Nucleus Financial Services Limited annual report and financial statements

For the year ended 31 December 2016

Edition 01

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Registered number: 05629686

Company information

Directors

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

Company secretary

N C Megaw

Registered number

05629686

Registered office

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Independent auditors

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Contents

Strategic report

The Directors present their strategic and directors' reports and the financial statements for the year ended 31 December 2016 for Nucleus Financial Services Limited ("the Company").

Introduction

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

The Company is a wholly owned subsidiary of Nucleus Financial Group Limited ("Nucleus") and together with Nucleus IFA Services Limited ("NIFAS") forms the Group ("the Group").

The Group provides a wrap platform to UK financial advisers. The Nucleus wrap platform allows clients to invest directly, or via various 'tax wrappers' into a broad range of asset types, including cash, unit trusts, OEICs, ETFs, investment trusts and other securities.

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.

The Company 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 threshhold, the Company has been further classified as a Significant IFPRU firm. In addition, the Company has additional FCA and Her Majesty's Revenue and Customs ("HMRC") obligations relating to its activities as an operator of a Self Invested Personal Pension scheme ("a Sipp Operator") and also those relating to the management of Individual Savings Accounts ("an Isa Manager"). The Company is authorised to hold and control client money as part of its activities and is therefore subject to the FCA's client asset rules ("CASS rules").

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

The financial statements of the Company 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.

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 the Company added £1.9bn of gross inflows (£1.1bn net) and sixty new firms joined the platform, representing 283 advisers. Financial performance was also pleasing, with turnover up 15% to £33m.

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.

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.

Strategic report

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 the Company, 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 Company's regulatory status and the most significant of these are:

(i) Impact of a breach of FCA regulations

If the Company 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 Company 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.

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.

Strategic report

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.

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

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.

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.

Strategic report

Financial key performance indicators

The profit after tax for the financial year was £nil (2015 - £14,079). 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
Operating profit	£2,804	£51,932
Profit after tax	£nil	£14,079

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

Going concern

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

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

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

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

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 Strategic Report, the Directors' 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 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 of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies for the Company'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 Company will continue in business.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company'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

M D Seddon

S J Tucker

L van der Walt (resigned 20 January 2016)

Directors' report

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.

Nucleus is taking steps to simplify its legal entity structure and improve the flow of capital and liquidity resources within the Group. In order to achieve this, Nucleus will close the Company's fellow subsidiary, Nucleus IFA Services Limited, on 1 April 2017 by transferring the trade and assets to the Company. To enable the Company to meet its increased capital requirements following the transfer of trade, the Company increased its capital resources by way of issue of 5 million £1 ordinary shares to Nucleus Financial Group Limited on 29 March 2017.

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'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'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 Services Limited

Report on the financial statements

Our opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its result 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 Balance Sheet as at 31 December 2016;
- the Profit and Loss Account and Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information

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

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

Opinions on other matters 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 company and its 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.

Independent auditors' report

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 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

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

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

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

In addition, we read all the financial and non-financial information in the 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

Profit and loss account

	Note	2016 £	2015 £
Turnover	3	33,280,687	28,956,914
Cost of sales		(25,467,094)	(23,110,074)
Gross profit		7,813,593	5,846,840
Administrative expenses		(7,861,174)	(6,647,434)
Other operating income	4	50,385	852,526
Operating profit	5	2,804	51,932
Interest receivable and similar income	8	1,661	1,046
Interest payable and similar charges	9	1,480	(27,580)
Profit before taxation		5,945	25,398
Tax charge on profit on ordinary activities	10	(5,945)	(11,319)
Profit for the financial year		–	14,079

The notes on pages 16 to 26 form part of these financial statements.

Statement of comprehensive income

	2016	2015
	£	£
Profit for the financial year	–	14,079
Unrealised loss on investments	(3,470)	(44,714)
Total comprehensive loss for the year	(3,470)	(30,635)

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

Balance sheet as at 31 December 2016

		2016		2015	
	Note	£	£	£	£
Fixed assets					
Investments	11		1,001		1,001
Current assets					
Debtors	12	9,149,086		6,865,259	
Current asset investments	13	69,200		72,670	
Cash at bank and in hand	14	4,904,862		3,987,680	
		14,123,148		10,925,609	
Creditors: amounts falling due within one year	15	(10,567,239)		(7,366,230)	
Net current assets			3,555,909		3,559,379
Total assets less current liabilities			3,556,910		3,560,380
Creditors: amounts falling due after more than one year	16		(50,000)		(50,000)
Net assets			3,506,910		3,510,380
Capital and reserves					
Called up share capital	18		2,595,000		2,595,000
Fair value reserve	19		39,444		42,914
Profit and loss account	19		872,466		872,466
Total shareholders' funds			3,506,910		3,510,380

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 16 to 26 form part of these financial statements.

Statement of changes in equity

	Called up share capital £	Fair value reserve £	Profit and loss account £	Total equity £
At 1 January 2016	2,595,000	42,914	872,466	3,510,380
Unrealised loss on investments	–	(3,470)	–	(3,470)
At 31 December 2016	2,595,000	39,444	872,466	3,506,910
At 1 January 2015	2,595,000	87,628	858,387	3,541,015
Profit for the financial year	–	–	14,079	14,079
Unrealised loss on investments	–	(44,714)	–	(44,714)
At 31 December 2015	2,595,000	42,914	872,466	3,510,380

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

Notes to the financial statements

1. Accounting policies

1.1 Basis of preparation of financial statements

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

These financial statements are prepared on the going concern basis, under the historical cost convention as modified by the recognition of certain financial assets measured at fair value. The Company has taken advantage of the exemption under section 400 of the Companies Act 2006 whereby an intermediate parent company is not required to prepare group financial statements.

The preparation of financial statements in confirmity 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 Going concern

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

1.3 Exemptions for qualifying entities under FRS 102

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

The requirements of Section 7 Statement of Cash Flows

The requirements of Section 33 Related Party Disclosures paragraph 33.7

1.4 Foreign currency

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

1.5 Turnover

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

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

1.8 Finance costs

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

1.9 Defined contribution pension scheme

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

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

1.12 Bad and doubtful debt provision

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

1.13 Cash and cash equivalents

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

1.14 Deferred tax

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

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

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

Deferred tax assets and liabilities are not discounted.

1.15 Provisions for liabilities

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

Provisions are charged as an expense to the Profit and Loss Account in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

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.

Impairment of debtors

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

3. Turnover

All turnover is attributable to the principal activity of the Company and arose within the United Kingdom (2015 - all United Kingdom).

Notes to the financial statements

4. Other operating income

	2016	2015
	£	£
Other operating income	50,385	852,526
	50,385	852,526

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/(crediting):

	2016	2015
	£	£
Audit fees payable to the Company's auditor:		
For the audit of the Company's financial statements	19,998	30,580
In respect of the client assets audit	84,705	103,191
In respect of all other services	62,100	112,800
Other costs:		
Exchange differences	490	(176)
Defined contribution pension cost	304,098	240,047
Movement in bad debt provision	290,891	12,737

Notes to the financial statements

6. Employees

The staff who manage the affairs of the Company are employed by Nucleus Financial Group Limited. Staff costs, including Directors' remuneration, recharged to the Company, were as follows:

	2016	2015
	£	£
Wages and salaries	3,762,433	2,975,951
Social security costs	445,313	333,179
Other pension costs	304,098	240,047
	4,511,844	3,549,177

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

	2016	2015
	No.	No.
Employees	85	69

7. Directors' remuneration

	2016	2015
	£	£
Directors' emoluments	359,063	301,979
Company contributions to defined contribution pension schemes	19,964	16,646
	379,027	318,625

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

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 £162,715 (2015 - £137,152).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £11,101 (2015 - £9,255).

Notes to the financial statements

8. Interest receivable and similar income

	2016	2015
	£	£
Bank interest receivable	1,661	1,046
	1,661	1,046

9. Interest payable and similar expenses

	2016	2015
	£	£
Interest payable on bank overdrafts	20	26,080
Interest (reversed)/payable on preference shares	(1,500)	1,500
	(1,480)	27,580

10. Taxation

	2016	2015
	£	£
Corporation tax		
Current tax on profits for the year	–	3,129
Adjustments in respect of previous periods	1	–
Total current tax on profit for the year	1	3,129
Deferred tax		
Origination and reversal of timing differences	5,944	6,768
Effect of tax rate change on opening balance	–	1,422
Total deferred tax	5,944	8,190
Taxation on profit on ordinary activities	5,945	11,319

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 - higher than) the standard rate of corporation tax in the UK of 20% (2015 - 20%). The differences are explained below:

	2016 £	2015 £
Profit on ordinary activities before tax	5,945	25,398
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 - 20%)	1,189	5,079
Effects of:		
Expenses not deductible for tax purposes	4,217	5,174
Adjustments to tax charge in respect of prior periods	1	–
Adjust closing deferred tax to average rate of 20%	753	1,066
Adjust opening deferred tax to average rate of 20%	(1,066)	–
Income not taxable for tax purposes	(300)	–
Group relief surrendered	1,151	–
Total tax charge for the year	5,945	11,319

Notes to the financial statements

11. Fixed asset investments

	Investments in subsidiary companies £
Cost	
At 1 January 2016	1,001
At 31 December 2016	1,001
Net book value	
At 31 December 2016	1,001
At 31 December 2015	1,001

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

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Country of incorporation	Class of shares	Holding	Principal activity
NFS (Nominees) Limited	England and Wales	Ordinary shares	100%	Vehicle to ensure appropriate registration of title of client assets for the purposes of the client money rules as defined by the Financial Conduct Authority
Nucleus Trustee Company Limited	Scotland	Ordinary shares	100%	To act as trustee of the self-invested personal pension operated by Nucleus Financial Services Limited

Notes to the financial statements

12. Debtors

	2016	2015
	£	£
Trade debtors	274,683	–
Other debtors	1,463,654	1,049,813
Prepayments and accrued income	3,950,189	3,260,396
Amounts owed by HMRC	3,446,257	2,534,803
Deferred taxation	14,303	20,247
	9,149,086	6,865,259

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

13. Current asset investments

	2016	2015
	£	£
Valuation		
At 1 January	72,670	117,384
Unrealised loss on investments	(3,470)	(44,714)
At 31 December	69,200	72,670

14. Cash and cash equivalents

	2016	2015
	£	£
Cash at bank and in hand	4,904,862	3,987,680
	4,904,862	3,987,680

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

Notes to the financial statements

15. Creditors

Amounts falling due within one year

	2016	2015
	£	£
Trade creditors	1,216,209	2,787,475
Amounts owed to HMRC	78,898	494,704
Amounts owed to Group undertakings	7,372,308	1,679,447
Corporation tax	–	3,129
Taxation and social security	1,438	738
Other creditors	366,524	678,068
Accruals	1,531,862	1,722,669
	10,567,239	7,366,230

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

16. Creditors

Amounts falling due after more than one year

	2016	2015
	£	£
50,000 Preference shares of £1 each	50,000	50,000
	50,000	50,000

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

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

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

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

Notes to the financial statements

17. Deferred taxation

	2016	2015
	£	£
At 1 January	20,247	28,437
Charged to profit or loss	(5,944)	(8,190)
At 31 December	14,303	20,247

The deferred tax asset is made up as follows:

	2016	2015
	£	£
Short term timing differences	14,303	20,247
	14,303	20,247

18. Called up share capital

	2016	2015
	£	£
Shares classified as equity		
Allotted, called up and fully paid		
2,595,000 Ordinary shares of £1 each	2,595,000	2,595,000

There is a single class of ordinary shares, representing the nominal value of shares that have been issued. There are no restrictions on the distribution of dividends and the repayment of capital.

	2016	2015
	£	£
Shares classified as debt		
Allotted, called up and fully paid		
50,000 Preference shares of £1 each	50,000	50,000

Notes to the financial statements

19. Reserves

Fair value reserve

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

Profit and loss account

Includes all current and prior year retained profits and losses.

20. Related party transactions

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

21. Post balance sheet events

Nucleus is taking steps to simplify its legal entity structure and improve the flow of capital and liquidity resources within the Group. In order to achieve this, Nucleus will close the Company's fellow subsidiary, Nucleus IFA Services Limited, on 1 April 2017 by transferring the trade and assets to the Company. To enable the Company to meet its increased capital requirements following the transfer of trade, the Company increased its capital resources by way of issue of 5 million £1 ordinary shares to Nucleus Financial Group Limited on 29 March 2017.

22. Controlling party

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

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

Nucleus Financial Group Limited is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements at 31 December 2016. The consolidated financial statements of Nucleus Financial Group Limited can be obtained from Companies House or the Company Secretary at 22 Thistle Street Lane North West, Edinburgh, EH2 1EA or the Group's website www.nucleusfinancial.com

Notes

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