Nucleus Financial Group Limited consolidated annual report and financial statements

For the year ended 31 December 2016

Edition	01
Date of publication	31/3/2017

Registered number 05522098

Company information

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Chairman's statement

The year under review was a significant one for the company, marking ten years of sustained growth in platform user numbers, assets, income and our people since the company was formed. Very sadly, early in the new year on the 12th Janaury 2017 our company suffered a tragic loss with the death of Paul Bradshaw, Nucleus's founding chairman.

Paul's contribution to Nucleus is immeasurable and the company would not exist in its present form without his support, counsel and guidance to the management team over the past decade. The most fitting way to mark his legacy to the company, and the development of the platform sector, is to press on with the execution of the plans he endorsed.

Since inception the business has been constructed with less funding than its peers and has always aimed to strike an appropriate balance between development needs, investing in growth and delivering year-on-year improvements in financial performance. Profitability once established in 2012 has been maintained and (adjusting for one-off exceptions) improved each year.

The group produced an operating profit of £4.3m in 2016 (2015: £4.8m) on turnover of £33.3m (2015: £29.0m) which, after deducting non-recurring operating income reported in 2015, is consistent with the increase in turnover of 14.9%. Our profit margin (operating profit as a percentage of turnover) decreased from 16.5% to 13.0%, but this is stable and in line with the prior year if we adjust for the 2015 non-recurring income.

Overall costs have been managed well and remain in line with experience of the last three years. 2017 will see a further increase in investment in our core platform technology and in broadening our user proposition. This investment is critical to ensuring that we can deliver a regular cycle of platform improvements in 2018 and beyond, as well as widening our range of services. This increase in investment may lead to a slight one-off dip in year on year profits but we believe this is consistent with enhancing the long term value and durability of our business. We are hopeful that in the 2017 results we will be able to show the first results of our investment in new capabilities as we continue the strategic development of the group. Assets on the platform finished the year at £11.1bn (2015: £9.1bn) an increase of 22.9% reflecting net inflows of £1.1bn, a slight dip on 2015 net inflows of £1.3bn but a reasonable result given a 15.5% decline in net inflows year on year across the market. It's also noteworthy that this was achieved against a backdrop of political and economic uncertainty throughout much of 2016 including both the UK Brexit decision and the US Presidential election, together with the market reaction to both events.

Net inflows improved sharply in Q4 2016 increasing 26.8% on the previous quarter in response to the more assertive market direction as the political economic uncertainty washed through. This positive momentum has been carried through to the start of 2017 with a 94.1% uplift in net inflows year on year for the first two months of the new year.

Our sector continues to be buoyant in terms of inflows but many competitors appear to be experiencing significant headwinds generated by large-scale technology re-platforming programmes. Whether driven by a need to exit legacy systems or arising as a consequence of M&A activity, more than £200bn of platform assets are set to migrate to new technologies over the next five years. The aggregate cost of this is unknown but seems likely to exceed £1.5bn.

Having successfully navigated our own re-platforming exercise two years ago, we achieved excellent levels of service throughout 2016. This has been validated through user sentiment and more widely recognised in Nucleus winning the Schroders UK Platform of the Year for 2016 and retaining its position as leading medium- sized platform in CoreData's rankings. We believe we are exceptionally well placed to perform strongly in the year ahead and that we will continue to gain market share.

Notwithstanding the successes in 2016 and our determined optimism, we remain intensely aware of our responsibilities to operate, maintain and improve our standards of control to keep pace with the ongoing complexity in the lives of Nucleus's clients and the continually rising demands of regulatory standards.

Having been involved with Nucleus since before its inception, alongside both Paul and David, I am immensely proud to pick up the baton from Paul, as Nucleus' second chairman at the dawn of its second decade in business.

My thanks to the whole company team, the senior management and my board colleagues for their help and support throughout the year and particularly in these first couple of months of 2017 as I assume my new position.

Finally, I would also like to formally record our thanks and extend our best wishes to Danby Bloch, for his material contribution during his six years of service on our board.

J A A Samuels
Chairman

Group strategic report

The directors present their strategic report and the audited consolidated financial statements for the year ended 31 December 2016. 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") and Nucleus IFA Services Limited ("NIFAS") ("the Group").

Introduction

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 Financial Conduct Authority ("FCA") and is classified as an IFPRU limited licence investment firm. Since June 2016 when it met the relevant threshold, NFS has been further classified as a Significant IFPRU 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"). 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").

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

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 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.

Business review

The year closed with £11.1bn of assets under management, representing an increase of 22.9% from the end of 2015.

During the year we added £1.9bn of gross inflows (£1.1bn net) and sixty new firms joined the platform, representing 283 advisers. Group financial performance was pleasing, with turnover up 14.9% to £33m. The Group produced an operating profit of £4.3m in 2016 (2015: £4.8m) on turnover of £33.3m (2015: £29.0m) which, after deducting non-recurring operating income reported in 2015, is consistent with the increase in turnover of 14.9%. Our profit margin (operating profit as a percentage of turnover) decreased from 16.5% to 13.0%, but this is stable and in line with the prior year if we adjust for the 2015 non-recurring income.

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.

Relationship with financial advisers

As with all operators in the adviser 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 2016 approximately one quarter of new business originated through this arrangement. Changes in the environment due to regulator or competitor actions could adversely affect the Group's ability to continue its offering to financial advisers and have a material adverse effect on the Group's revenues.

Group strategic report

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 agreements with product providers to deliver components of the Nucleus wrap. As a result, we have a reliance on our suppliers and performance issues affecting these products and services may impact on our business performance. Our key suppliers are:

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

Competition risk

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

Access to capital

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

The Group operates in a regulated industry

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 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 cost consequences (including, without limitation, fines and/or the cost of being required to take remedial action). These could adversely impact on the Group's business, operations and financial condition.

(ii) Requirement to hold sufficient regulatory capital

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

(iii) New and forthcoming regulation

The 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 SIF 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 are consulting on CASS 7A and the special administration regime as a result of the recommendations from the Bloxham final report. The Financial Reporting Council (FRC) have also published a revised standard for auditors for providing assurance on client assets.

Furthermore, the FCA published their interim 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 active funds, the 'hidden' transaction costs, such as dealing charges, that can add 0.5 percentage points to a fund's annual charge, and the £109 billion of money languishing in 'closet tracker' funds, which behave like trackers but charge the higher fees associated with actively managed funds.

Group strategic report

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), the revised Markets in Financial Instruments Directive (Mifid II), Packaged Retail Insurance-based Investment Products Regulation (PRIIPs) and the General Data Protection Regulation (GDPR).

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

Mifid II will come into force in January 2018. This is a broad reaching directive and regulation which will affect many areas of the business. The main changes required are in product governance, client reporting and transaction reporting.

The PRIIPs regulation will also come into force in January 2018. This requires standardized 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 program 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.

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. Consequently, 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 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 management policies and framework, and review the effectiveness of the performance of the risk management practices by operational management through effective assurance reporting. 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 engages Grant Thornton as an appointed internal audit function to serve as its third line of defence and to obtain independent assurance on the effectiveness of its control environment. Internal audit, through a risk based approach, provides assurance to the Audit and Risk Committees and the Board on how effectively risks are assessed and managed. Findings arising from these audit processes are reported to both the Audit and Risk Committee and the Board.

The Group also engages external audit to deliver independent assurance for the purposes of its CASS handbook arrangements and statutory financial management obligations.

Outlined below are the specific principal financial risks and uncertainties faced by the Group

Exposure to securities markets

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

Liquidity risk

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

Group Strategic report

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. 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. Operational risk is managed within the risk appetites set by the Board on an annual basis. Additional information can be found in our Pillar 3 disclosures.

Credit risk

The Group holds the surplus of corporate cash balances over and above its working capital requirements on deposit with its 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.

Financial key performance indicators

The consolidated profit after tax for the financial year was £3,387,184 (2015 - £4,300,354). This was in line with Directors' expectations. The key performance indicators the Board uses to assess financial performance are:

	2016	2015
Assets under management	£11,143,757,484	£9,068,788,558
Turnover	£33,280,687	£28,956,914
Consolidated operating profit	£4,316,813	£4,793,652
Consolidated profit after tax	£3,387,184	£4,300,354
Consolidated net assets	£16,191,167	£12,166,622

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

Going concern

With regard to the assessment of the Group and 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 its regulatory capital position;
- actual performance to date;
- access to capital to meet operational and regulatory requirements;
- known risks and uncertainties in relation to known and prospective regulatory developments and possible interventions;
- known risks and uncertainties with consideration of the impact of these on the 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 annually and approved by the Directors.

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 Financial Reporting Council and the recommendations from the Sharman Inquiry of 2012 which sought to identify lessons for companies and auditors addressing going concern and liquidity risks following the credit crisis.

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

This report was approved by the board on 31 March 2017 and signed on its behalf.

D R Ferguson
Director

Directors' report

The directors present their report and the financial statements for the year ended 31 December 2016.

Directors' responsibilities 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 United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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 UK Accounting Standards 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 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 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.

Directors

The directors who served during the year were:

A C D Bloch (resigned 31 May 2016)

P R Bradshaw (deceased 12 January 2017)

D R Ferguson

S J Geard

J P Gibson

J C Polin (appointed 7 July 2016)

J A A Samuels (Chairman)

M D Seddon

S J Tucker

L van der Walt (resigned 20 January 2016)

Future developments

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

Directors' report

Nucleus IFA Company ("NIFAC") (the investment company through which many adviser shareholders hold their investment in Nucleus) continues to consider its future role and we will continue to support its decision-making process. At the balance sheet date, the Company provided £434,229 of loan support which is repayable on giving three months' notice at a date no earlier than 31 March 2018.

The Company is taking steps to simplify its legal entity structure and improve the flow of capital and liquidity resources within the Group with a view to creating conditions under which a dividend can be considered in the future.

In order to achieve this the Company will close the NIFAS legal entity by transferring the 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 NFS increased its capital resources by way of issue of 5 million £1 ordinary shares to the Company on 29 March 2017.

In addition to this, on 29 March 2017 the Company requested shareholder approval to create distributable reserves through elimination of its accumulated realised losses by way of a capital reduction using the solvency statement procedure.

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 31 March 2017 and signed on its behalf.

D R Ferguson
Director

Independent auditors' report

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

Report on the financial statements

Our opinion

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

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2016 and of the group's profit and 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.

What we have audited

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

- the Consolidated Balance Sheet and the Company Balance Sheet as at 31 December 2016;
- the Consolidated Profit and Loss Account and the Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Statement of Cash Flows for the year then ended;
- the Consolidated Statement of Changes in Equity and the Company Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information

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

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

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the group, the company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Independent auditors' report

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

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

What an audit of financial statements involves

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

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

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

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

In addition, we read all the financial and non-financial information in the Annual Report 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. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Catrin Thomas (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
31 March 2017

Consolidated profit and loss account

	Note	2016 £	2015 £
Turnover	3	33,280,687	28,956,914
Cost of sales		(11,694,434)	(10,522,674)
Gross profit		21,586,253	18,434,240
Administrative expenses		(17,345,417)	(14,521,780)
Other operating income	4	75,978	877,306
Operating profit	5	4,316,814	4,789,766
Interest receivable and similar income	8	12,714	9,491
Interest payable and similar expenses	9	(20)	(26,080)
Profit before taxation		4,329,508	4,773,177
Tax on profit	10	(942,324)	(472,823)
Profit for the financial year		3,387,184	4,300,354
Profit for the financial year attributable to:			
Owners of the parent		3,387,184	4,300,352

The notes on pages 20 to 40 form part of these financial statements.

Consolidated statement of comprehensive income

	2016 £	2015 £
Profit for the financial year	3,387,184	4,300,354
Unrealised loss on investments	(3,470)	(44,714)
Total comprehensive income for the year	3,383,714	4,255,640
Total comprehensive income attributable to:		
Owners of the parent	3,383,714	4,255,640

The notes on pages 20 to 40 form part of these financial statements.

Consolidated balance sheet as at 31 December 2016

	Note	2016 £	2016 £	2015 £	2015 £
Fixed assets					
Tangible assets	12		638,365		469,208
Current assets					
Current asset investments	15	69,200		72,670	
Debtors: amounts falling due within one year	14	9,870,060		7,245,243	
Debtors: amounts falling due after more than one year	14	482,061		366,852	
Cash at bank and in hand	16	13,839,250		12,858,427	
		24,260,571		20,543,192	
Creditors: amounts falling due within one year	17	(8,645,158)		(8,845,778)	
Net current assets			15,615,413		11,697,414
Total assets less current liabilities			16,253,778		12,166,622
Creditors: amounts falling due after more than one year	18		(62,611)		–
Net assets			16,191,167		12,166,622
Capital and reserves					
Called up share capital	21		21,622		21,329
Share premium account	22		15,747,171		15,746,001
Share based payment reserve	22		1,930,927		1,291,559
Fair value reserve	22		39,444		42,914
Profit and loss account	22		(1,547,997)		(4,935,181)
Total shareholders' funds			16,191,167		12,166,622

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 31 March 2017.

D R Ferguson
Director

The notes on pages 20 to 40 form part of these financial statements.

Company balance sheet as at 31 December 2016

	Note	£	2016 £	£	2015 £
Fixed assets					
Tangible assets	12		7,856		11,578
Investments	13		2,645,002		2,645,002
			2,652,858		2,656,580
Current assets					
Debtors: amounts falling due within one year	14	6,931,524		1,075,855	
Debtors: amounts falling due after more than one year	14	482,061		2,682,898	
Cash at bank and in hand	16	6,467,238		8,870,335	
		13,880,823		12,629,088	
Creditors: amounts falling due within one year	17	(2,605,196)		(1,680,304)	
Net current assets			11,275,627		10,948,784
Net assets			13,928,485		13,605,364
Capital and reserves					
Called up share capital	21		21,622		21,329
Share premium account	22		15,747,171		15,746,001
Share based payments reserve	22		1,930,927		1,291,559
Profit and loss account	22		(3,771,235)		(3,453,525)
Total shareholders' funds			13,928,485		13,605,364

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 31 March 2017.

D R Ferguson
Director

Consolidated statement of changes in equity

	Called up share capital	Share premium account	Share based payment reserve	Fair value reserve	Profit and loss account	Total equity
	£	£	£	£	£	£
At 1 January 2016	21,329	15,746,001	1,291,559	42,914	(4,935,181)	12,166,622
Profit for the financial year	–	–	–	–	3,387,184	3,387,184
Unrealised loss on investments	–	–	–	(3,470)	–	(3,470)
Share based payments charge	–	–	639,368	–	–	639,368
Shares issued during the year	293	1,170	–	–	–	1,463
At 31 December 2016	21,622	15,747,171	1,930,927	39,444	(1,547,997)	16,191,167
At 1 January 2015	20,885	15,744,226	750,733	87,628	(9,235,535)	7,367,937
Profit for the financial year	–	–	–	–	4,300,354	4,300,354
Unrealised loss on investments	–	–	–	(44,714)	–	(44,714)
Share based payments charge	–	–	540,826	–	–	540,826
Shares issued during the year	444	1,775	–	–	–	2,219
At 31 December 2015	21,329	15,746,001	1,291,559	42,914	(4,935,181)	12,166,622

The notes on pages 20 to 40 form part of these financial statements.

Company statement of changes in equity

	Called up share capital	Share premium account	Share based payment reserve	Profit and loss account	Total equity
	£	£	£	£	£
At 1 January 2016	21,329	15,746,001	1,291,559	(3,453,525)	13,605,364
Loss for the financial year	–	–	–	(317,710)	(317,710)
Share based payments charge	–	–	639,368	–	639,368
Shares issued during the year	293	1,170	–	–	1,463
At 31 December 2016	21,622	15,747,171	1,930,927	(3,771,235)	13,928,485
At 1 January 2015	20,885	15,744,226	750,733	(1,810,274)	14,705,570
Loss for the financial year	–	–	–	(1,643,251)	(1,643,251)
Share based payments charge	–	–	540,826	–	540,826
Shares issued during the year	444	1,775	–	–	2,219
At 31 December 2015	21,329	15,746,001	1,291,559	(3,453,525)	13,605,364

The notes on pages 20 to 40 form part of these financial statements.

Consolidated statement of cash flows

	2016	2015
	£	£
Cash flows from operating activities		
Profit for the financial year	3,387,184	4,300,354
Adjustments for:		
Depreciation of tangible assets	262,329	182,573
Loss on disposal of tangible assets	147,665	3,886
Interest paid	20	26,080
Interest received	(11,214)	(9,491)
Taxation	942,324	472,823
Increase in debtors	(2,451,774)	(1,282,194)
(Decrease)/increase in creditors	(1,046,597)	3,268,995
(Increase)/decrease in provisions	(290,891)	12,737
Share based payment charge	639,368	540,826
Corporation tax paid	(135,448)	–
Unrealised (gain)/loss on foreign currency	(127)	1,457
Net cash generated from operating activities	1,442,839	7,518,046
Cash flows from investing activities		
Purchase of tangible fixed assets	(453,786)	(313,348)
Interest received	11,214	9,491
Net cash used in investing activities	(442,572)	(303,857)
Cash flows from financing activities		
Issue of ordinary shares	1,463	2,219
Repayment of overdraft	–	(1,133,939)
Repayment of finance leases	(21,014)	(8,907)
Interest paid	(20)	(26,080)
Net cash used in financing activities	(19,571)	(1,166,707)
Net increase in cash and cash equivalents	980,696	6,047,482
Cash and cash equivalents at beginning of year	12,858,427	6,812,402
Unrealised gain/(loss) on foreign currency	127	(1,457)
Cash and cash equivalents at the end of year	13,839,250	12,858,427
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	13,839,250	12,858,427
	13,839,250	12,858,427

Notes to the financial statements

1. Accounting policies

1.1 Basis of preparation of financial statements

The financial statements of the Group and the Company have been prepared in compliance with United Kingdom Accounting Standards, including FRS 102 and the Companies Act 2006, under the provision of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

The Company's and the Group's financial statements 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. The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

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 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.

1.4 Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions. The Group financial statements have not taken advantage of any available exemption for qualifying entities. The Company has taken advantage of the exemption from preparing a statement of cash flows on the basis that it is a qualifying entity and the consolidated statement of cash flows, included in these financial statements, includes the Company's cash flow.

1.5 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 year 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.

1.6 Interest income

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

1.7 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 balance sheet.

1.8 Finance costs

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

1.9 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 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:

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the profit and loss account.

Notes to the financial statements

1. Accounting policies (continued)

1.10 Fixed asset investments

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

1.11 Current asset investments

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

1.12 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in 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.

1.13 Operating leases

Rentals under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

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

The Company has taken advantage of the exemption for existing leases at the transition date to continue to recognise these lease incentives on the same basis as previous UK GAAP, on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate. Accordingly, the FRS 102 accounting policy has been applied to new operating leases entered into since 1 January 2014.

1.14 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 present value of the minimum lease payments payable during the lease term. 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 profit or loss account. There was no interest on the finance lease.

1.15 Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The pension charge represents the amounts payable by the Company to the scheme in respect of the year and contributions are recognised as an expense when they are due. Once the contributions have been paid, the Company has no further payment obligations. Amounts not paid are shown in creditors in the balance sheet. The assets of the scheme are held separately from those of the Company in an independently administered fund.

1.16 Employee share ownership plan

(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 102. 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.

Notes to the financial statements

1. Accounting policies (continued)

(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 102. 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.

During 2016 the Company obtained Shareholder consent to issue 29,257 Unrealised G4 Ordinary Shares. The vesting period associated with the new issue is 31 December 2020.

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, 31 December 2019 or 31 December 2020. 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, five 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 (for G1 and G2 shares), 31 December 2019 (for G3 shares) and 31 December 2020 (for G4 shares). In the event of a listing of the Company on a recognised stock exchange on or before 31 December 2017 (for G1 and G2 shares), 31 December 2019 (for G3 shares) and 31 December 2020 (for G4 shares), 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.

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 24. 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, 31 December 2019 and 31 December 2020 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.

1.17 Deferred taxation

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.

1.18 Foreign currency

The Group and Company's functional and presentation currency is the Pound Sterling and no rounding is used. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. 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 profit and loss account.

1.19 Bad and doubtful debt provision

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

1.20 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Notes to the financial statements

1. Accounting policies (continued)

1.21 Share based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the Profit and Loss Account over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each Balance Sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

The fair value of the award also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the Group keeping the scheme open or the employee maintaining any contributions required by the scheme).

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to Profit and Loss Account over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the Profit and Loss Account is charged with fair value of goods and services received.

2. Judgments in applying accounting policies 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.

Useful economic lives of tangible assets

The annual depreciation charge for tangible fixed assets is sensitive to changes in the estimated useful lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 12 for the carrying amount of fixed assets and note 1.9 for the useful economic lives for each class of assets.

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. Where this prefunding has been outstanding for more than six months, it has been fully provided for.

Share-based payments

The Group asesses 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 profit and loss account, with a corresponding adjustment to equity.

3. Turnover

All turnover arose within the United Kingdom.

Notes to the financial statements

4. Other operating income

	2016	2015
	£	£
Other operating income	75,978	877,306
	75,978	877,306

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

5. Operating profit

The operating profit is stated after charging:

	2016	2015
	£	£
Movement in bad debt provision	290,891	12,737
Exchange differences	2,053	1,282
Depreciation of tangible fixed assets	262,329	182,573
Fees payable to the Group's auditor for the audit of the Company's and subsidiaries' annual financial statements	75,018	102,376
Fees payable to the Group's auditor and its associates for other services to the Group		
- In respect of the client assets audit	84,705	103,191
- In respect of all other services	71,700	112,800
Operating lease rentals	327,767	196,400
Share based payment	639,368	540,826
Defined contribution pension cost	714,320	588,254

Notes to the financial statements

6. Employees

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

	2016 £	2015 £
Wages and salaries	8,915,863	7,372,429
Social security costs	1,071,896	863,935
Other pension costs	714,320	588,254
Cost of employee share schemes	639,368	540,826
	11,341,447	9,365,444

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

	2016 No.	2015 No.
Employees	166	138

7. Directors' remuneration

	2016 £	2015 £
Directors' emoluments	743,826	769,711
Company contributions to defined contribution pension schemes	42,030	41,614
Cost of Directors' participation in share schemes	291,996	286,749
	1,077,852	1,098,074

During the year retirement benefits were accruing to 2 directors (2015 - 2) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £335,787 (2015 - £342,625).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £23,370 (2015 - £23,138).

Notes to the financial statements

8. Interest receivable and similar income

	2016 £	2015 £
Other interest receivable	12,714	9,491
	12,714	9,491

9. Interest payable and similar expenses

	2016 £	2015 £
Interest payable on bank overdrafts	20	26,080
	20	26,080

10. Taxation

	2016 £	2015 £
Corporation tax		
Current tax on profits for the year	939,684	135,448
Adjustments in respect of previous periods	1	–
	939,685	135,448
Total current tax on profit for the year	939,685	135,448
Deferred tax		
Origination and reversal of timing differences	2,639	319,454
Effect of tax rate change on opening balance	–	17,921
Total deferred tax	2,639	337,375
Taxation on profit on ordinary activities	942,324	472,823

Notes to the financial statements

10. Taxation (continued)

Factors affecting tax charge for the year

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

	2016 £	2015 £
Profit on ordinary activities before tax	4,329,508	4,773,177
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 - 20.25%)	865,901	966,342
Effects of:		
Expenses not deductible for tax purposes	165,995	144,044
Fixed asset differences	339	1,156
Income not taxable for tax purposes	(5,818)	(3,246)
Adjustments to tax charge in respect of prior periods	1	–
Adjustments to brought forward values	–	(17,989)
Losses eliminated	–	17,989
Timing differences not recognised in the computation	–	2,942
Adjust closing deferred tax to average rate of 20% (2015 - 20.25%)	12,384	20,581
Adjust opening deferred tax to average rate of 20% (2015 - 20.25%)	(16,721)	(15,657)
Deferred tax not recognised	(79,757)	(643,339)
Total tax charge for the year	942,324	472,823

11. Parent company profit for the year

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Profit and Loss Account in these financial statements. The loss after tax of the parent Company for the year was £317,710 (2015 - loss £1,643,251).

Notes to the financial statements

12. Tangible fixed assets

Group	Short-term leasehold property	Fixtures and fittings	Office equipment	Total
	£	£	£	£
Cost or valuation				
At 1 January 2016	27,212	189,887	977,908	1,195,007
Additions	–	39,540	539,613	579,153
Disposals	–	–	(175,253)	(175,253)
At 31 December 2016	27,212	229,427	1,342,268	1,598,907
Accumulated depreciation				
At 1 January 2016	15,634	130,422	579,743	725,799
Charge for year on owned assets	3,722	28,011	209,704	241,437
Charge for year on financed assets	–	–	20,892	20,892
Disposals	–	–	(27,586)	(27,586)
At 31 December 2016	19,356	158,433	782,753	960,542
Net book value				
At 31 December 2016	7,856	70,994	559,515	638,365
At 31 December 2015	11,578	59,465	398,165	469,208

The net book value of assets held under finance leases or hire purchase contracts, included above, are as follows:

	2016	2015
	£	£
Office equipment	104,474	–
	104,474	–

Notes to the financial statements

12. Tangible fixed assets (continued)

Company	Short-term leasehold property £
Cost or valuation	
At 1 January 2016	27,212
At 31 December 2016	27,212
Accumulated depreciation	
At 1 January 2016	15,634
Charge for year on owned assets	3,722
At 31 December 2016	19,356
Net book value	
At 31 December 2016	7,856
At 31 December 2015	11,578

Notes to the financial statements

13. Fixed asset investments

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Country of incorporation	Class of shares	Holding	Principal activity
Nucleus Financial Services Limited	United Kingdom	Ordinary	100 %	Provision of wrap investment administration services to selected Financial Advisers in the United Kingdom
Nucleus IFA Services Limited	United Kingdom	Ordinary	100 %	Provision of platform technology, sales, marketing and platform development services to Nucleus Financial Services Limited

Nucleus Financial Services Limited has a 100% shareholding in NFS (Nominees) Limited and a 100% shareholding in Nucleus Trustee Company Limited. Nucleus Financial Group Limited is the only entity to produce consolidated financial statements.

The aggregate of the share capital and reserves as at 31 December 2016 and of the profit or loss for the year ended on that date for the subsidiary undertakings were as follows:

	Aggregate of share capital and reserves	Profit/(loss)
	£	£
Nucleus Financial Services Limited	3,506,910	–
Nucleus IFA Services Limited	2,276,923	4,631,041
	5,783,833	4,631,041

Company	Investments in subsidiary companies
	£
Cost and net book value	
At 1 January 2016	2,645,002
At 31 December 2016	2,645,002
Net book value	
At 31 December 2016	2,645,002
At 31 December 2015	2,645,002

Notes to the financial statements

14. Debtors

Amounts falling due after more than one year

	Group		Company	
	2016	2015	2016	2015
	£	£	£	£
Amounts owed by group undertakings	–	–	–	2,316,046
Other debtors	482,061	366,852	482,061	366,852
	482,061	366,852	482,061	2,682,898

Amounts falling due within one year

	Group		Company	
	2016	2015	2016	2015
	£	£	£	£
Trade debtors	274,683	–	–	–
Amounts owed by group undertakings	–	–	6,221,963	669,511
Other debtors	1,615,509	1,179,120	140,321	124,740
Prepayments and accrued income	4,515,192	3,510,262	533,220	235,510
Amounts owed by HMRC	3,446,257	2,534,803	–	–
Deferred taxation	18,419	21,058	36,020	46,094
	9,870,060	7,245,243	6,931,524	1,075,855

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

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

	Group		Company	
	2016	2015	2016	2015
	£	£	£	£
Unlisted investments	69,200	72,670	–	–
	69,200	72,670	–	–

Notes to the financial statements

16. Cash and cash equivalents

	Group		Company	
	2016	2015	2016	2015
	£	£	£	£
Cash at bank and in hand	13,839,250	12,858,427	6,467,238	8,870,335
	13,839,250	12,858,427	6,467,238	8,870,335

The Group has an 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 £5,000,000 and 5% plus base rate on any amount over £5,000,000. The overdraft is secured by a fixed and floating charge over all the Company's assets.

17. Creditors: Amounts falling due within one year

	Group		Company	
	2016	2015	2016	2015
	£	£	£	£
Trade creditors	2,808,550	3,943,262	203,915	119,984
Amounts owed to HMRC	78,898	494,704	–	–
Corporation tax	939,684	135,448	6,100	–
Taxation and social security	269,949	238,922	266,530	238,184
Obligations under finance leases	41,741	–	–	–
Other creditors	372,592	689,963	7,068	12,894
Accruals and deferred income	4,133,744	3,343,479	2,121,583	1,309,242
	8,645,158	8,845,778	2,605,196	1,680,304

Notes to the financial statements

18. Creditors: Amounts falling due after more than one year

	Group		Company	
	2016	2015	2016	2015
	£	£	£	£
Obligations under finance leases	62,611	–	–	–
	62,611	–	–	–

19. Finance leases

Minimum lease payments under hire purchase fall due as follows:

	Group
	2016
	£
Within one year	41,741
Between 1-2 years	41,741
Between 2-5 years	20,870
	104,352

Notes to the financial statements

20. Deferred taxation

Group	2016	2015
	£	£
At 31 January	21,058	358,433
Charged to profit or loss	(2,639)	(337,375)
At 31 December	18,419	21,058

Company	2016	2015
	£	£
At 31 January	46,094	2,907
Charged to profit or loss	(10,074)	43,187
At 31 December	36,020	46,094

The deferred tax asset is made up as follows:

	Group	
	2016	2015
	£	£
Accelerated capital allowances	(28,115)	(40,943)
Short term timing differences	46,534	62,001
	18,419	21,058

Group

The total potential deferred tax asset arising in respect of unutilised tax losses and timing differences at 31 December 2016 is £235,296 (2015 - £362,975). 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 £216,877 (2015 - £296,634) has not been recognised.

Company

The total potential deferred tax asset arising in respect of unutilised tax losses and timing differences at 31 December 2016 is £252,897 (2015 - £342,728). 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 £216,877 (2015 - £296,634) has not been recognised.

Notes to the financial statements

21. Called up share capital

	2016	2015
	£	£
Shares classified as equity		
Allotted, called up and fully paid		
1,000,000 Ordinary shares of £0.01 each	10,000	10,000
761,028 B Ordinary shares of £0.01 each	7,610	7,610
202,304 G1 Ordinary shares of £0.01 each	2,023	2,023
125,187 G2 Ordinary shares of £0.01 each	1,252	1,252
44,364 G3 Ordinary shares of £0.01 each	444	444
29,257 G4 Ordinary shares of £0.01 each	293	–
	21,622	21,329

In 2016, 29,257 G4 Ordinary Shares were issued at 5p each. The company received consideration totalling £1,493 in respect of these shares.

22. 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.

Profit and loss account

Includes all current and prior year retained profits and losses.

Share based payment reserve

The fair value of services received in exchange for the grant of options and growth shares is recgonised over their vesting period.

Fair value reserve

Represents the gains and losses on investments held on the platform for operational purposes.

Notes to the financial statements

23. Share based payments - share options

Certain Directors and senior management hold options that entitle them to purchase 11,500 Ordinary Shares provided they remain in full time employment and subject to satisfactory performance appraisals when the options are due to vest. The options vested in tranches between 31 December 2012 and 28 February 2015 and have a last expiry date of 28 February 2017.

	Weighted average exercise price (pence) 2016	Number 2016	Weighted average exercise price (pence) 2015	Number 2015
Directors' Scheme	1320	4,000	1320	4,000
Senior Management Scheme	1320	7,500	1320	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 was charged (2015 - £39) to the profit and loss account in respect of this scheme.

Notes to the financial statements

24. 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 1.16.

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	15/10/12	19/09/13	19/07/13	14/03/14	06/10/15	17/11/16
Par value	£0.05	£0.05	£0.05	£0.05	£0.05	£0.05
Realisable	31/12/17	31/12/17	31/12/17	31/12/17	31/12/19	31/12/20
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 £639,367 (2015 - £540,787) was charged to the profit and loss account in respect of these shares.

Notes to the financial statements

25. 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 £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.

26. 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 £714,320 (2015 - £588,254). Contributions totalling £67,364 (2015 - £56,287) were payable to the fund at the balance sheet date.

27. Commitments under operating leases

At 31 December 2016 the Group and the Company had future minimum lease payments under non- cancellable operating leases as follows:

	Group		Company	
	2016	2015	2016	2015
	£	£	£	£
Not later than 1 year	404,802	157,661	404,802	157,661
Later than 1 year and not later than 5 years	1,336,738	690,826	1,336,738	690,826
Later than 5 years	176,793	–	176,793	–
	1,918,333	848,487	1,918,333	848,487

28. Finance lease commitments

On 28 October 2016, the Group entered into a three year finance lease agreement for £240,418. The equipment is not due to be delivered until 2017, therefore the inception of the lease occurs after the balance sheet date.

Notes to the financial statements

29. Related party transactions

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

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

	2016 £	2015 £
Additional loans provided by Nucleus Financial Group Limited to NIFAC	80,156	37,132
Subordinated loan facility cap	450,000	425,000
Interest charged to NIFAC at 2.5% (2015: 2.5%)	2,063	2,065
Interest charged to NIFAC at 3.0% (2015: 3.0%)	8,989	6,380
Amounts owed to Nucleus Financial Group Limited	434,229	319,020
Board fees paid by Nucleus Financial Group Limited on behalf of NIFAC	10,519	6,155
Board fees due to be paid by Nucleus Financial Group Limited on behalf of NIFAC	927	927
Board fees due to be paid by Nucleus Financial Group Limited to Sanlam UK Limited on behalf of NIFAC	3,708	7,308
Amounts owed by Nucleus Financial Group Limited to Sanlam UK Limited in respect of Board fees	17,670	3,649
Amounts owed by Nucleus Financial Services Limited to Sanlam UK Limited in respect of fees for the Onshore Bond	51,511	39,883
Amounts charged to Nucleus Financial Services Limited by Sanlam UK Limited in respect of the Onshore Bond	283,282	215,285
Amounts owed by Nucleus Financial Services Limited to Sanlam UK Limited in respect of tax collected from the Onshore Bond	164,689	93,164

Entities over which the entity has control, joint control or significant influence

Nucleus Financial Group Limited is exempt from disclosing transactions with entities that are part of the Group, in accordance with the requirements of Financial Reporting Standard 102 section 33.1A.

Key management personnel

Key management personnel compensation totals £1,726,522 (2015 - £1,643,795).

Notes to the financial statements

30. Post balance sheet events

The Company is taking steps to simplify its legal entity structure and improve the flow of capital and liquidity resources within the Group with a view to creating conditions under which a dividend can be considered in the future.

In order to achieve this the Company will close the NIFAS legal entity by transferring the 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 NFS increased its capital resources by way of issue of 5 million £1 ordinary shares to the Company on 29 March 2017.

In addition to this, on 29 March 2017 the Company requested shareholder approval to create distributable reserves through elimination of its accumulated realised losses by way of a capital reduction using the solvency statement procedure.

31. 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.

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