in the financial services industry for over 35 years. In 2010 he became a director of Nucleus Financial Group. Danby was educated at Tonbridge School and briefly at the University of Besancon in France. He read Philosophy, Politics and Economics at Wadham College Oxford. He sat on the College's Investment Committee for many years. He has been married to Sandy since 1968. He has two grown up children and three grandchildren.

Danby has written five books on financial planning and innumerable articles for the UK national and trade press. He is also a regular lecturer on tax and financial subjects. He is a patron of the Friends of the Pitt Rivers Museum Oxford. He was prochancellor of Oxford Brookes University, which awarded him an honorary doctorate in 2004. He became chair of the board of the Oxford Playhouse in 2010.

Angus Samuels
Non-executive director

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.

Angus has held a number of senior positions in the investment industry both in the UK and South Africa. Earlier in his career Angus was chief executive of Sanwa Asset Management Limited and Credit Suisse Asset Management. In 1999, Angus returned briefly to South Africa as chief executive of Sanlam Investment Management Ltd, the investment arm of Sanlam Ltd and the country's second largest asset manager.

Angus is currently Chairman of Punter Southall Group, a UK based financial services group with over 850 employees, comprising of Punter Southall (consulting actuaries), PSolve (Institutional asset manager and consultant, regulated by the FCA), Psigma Investment Management and PSFM (HNW investment management and Independent Financial Advisers, both regulated by the FCA).

Angus holds a number of other non-executive directorships including Nucleus Financial Group, Sanlam UK, Sanlam Life and Pensions, Intrinsic Financial Services, Sanlam Private Investments and Sanlam Private Wealth.

Lukas van der Walt
Non-executive director

Born and raised in South Africa, Lukas studied first at the Rand Afrikaans University where he majored in Accounting, gaining a Bachelors Degree in Commerce. This was followed by two years at UNISA from where he graduated with an Honours Degree in Accounting in 1983. He subsequently qualified as a Chartered Accountant in 1985.

Lukas's career has spanned two continents, taking him from South Africa to London in 1991 and subsequently The Hague in 1994, back to South Africa in 1999 and returning to the UK in March 2004 to take up the position of Chief Executive of Merchant Investors Assurance Company. Prior to this, Lukas held several key posts with Sanlam at their Cape Town head-quarters between 1999 and 2004 including Head of Corporate Finance for Sanlam Limited, Chief Financial Officer and Chief Operating Officer for Sanlam International and Head of Business Development for Sanlam Limited.

In April 2008 Lukas was appointed Chief Executive of Sanlam-UK Limited to oversee the group's growing portfolio of financial services businesses in the United Kingdom, currently active in distribution, product packaging, administration and asset management services.

Based in Bristol where he lives with his wife and two young children, Lukas is passionate about creating a contemporary retail savings and investment business that creates value for all stakeholders.

Bruce Wilson
Non-executive director

Bruce Wilson is a chartered accountant and Vice President of the Institute of Financial Planning and has had 26 years experience within retail financial services with the last 23 at board level. Over the last 24 years Bruce has held managing director level positions, most recently with Helm Godfrey Partners Ltd and before that with Chantrey Vellacott Financial Management, NBW Financial Services Ltd and Grimston Scott Ltd. Bruce's interest is in making a difference in his clients' lives by putting their lives at the heart of the financial planning process rather than their money. This focus on what they want to be, do and have in their lives drives the conversation around their money rather than the other way round. It opens up all kinds of possibilities for their lives. Before joining the financial services industry, Bruce was financial and administrative director of an alternative health charity where he taught yoga and studied acupuncture and shiatsu.

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 Private Wealth 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 including investment banking, mortgage lending and Life and Pensions in London and Sydney before settling in Bristol with his wife and two young daughters.

Company secretary

Changes to the Company Secretary during the year were as follows:

N Megaw – appointed 2 May 2013
A J Mathieson – resigned 8 July 2013

Provision of information to independent auditors

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

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

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and 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 also responsible for the maintenance and integrity of the Group's corporate website. The Directors understand that uncertainty regarding legal requirements is compounded as information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements.

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

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

This report was approved by the Board on 3 April 2014 and signed on its behalf.

N C Megaw
Company Secretary

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

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2013 and of the group's profit and the group's cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The group financial statements and parent company financial statements (the "financial statements"), which are prepared by Nucleus Financial Group Limited, comprise:

- the Consolidated Profit and Loss account for the year ended 31 December 2013;
- the Consolidated Balance Sheet as at 31 December 2013;
- the Company Balance Sheet as at 31 December 2013;
- the Consolidated Cash Flow Statement for the year then ended;
- the Reconciliation of Net Cash Flow to Movement in Net Funds for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

What an audit of financial statements involves

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

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

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

Opinion on matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 13, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

3 April 2014

Accounts

Consolidated profit and loss account for the year ended 31 December 2013

	Note	2013 £	2012 £
Turnover	2	18,764,827	13,641,555
Cost of sales		(8,370,101)	(7,110,156)
Gross profit		10,394,726	6,531,399
Administrative expenses		(9,142,431)	(6,614,710)
Other operating income		213,033	101,186
Operating profit	3	1,465,328	17,875
Loss on disposal of fixed assets		(252)	(122)
Interest receivable and similar income		11,812	18,408
Interest payable and similar charges	7	(3,947)	(3,742)
Taxation		1,472,941	32,419
Tax on loss on ordinary activities	8	246,441	105,343
Profit for the financial year	17	1,719,382	137,762

All amounts relate to continuing operations.

There were no recognised gains and losses for 2013 or 2012 other than those included in the Profit and Loss Account above.

There is no difference between the profit on ordinary activities before taxation and the profit for the year and their historical cost equivalents.

The notes on pages 20 to 36 form part of these financial statements.

Accounts
Cont'd

Consolidated balance sheet as at 31 December 2013

	Note	2013 £	2013 £	2012 £	2012 £
Fixed assets					
Tangible fixed assets	9		218,718		231,509
Current assets					
Debtors: amounts falling due within one year	12	4,077,941		2,306,359	
Debtors: amounts falling due after more than one year	13	25,650		25,982	
Cash at bank and in hand		4,755,087		3,370,561	
		8,858,678		5,702,902	
Creditors: amounts falling due within one year	14	(4,748,660)		(3,527,296)	
Net current assets			4,110,018		2,175,606
Creditors: amounts falling due after more than one year	15		(8,907)		(28,502)
Net assets			4,319,829		2,378,613
Capital and reserves					
Called up share capital	16		20,879		19,183
Share premium account	17		15,744,202		15,737,418
Share-based payments reserve	17, 22		254,202		40,848
Profit and loss account	17		(11,699,454)		(13,418,836)
Total Shareholders' funds	18		4,319,829		2,378,613

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 3 April 2014.

S J Geard
Director

The notes on pages 20 to 36 form part of these financial statements.

Accounts
Cont'd

Company balance sheet as at 31 December 2013

		2013		2012	
	Note	£	£	£	£
Fixed assets					
Tangible fixed assets	9	10,255		16,987	
Investments	10	2,645,002		2,645,002	
			2,655,257		2,661,989
Current assets					
Debtors: amounts falling due within one year	12	875,469		481,918	
Debtors: amounts falling due after more than one year	13	12,518,768		14,632,004	
Cash at bank and in hand		940,234		3,536	
		14,334,471		15,117,458	
Creditors: amounts falling due within one year	14	(1,528,938)		(1,908,046)	
Net current assets			12,805,533		13,209,412
Net assets			15,460,790		15,871,401
Capital and reserves					
Called up share capital	16		20,879		19,183
Share premium account	17		15,744,202		15,737,418
Share-based payment reserve	17, 22		254,202		40,848
Profit and loss account	17		(558,493)		73,952
Total shareholders' funds			15,460,790		15,871,401

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 3 April 2014.

S J Geard
Director

The notes on pages 20 to 36 form part of these financial statements.

Accounts
Cont'd

Consolidated cash flow statement for the year ended 31 December 2013

	Note	2013 £	2012 £
Net cash inflow from operating activities	23	1,570,335	388,601
Returns on investments and servicing of finance	24	4,714	13,473
Taxation paid	24	(3,742)	–
Capital expenditure and financial investments	24	(138,972)	(104,017)
Cash inflow before financing		1,432,335	298,057
Financing	24	(11,115)	(14,395)
Increase in cash in the year		1,421,220	283,662

Reconciliation of net cash flow to movement in net funds for the year ended 31 December 2013

	Note	2013 £	2012 £
Increase in cash in the year		1,421,220	283,662
Cash inflow from decrease in debt		21,375	14,395
Change in net funds resulting from cash flows	25	1,442,595	298,057
Other non-cash changes		(1,781)	(64,274)
Movement in net funds in the year		1,440,814	233,783
Net funds at 1 January 2013	25	3,238,843	3,005,060
Net funds at 31 December 2013	25	4,679,657	3,238,843

The notes on pages 20 to 36 form part of these financial statements.

Notes to the accounts

1.0 Accounting policies

1.1 Basis of preparation of financial statements
The Company's and the Group's financial statements have been prepared on a going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and the applicable accounting standards in the United Kingdom. The principal accounting policies have been applied consistently other than where new policies have been adopted, and are set out below.

1.2 Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and all its subsidiary undertakings. As a consolidated Profit and Loss Account is published, the Company has taken advantage of the exemption contained within section 408 of the Companies Act 2006 not to present its own Profit and Loss Account. All profits or losses on intra-group transactions have been eliminated on consolidation. Uniform accounting policies have been applied across the Group.

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

1.4 Interest Income
Interest Income is recognised in the Profit and Loss Account as it is earned.

1.5 Expense recognition
Expenditure incurred by the Group is recognised in the period to which it relates. Any expenses relating to a period that have not yet been invoiced are accrued and expenses paid but which relate to future periods are classified as prepayments within the Balance Sheet.

1.6 Finance costs
Interest expense is recognised in the Profit and Loss Account in the period to which it relates.

1.7 Tangible fixed assets
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 when there has been an indication of potential impairment. There was no impairment of fixed assets in the year. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Short-term leasehold costs:	Over 5 years	straight line
Furniture and fittings:	Over 4 years	straight line
Office Equipment:	Over 3 years	straight line

1.8 Investments
Investments in subsidiaries are valued at cost less any provision for impairment. Impairment reviews are performed by the Directors when there has been an indication of potential impairment. There was no impairment during the year.

1.9 Operating leases
Rentals under operating leases are charged to the Profit and Loss Account on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate.

1.10 Leased Assets
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 present value of the minimum lease payments payable during the lease term. Assets acquired under hire purchase contracts are depreciated over their useful lives on the following basis:

Office Equipment:	Over 3 years	straight line

Depreciation on the relevant assets is charged to the Profit and Loss Account. There is no interest on the finance lease.

Notes to the accounts
Cont'd

1.11 Pensions
The Company operates a defined contribution pension scheme and the pension charge represents the amounts payable by the Company to the scheme in respect of the year. The assets of the scheme are held separately from those of the Company in an independently administered fund.

1.12 Share-based payments
(a) Share options
The Company operates two equity-settled share based payment compensation plans, under which the Group receives services from Directors and senior managers as consideration for equity instruments (options) of the Company. These are accounted for in accordance with FRS 20 "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.

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 Profit and Loss Account is recognised over the vesting period on a straight line basis.

At the end of each reporting period, the Company revises its estimates of the number of options 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 scheme. The Company recognises the impact of any revision to the prior year's estimates in the Profit and Loss Account, with a corresponding adjustment to equity. When the options are exercised the proceeds received net of any directly attributable transaction costs are credited to share capital and share premium account.

(b) Growth Shares
The Company also operates a growth share scheme under which the Company 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 FRS 20 "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 Profit and Loss Account during the vesting period.

Unrealised G Ordinary Shares form part of the share capital of the Company, are not transferable, are eligible to receive dividends 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 31 December 2017.

If these performance targets are met these shares can be deemed by the Company's Remuneration and Nomination Committee to be Realised. In addition, a proportion of existing and new Unrealised G Ordinary Shares will not be subject to the requirement to achieve performance targets during the vesting period. The Remuneration and Nomination Committee also has the right to exercise discretion in determining if any awards are due under the Growth Share scheme.

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, three tranches of shares have been issued. Realised G Ordinary Shares have the right to participate in any proceeds of a capital distribution amongst shareholders or participate in the proceeds of a sale of the Company should either occur before 31 December 2017. In the event of a listing of the Company on a recognised stock exchange or on 31 December 2017, whichever is the earlier, 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 listing, the Company also has the option to settle the value of the Realised G Ordinary Shares in cash rather than issue Ordinary shares before the listing occurs. 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.

During 2013 the Company obtained Shareholder consent to amend the performance criteria associated with the existing Unrealised G1 Ordinary Shares and to issue a further 45,000 Unrealised G1 Ordinary Shares and 124,600 Unrealised G2 Ordinary Shares. The vesting period associated with the existing Unrealised G Ordinary Shares and the new issue is 31 December 2017.

The total amount to be recognised in the financial statements in respect of the Growth Share scheme is determined by reference to the fair value of the Unrealised G Ordinary Shares at the date of grant, calculated using the Black-Scholes methodology. Details of the assumptions used are included in Note 22. At the end of each reporting period, the Company reviews its estimate of the number of Unrealised G Ordinary Shares that is expected to become Realised at 31 December 2017 and then recognises the associated charge in the Profit and Loss Account throughout the remainder of the vesting period, with a corresponding adjustment to equity.

Notes to the accounts
Cont'd

1.13 Taxation
The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year.

Taxable profit differs from net profit as reported in the Profit and Loss Account as it excludes items of income or expense that are deductible in other years and it further excludes items that are never taxable or deductible.

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

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

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

Deferred tax assets and liabilities are not discounted.

1.14 Foreign currency
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

1.15 Bad and doubtful debt provision
Full provision is made for debts that are considered to be irrecoverable or unlikely to be recovered within twelve months of the balance sheet date.

2.0 Turnover
The whole of turnover is attributable to the principal activity of the Group.

All turnover arose within the United Kingdom (2012: United Kingdom).

Notes to the accounts
Cont'd

3.0 Operating profit

The operating profit is stated after charging:

	2013 £	2012 £
Depreciation of tangible fixed assets:		
owned by the Group	120,624	94,309
leased by the Group	21,425	14,283
Operating lease rentals:		
land & buildings	133,487	123,452
Provision for bad and doubtful debts	175,000	–

4.0 Auditor's remuneration

During the year the Group obtained the following services from the Group's auditor:

	2013 £	2012 £
Fees payable to the Group's auditors for the audit of the Company's and subsidiaries' financial statements	60,720	41,484
Fees payable to the Group's auditors in respect of:		
Client assets audit	31,386	36,000
All other services	18,300	–

5.0 Staff costs

Group

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

	2013 £	2012 £
Wages and salaries	5,070,883	3,417,803
Costs of employee share schemes	213,354	40,848
Social security costs	626,976	390,500
Other pension costs	369,388	278,129
	6,280,601	4,127,280

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

	2013	2012
Wrap administration services	92	68

Notes to the accounts
Cont'd

6.0 Directors remuneration

Group

	2013	2012
	£	£
Aggregated emoluments	855,251	705,008
Costs of Directors' participation in share schemes	123,755	32,366
	979,006	737,374
Company pension contributions to defined contribution pension schemes	54,140	38,607

During the year retirement benefits were accruing to 3 Directors (2012: 3) in respect of defined contribution pension schemes.

The highest paid Director received remuneration of £361,148 (2012: £284,556).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £21,620 (2012: £19,440).

7.0 Interest payable and similar charges

	2013	2012
	£	£
Other interest	3,947	3,742
	3,947	3,742

Notes to the accounts
Cont'd

8.0 Tax on profit on ordinary activites

Group

	2013 £	2012 £
Analysis of tax charge in the year		
UK corporation tax on profit for the year	(10,000)	13,742
Total current tax charge	(10,000)	13,742
Deferred tax:		
Origination and reversal of timing differences	(236,441)	(119,085)
Total deferred tax credit	(236,441)	(119,085)
Tax on profit on ordinary activities	(246,441)	(105,343)

Factors affecting tax charge for the year

	2013 £	2012 £
Profit on ordinary activities before tax	1,472,941	32,419
Profit on ordinary activities multiplied by small companies rate of corporation tax in the UK of 20.00% (2012: 20.00%)	294,588	6,483
Effects of:		
Expenses not deductible for tax purposes	81,572	34,234
Accelerated capital allowances / other timing differences	79,230	24,177
Utilisation of tax losses and other deductions	(465,390)	(51,152)
Current tax charge/(credit) for the year	(10,000)	13,742

Notes to the accounts
Cont'd

8.0 Tax on profit on ordinary activites / cont'd

Factors that may affect future tax charges

The potential deferred tax asset that has been fully provided in accordance with FRS 19 "Deferred tax" comprises:

	2013 £	2012 £
Losses	–	–
Deferred tax asset at beginning of the year	119,085	–
Deferred tax asset in the Profit and Loss Account for the year	236,441	119,085
Deferred tax asset at end of the year	355,526	119,085

Unrecognised deferred tax assets comprise:

	2013 £	2012 £
Accelerated capital allowances	4,422	2,024
Short term timing differences	–	4,783
Losses	1,557,397	2,166,504
	1,561,819	2,173,311

The total potential deferred tax asset arising in respect of unutilised tax losses and timing differences at 31 December 2013 is £1,917,345 (2012: £2,292,396). 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 £1,561,819 (2012: £2,173,311) has not been recognised.

Notes to the accounts
Cont'd

Company
Analysis of tax charge in the year:
There was no tax charge for the year (2012: £nil)

8.0 Tax on profit on ordinary activites / cont'd

Factors affecting tax charge for the year

	2013 £	2012 £
Loss on ordinary activities before tax	(632,445)	(76,570)
Loss on ordinary activities multiplied by small companies rate of corporation tax in the UK of 20.00% (2012: 20.00%)	(126,489)	(15,314)
Effects of:		
Expenses not deductible for tax purposes	71,272	3,132
Non-taxable income	(2,460)	(300)
Transfer pricing adjustments	(67,702)	(70,785)
Group relief not paid for	84,580	49,224
Accelerated capital allowances / other timing differences	(1,039)	4,081
Unrelieved tax losses and other deductions arising in the period	41,838	–
Current tax charge for the year	–	–

Factors that may affect future tax charges
Unrecognised deferred tax assets comprise:

	2013 £	2012 £
Accelerated capital allowances	4,422	2,024
Short term timing differences	–	4,783
Losses	217,173	175,336
	221,595	182,143

The deferred tax assets have not been recognised due to uncertainty, in the opinion of the Directors, regarding the timing and extent of future profits in the Company.

Notes to the accounts
Cont'd

9.0 Tangible fixed assets

Group	Short-term leasehold costs £	Furniture and fittings £	Office Equipment £	Total £
Cost				
At 1 January 2013	33,584	91,916	376,037	501,537
Additions	–	23,247	106,262	129,509
Disposals	–	–	(2,134)	(2,134)
At 31 December 2013	33,584	115,163	480,165	628,912
Accumulated depreciation				
At 1 January 2013	16,597	59,516	193,915	270,028
Charge for the year	6,732	19,168	116,149	142,049
Eliminated on disposal	–	–	(1,883)	(1,883)
At 31 December 2013	23,329	78,684	308,181	410,194
Net book value				
At 31 December 2013	10,255	36,479	171,984	218,718
At 31 December 2012	16,987	32,400	182,122	231,509

The net book value of office equipment includes assets held under finance leases or hire purchase contracts with a net book value amounting to £28,502 (2012: £49,991).

Company	Short-term leasehold £
Cost	
At 1 January 2013	33,584
Additions	–
Disposals	–
At 31 December 2013	33,584
Accumulated depreciation	
At 1 January 2013	16,597
Charge for the year	6,732
Eliminated on disposal	–
At 31 December 2013	23,329
Net book value	
At 31 December 2013	10,255
At 31 December 2012	16,987

Notes to the accounts
Cont'd

10.0 Fixed asset investments

Company	Shares in Group undertakings £
Cost	
At 1 January 2013	2,645,002
Additions	–
At 31 December 2013	2,645,002

Details of the subsidiary undertakings are shown in note 11 below and the trading activities of these subsidiaries are described in the Directors' Report. The Directors believe that the carrying value of the investments is supported by their underlying net assets.

11.0 Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Company name	Percentage Shareholding
Nucleus Financial Services Limited	100% ordinary shares
Nucleus IFA Services Limited	100% ordinary shares

Nucleus Financial Services Limited is incorporated in England and Wales. Nucleus IFA Services Limited is incorporated in Scotland.

Nucleus Financial Services Limited has a 100% shareholding in NFS (Nominees) Ltd and a 100% shareholding in Nucleus Trustee Company Limited.

Nucleus Financial Group Limited is the only entity to produce consolidated financial statements.

12.0 Debtors
Amounts falling due within one year

	Group		Company	
	2013 £	2012 £	2013 £	2012 £
Amounts owed by Group undertakings	–	–	502,355	211,621
Other debtors	1,339,243	251,062	228,483	101,997
Less: Bad debt provision	(175,000)	–	–	–
	1,164,243	251,062	730,838	313,617
Amounts owed by HMRC	281,247	245,221	–	–
Prepayments and accrued income	2,276,925	1,690,991	144,631	168,300
Deferred tax	355,526	119,085	–	–
	4,077,941	2,306,359	875,469	481,918

Notes to the accounts
Cont'd

12.0 Debtors
Amounts falling due within one year / cont'd

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

Bad debt provision for Offshore Bond Withholding Tax reclaim

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

13.0 Debtors
Amounts falling due after more than one year

	Group		Company	
	2013	2012	2013	2012
	£	£	£	£
Amounts owed by Group undertakings	-	-	12,493,118	14,606,022
Other debtors	25,650	25,982	25,650	25,982
	25,650	25,982	12,518,768	14,632,004

14.0 Creditors
Amounts falling due within one year

	Group		Company	
	2013	2012	2013	2012
	£	£	£	£
Bank overdrafts	45,147	81,839	–	339,761
Trade creditors	1,930,618	1,085,326	85,776	179,962
Amounts owed to HMRC	245,961	28,882	–	–
Taxation and social security	154,261	123,196	154,261	109,454
Other creditors	25,971	60,347	4,195	34,985
Accruals	2,346,702	2,147,706	1,284,706	1,243,884
	4,748,660	3,527,296	1,528,938	1,908,046

Notes to the accounts
Cont'd

15.0 Creditors
Amounts falling due after more than one year

	Group		Company	
	2013	2012	2013	2012
	£	£	£	£
Other creditors	8,907	28,502	–	–
	8,907	28,502	–	–

16.0 Called up share capital

	2013	2012
	£	£
Company and Group		
Allotted, called up and fully paid		
1,000,000 (2012: 1,000,000) Ordinary Shares of 1p each	10,000	10,000
761,028 (2012: 761,028) B Ordinary Shares of 1p each	7,610	7,610
202,304 (2012: 157,304) G1 Ordinary Shares of 1p each	2,023	1,573
124,600 (2012: nil) G2 Ordinary Shares of 1p each	1,246	-
	20,879	19,183

In 2011 the Company issued G1 Ordinary Shares as part of an employee share ownership plan.

In 2013 45,000 G1 Ordinary Shares and 124,600 G2 Ordinary Shares were issued at 5p each (2012: nil).

Of the G1 and G2 Ordinary Shares 144,600 are held by Directors of the Company.

During the year, the Company received shareholder consent to amend the performance conditions and to extend to 31 December 2017 the vesting period associated with the G1 Ordinary Shares.

17.0 Reserves

	Share-based payment reserve	Share premium account	Profit and loss account
	£	£	£
Group			
At 1 January 2013	40,848	15,737,418	(13,418,836)
Share-based payments charge for the financial year	213,354	–	–
Shares issued during 2013	–	6,784	–
Profit after tax for the financial year	–	–	1,719,382
At 31 December 2013	254,202	15,744,202	(11,699,454)
Company			
At 1 January 2013	40,848	15,737,418	73,952
Share-based payments charge for the financial year	213,354	–	–
Shares issued during 2013	–	6,784	–
Loss after tax for the financial year	–	–	(632,445)
At 31 December 2013	254,202	15,744,202	(558,493)

Notes to the accounts
Cont'd

18.0 Reconciliation of movement in shareholders' funds

	2013	2012
	£	£
Group		
Opening shareholders' funds	2,378,613	2,200,003
Costs of employee shares schemes charge for the financial year	213,354	40,848
Profit after tax for the financial year	1,719,382	137,762
Net proceeds of issue of G1 and G2 Ordinary Shares	8,480	–
Closing shareholders' funds	4,319,829	2,378,613

19.0 Operating lease commitments

At 31 December 2013 the Group and Company had annual commitments under non cancellable operating leases as follows:

Land and buildings	2013	2012
	£	£
Group and Company		
Expiry date:		
Within 1 year	88,452	88,452
Between 2 and 5 years	317,134	317,134
After more than 5 years	127,335	229,842

20.0 Related party transactions

Transactions with and balances to/from related parties
Nucleus IFA Company Limited has a significant interest in the shareholding of the Company. During the year the Company provided additional loans of £110,917 (2012: £30,392) to Nucleus IFA Company Limited. This subordinated loan facility is capped at £390,000. Interest of £2,174 (2012: £6,438) was charged on amounts due from NIFAC during the year at an interest rates of 2.5% (2012: 2.5%) and £977 on loans at 3.0%. At the Balance Sheet date, Nucleus IFA Company Limited owed the Company £189,313 (2012: £78,396).

Sanlam UK Limited also has a significant interest in the shareholding of the Company. At the balance sheet date, the Company owed Sanlam UK Limited £19,350 (2012: £13,275) in respect of Board fees. NFS owed Sanlam UK £12,984 (2012: nil) in respect of fees for the Onshore Bond and £268 (2012: nil) in respect of tax collected from the onshore bond investment. During the year Sanlam UK Limited charged NFS fees of £41,754 (2012: nil) in respect of the onshore bond.

Notes to the accounts
Cont'd

21.0 Controlling party

The Company's significant shareholders are Sanlam UK Limited, a company registered in England and Wales, and Nucleus IFA Company Limited, a company registered in Scotland.

22.0 Share-based payments

Employee Share Ownership Trust
An Employee Share Ownership Trust (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. 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 £35,526 (2012:£17,098) 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.

Share options
Certain Directors and senior management hold options that entitle them to purchase 36,500 Ordinary Shares provided they remain in full-time employment and subject to satisfactory performance appraisals when the options are due to vest. The options vest in tranches between 31 December 2012 and 2015 and have a last expiry date of 28 February 2017.

Details of the share options are as follows:

	Date granted	Exercise price £	Exercisable to	Exercisable to	Equity based share options outstanding 31/12/2013	Equity based share options outstanding 31/12/2013
Directors' Scheme	25/01/2010	13.20	31/12/2012	31/12/2016	10,000	10,000
	25/01/2010	13.20	31/12/2013	31/12/2016	7,500	7,500
	25/01/2010	13.20	31/12/2014	31/12/2016	7,500	7,500
	27/07/2010	13.20	28/02/2013	28/02/2017	2,400	2,400
	27/07/2010	13.20	28/02/2014	28/02/2017	800	800
	27/07/2010	13.20	28/02/2015	28/02/2017	800	800
					29,000	29,000
Senior Management Scheme	25/01/2010	13.20	31/12/2012	31/12/2016	3,000	3,000
	25/01/2010	13.20	31/12/2013	31/12/2016	2,250	2,250
	25/01/2010	13.20	31/12/2014	31/12/2016	2,250	2,250
					7,500	7,500

Notes to the accounts
Cont'd

22.0 Share-based payments / cont'd

The share options granted were valued at date of grant using the Black-Scholes model. The significant assumptions used are shown in the table below:

Grant date	27/07/2010	25/01/2010
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 rate interest rate over the life of the option	1.72%	2.35%
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 £7,256 (2012:£40,848) was charged to the Profit and Loss Account in respect of this scheme.

Growth shares

G1 and G2 Ordinary Shares are granted to Directors and employees. Details of the rights and the conditions attached to these shares are included in note 1.12(b) Share-based payments.

Details of the G Ordinary Shares are as follows:

Growth share scheme	Date granted	Par value £	Realisable	G Ordinary Shares in issue 31/12/2013	G Ordinary Shares in issue 31/12/2012
G1 Shares	04/10/2011	0.05	31/12/2017	157,304	157,304
G1 Shares	15/10/2012	0.05	31/12/2017	45,000	–
				202,304	157,304
G2 Shares	19/07/2013	0.05	31/12/2017	124,600	-
Total Growth Shares				326,904	157,304

The G1 and G2 Ordinary 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:

Grant date	G1 Shares 04/10/2011	G1 Shares 15/10/2012	G1 Shares 19/09/2013	G1 Shares 19/07/2013
Price of the underlying Ordinary share	£24.67	£28.22	£28.43	£28.43
Effective strike price of the G Ordinary Share	£24.10	£24.10	£24.10	£31.24
Expected volatility of the share price	50%	40%	40%	40%
Risk-free rate interest rate over the life of the G Ordinary Share	1.16%	0.79%	1.47%	1.08%
Dividend yield	Nil	Nil	Nil	Nil
Fair value per G Ordinary Share at grant date	£10.26	£11.82	£11.44	£8.91

Notes to the accounts
Cont'd

22.0 Share-based payments / cont'd

The volatility measured is based on historical volatility of similar listed entities between 2008 and 2013.

During the year £206,098 (2012: nil) was charged to the Profit and Loss Account in respect of these shares.

23.0 Net cash flow from operating activities

	2013	2012
	£	£
Operating profit	1,465,328	17,875
Employee shares schemes charge	213,354	40,848
Depreciation of tangible fixed assets	142,049	108,592
Bad debt provision	175,000	–
Increase in debtors	(1,706,658)	(201,343)
Increase in creditors	1,281,262	422,629
Net cash inflow from operating activities	(1,570,335)	(388,601)

24.0 Analysis of cash flows for headings netted in cash flow statement

	2013	2012
	£	£
Returns on investments and servicing of finance		
Interest received	8,661	17,215
Interest paid	(3,947)	(3,742)
Net cash inflow from returns on investments and servicing of finance	4,714	13,473

	2013	2012
	£	£
Taxation		
Taxation paid in the year	(3,742)	–

	2013	2012
	£	£
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(138,972)	(104,017)
Net cash outflow from capital expenditure	(138,972)	(104,017)

	2013	2012
	£	£
Financing		
Issue of ordinary share capital	8,480	–
Capital element of repayments under finance leases and hire purchase agreements	(19,595)	(14,395)
	(11,115)	(14,395)

Notes to the accounts
Cont'd

25.0 Analysis of changes in net funds

	1 January 2013 £	Cash flow £	Other non-cash changes £	31 December 2013 £
Cash at bank and in hand	3,370,561	1,384,526	–	4,755,087
Bank overdraft	(81,839)	36,692	–	(45,147)
Lease agreement	(21,377)	21,377	(21,377)	(21,377)
	3,267,345	1,442,595	(21,377)	4,688,563
Debt:				
Debts falling due after more than one year	(28,502)	–	19,596	(8,906)
Net funds	3,238,843	1,442,595	(1,781)	4,679,657

25.0 Post balance sheet events

In September 2013 Nucleus agreed to provide NIFAC with a subordinated loan facility of £390,000 to allow NIFAC to meet its on-going costs whilst its Directors considered future business models for this company. The original terms of this loan required Nucleus to commit to not withdrawing the facility before 1 October 2014 should this action result in financial distress to NIFAC. In March 2014, Nucleus agreed to extend the expiry date of this facility from 1 October 2014 to 1 July 2015. All other conditions relating to this facility are unchanged.