

Registered number: 05629686

NUCLEUS FINANCIAL SERVICES LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

NUCLEUS FINANCIAL SERVICES LIMITED

COMPANY INFORMATION

DIRECTORS	A C D Bloch P R Bradshaw D R Ferguson S J Geard J P Gibson J A A Samuels M D Seddon S J Tucker L van der Walt
COMPANY SECRETARY	N C Megaw
REGISTERED NUMBER	05629686
REGISTERED OFFICE	One London Wall London United Kingdom EC2Y 5AB
INDEPENDENT AUDITORS	PricewaterhouseCoopers LLP Atria One 144 Morrison Street Edinburgh EH3 8EX
BANKERS	The Royal Bank of Scotland Aldgate Union 7 th Floor 10 Whitechapel High Street London E1 8DX Bank of Scotland plc PO Box 17235 Edinburgh EH11 1YH

NUCLEUS FINANCIAL SERVICES LIMITED

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**NUCLEUS FINANCIAL SERVICES LIMITED
STRATEGIC AND DIRECTORS' REPORTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

The Directors present their Strategic and Directors' Reports and the audited financial statements for the year ended 31 December 2014 for Nucleus Financial Services Limited ("NFS" or "the Company"). The Company is a wholly owned subsidiary of Nucleus Financial Group Limited ("Nucleus" or "the Group"). The Strategic and Directors' Reports incorporate aspects relating to Nucleus and the Company.

STRATEGIC REPORT

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

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

The financial statements of NFS along with NFS' Pillar 3 statement can be found on the Group's website www.nucleusfinancial.com or available from the company secretary on request.

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.

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

In terms of recent regulatory change we believe that our operating 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 and we welcome the increased levels of professionalism in the advisor market. Wrap platforms, as with quality financial advisors, stand to benefit where life companies once enjoyed protected status.

However, there is much to be done and we must not become complacent or allow our technology or proposition to slip back, and to that end, in 2014 in collaboration with our BPO provider and technology partner Bravura, we made a significant investment in our core platform technology and we believe this will allow us to meet the increasing demands of our clients in how their wrap investment accounts help them to achieve their personal financial goals.

The year closed with £7.8bn of assets under management, representing an increase of 26% from the end of 2013. Assets peaked in excess of £8bn in late December, representing a milestone for the Group.

Overall we added £1.9bn of gross inflows (£1.4bn net) and 25 new firms and we now support 1,805 users. Financial performance was pleasing with turnover up 25.8% to £23.6m and profit after tax rising to £0.3m (2013: £0.2m). Underlying costs have increased with assets under administration primarily due to increased charges relating to the provision of platform services by our sister company, Nucleus IFA Services Limited ("NIFAS").

**NUCLEUS FINANCIAL SERVICES LIMITED
STRATEGIC AND DIRECTORS' REPORTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

Future Developments

Our 2014 upgrade to next generation technology will allow us to deliver a number of significant enhancements in functionality for our users. We acknowledge and indeed are disappointed that our service performance during and immediately after the upgrade was affected and we have taken steps to put right any client positions impacted by our service issues. Ensuring the core platform is operating effectively and fully restoring our service performance comes first, but we will seek to deliver an extensive programme of enhancements during the remainder of 2015. All of these are in direct response to user feedback and as such we can be confident that they will be well received.

PRINCIPAL RISKS AND UNCERTAINTIES

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

Relationship with financial advisers

As with all operators in the adviser platform market, attracting, engaging and retaining users and their clients is an important part of the Group's growth plans. For example, changes in the environment as a result of regulator or competitor actions could adversely affect the Group's ability to continue its offering to financial advisers and have a material adverse effect on the Group's revenues.

Nucleus also provides a platform solution to Paradigm and in 2014 approximately one third of new business originated through this arrangement which is currently fixed until the end of 2016. We continue to have a positive dialogue with Paradigm with a view to extending the term of this partnership.

Reliance on key suppliers

Nucleus relies on the following main suppliers and performance issues affecting these products and services may affect our business performance:

- Citigroup International plc ("Citi"), to which we outsource platform administration services. In the delivery of its services Citi outsources platform technology to Bravura Solutions Limited;
- Scottish Friendly Assurance Society and Sanlam Life & Pensions UK Limited, which provide the onshore bonds;
- RL360, which provides the offshore bond;
- Royal Bank of Scotland plc and Bank of Scotland plc, which provide operational and corporate banking facilities.
- The Company also relies on its parent for the provision of staff to enable it to provide its services and on NIFAS for the provision of platform development, sales and marketing services.

It is our understanding that Citi intend to withdraw from the market of providing platform administration services in the UK and we are currently working with Citi and prospective purchasers of their operations to evaluate options for successor agreements and to achieve a positive outcome for Nucleus' clients. Our existing legal agreement requires Citi and Nucleus to agree an exit plan, which includes continuity in the provision of services by Citi until the exit plan has been implemented in full.

**NUCLEUS FINANCIAL SERVICES LIMITED
STRATEGIC AND DIRECTORS' REPORTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

Competition risk

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

Access to capital

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

The Group operates in a heavily regulated industry

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

(i) Impact of a breach of FCA regulations

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

(ii) Requirement to hold sufficient regulatory capital

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

(iii) New and forthcoming regulation

The FCA has continued to focus on how the RDR changes have been implemented and has used a number of themed reviews to sample check the industry's compliance with specific issues such as management of conflicts of interest and inducements, advisers' use of platforms and the handling of customer complaints. The regulatory stage at European level has also brought into force regulations that will affect the operations of the Group which include the provisions of the Capital Requirements Directive IV ("CRD IV") such as the Packaged Retail and Insurance-based Investment Products Regulation (PRIIPs), and the revised Markets in Financial Instruments Directive (MiFID II).

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

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

**NUCLEUS FINANCIAL SERVICES LIMITED
STRATEGIC AND DIRECTORS' REPORTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

RESULTS AND KEY PERFORMANCE INDICATORS

The profit after tax for the financial year was £279,854 (2013: £241,399). This was in line with Directors' expectations. The key performance indicators the Board uses to assess financial performance are:

	2014	2013
	£	£
Assets under management	7,807,689,863	6,184,389,936
Turnover	23,604,254	18,764,867
Operating profit	290,770	193,185
Profit after tax	279,854	241,399
Net assets	3,541,015	3,173,533

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

DIRECTORS' REPORT

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2014.

Future Developments

Details on future developments are included in the Strategic Report.

RISK MANAGEMENT FRAMEWORK

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

The activities within each of the three lines are:

- **First line of defence**

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

- **Second line of defence**

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

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

- **Third line of defence**

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

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

FINANCIAL RISK MANAGEMENT

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

Exposure to securities markets

Nucleus' income is derived from a tiered basis point fee applied to client assets under management. As such, income is exposed to the value of the underlying investment assets which can be affected by market movements. Whilst there is some mitigation of this risk within aspects of the cost base, the Group is ultimately exposed to volatility in its financial results due to market movements outside of its control.

Liquidity risk

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

Operational risk

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

Credit risk

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

GOING CONCERN

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

- the latest business plan projections, 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;
- the financial position of other Group companies on which NFS relies for services;
- known risks and uncertainties with consideration of the impact of these on solvency and liquidity position; and
- known and anticipated changes in the regulatory environment impacting platform operators; and
- the results of the Company's ICAAP which is formally reviewed annually and approved by the Directors

**NUCLEUS FINANCIAL SERVICES LIMITED
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The Directors also consider their approach to assessing the Company's and the Group'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.

DIRECTORS

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

A C D Bloch
P R Bradshaw (Chairman)
D R Ferguson
S J Geard
J P Gibson
A J Mathieson – resigned 6 August 2014
J A A Samuels
M D Seddon – appointed 16 April 2014
S J Tucker – appointed 20 November 2014
L van der Walt
N B Wilson – resigned 30 June 2014

COMPANY SECRETARY

N C Megaw

PROVISION OF INFORMATION TO INDEPENDENT AUDITORS

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

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

**NUCLEUS FINANCIAL SERVICES LIMITED
STRATEGIC AND DIRECTORS' REPORTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

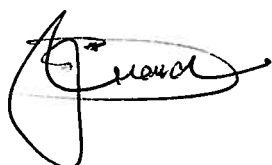
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies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

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

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

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

This report was approved by the Board on 2 April 2015 and signed on its behalf.



S J Geard
Director

NUCLEUS FINANCIAL SERVICES LIMITED

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 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

Nucleus Financial Services Limited's financial statements comprise:

- the Balance Sheet as at 31 December 2014;
- the Profit and Loss Account for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

NUCLEUS FINANCIAL SERVICES LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NUCLEUS FINANCIAL SERVICES LIMITED

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 10, 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

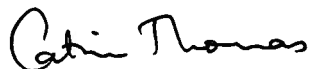
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. 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 Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Catrin Thomas (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
2 April 2015

NUCLEUS FINANCIAL SERVICES LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2014**

	Note	2014 £	2013 £
TURNOVER	2	23,604,254	18,764,867
Cost of sales		<u>(18,918,530)</u>	<u>(14,937,847)</u>
GROSS PROFIT		4,685,724	3,827,020
Administrative expenses		(4,394,954)	(3,828,148)
Other operating income		<u>-</u>	<u>194,313</u>
OPERATING PROFIT		290,770	193,185
Interest receivable and similar income		6,375	8,661
Interest payable and similar charges	6	<u>(10,728)</u>	<u>(5,447)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		286,417	196,399
Tax (charge)/credit on profit on ordinary activities	7	<u>(6,563)</u>	<u>45,000</u>
PROFIT FOR THE FINANCIAL YEAR	15	<u>279,854</u>	<u>241,399</u>

All amounts relate to continuing operations.

The notes on pages 16 to 24 form part of these financial statements.

NUCLEUS FINANCIAL SERVICES LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2014

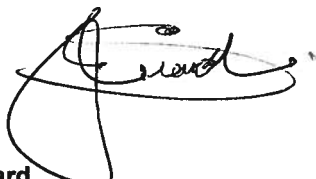
	Note	2014 £	2013 £
PROFIT FOR THE YEAR		279,854	241,399
Unrealised gain on investments	15	<u>87,628</u>	<u>-</u>
TOTAL RECOGNISED GAINS FOR THE YEAR		<u>367,482</u>	<u>241,399</u>

NUCLEUS FINANCIAL SERVICES LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2014

	Note	£	2014 £	£	2013 £
FIXED ASSETS					
Investments	8, 9		1,001		1,001
CURRENT ASSETS					
Investments	10	117,384		-	
Debtors	11	5,736,909		3,356,287	
Cash at bank and in hand		<u>2,918,603</u>		<u>3,814,442</u>	
		8,772,896		7,170,729	
CREDITORS: amounts falling due within one year	12	<u>(5,182,882)</u>		<u>(3,948,197)</u>	
NET CURRENT ASSETS			<u>3,590,014</u>		<u>3,222,532</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			3,591,015		3,223,533
CREDITORS: amounts falling due after more than one year	13		<u>(50,000)</u>		<u>(50,000)</u>
NET ASSETS			<u>3,541,015</u>		<u>3,173,533</u>
CAPITAL AND RESERVES					
Called up share capital	14		2,595,000		2,595,000
Profit and loss account	15		858,387		578,533
Fair value reserve	15		<u>87,628</u>		<u>-</u>
TOTAL SHAREHOLDERS' FUNDS	16		<u>3,541,015</u>		<u>3,173,533</u>

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 2 April 2015.



S J Geard
Director

The notes on pages 16 to 24 form part of these financial statements.

NUCLEUS FINANCIAL SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

1. ACCOUNTING POLICIES

1.1 Basis of preparation of financial statements

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

1.2 Cash flow

The Company, being a subsidiary undertaking where 90% or more of the voting rights are controlled within the Group and whose Group consolidated financial statements are publicly available, is exempt from the requirement to draw up a cash flow statement in accordance with FRS 1.

1.3 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 period 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.

1.4 Interest income

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

1.5 Expense recognition

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

1.6 Finance costs

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

1.7 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.

NUCLEUS FINANCIAL SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

1. ACCOUNTING POLICIES (continued)

1.8 Pensions

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

1.9 Fixed asset investments

Investments in subsidiaries are valued at cost less any provision for impairment. Impairment reviews are performed by the Directors when there has been an indication of potential impairment.

1.10 Current asset investments

The company has deemed investments held on the platform for operational purposes as assets available for sale. These are recognised and measured at fair value with gains and losses recognised immediately in the statement of total recognised gains and losses.

1.11 Bad and doubtful debt provision

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

2. TURNOVER

The whole of the turnover is attributable to the principal activity of the Company.

All turnover arose within the United Kingdom (2013: all United Kingdom).

3. AUDITORS' REMUNERATION

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

	2014	2013
	£	£
Fees payable to the Company's auditor for the audit of the Company's financial statements	26,000	19,440
Fees payable to the Company's auditor in respect of:		
Client assets audit	53,573	31,387
All other services	54,000	7,200
	<u>54,000</u>	<u>7,200</u>

NUCLEUS FINANCIAL SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

4. STAFF COSTS

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

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

	2014	2013
	£	£
Wages and salaries	2,266,332	1,985,818
Social security costs	232,753	234,680
Other pension costs	183,185	147,248
	<u>2,682,270</u>	<u>2,367,746</u>

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

	2014	2013
	Number	Number
Wrap administration services	<u>53</u>	<u>45</u>

5. DIRECTORS' REMUNERATION

	2014	2013
	£	£
Aggregated emoluments	<u>447,256</u>	<u>282,233</u>
Company pension contributions to defined contribution pension schemes	<u>22,832</u>	<u>17,866</u>

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

During the year retirement benefits were accruing to 3 Directors (2013: 3) in respect of defined contribution pension schemes.

The highest paid Director received remuneration of £163,564 (2013: £119,179).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £8,986 (2013: £7,135).

NUCLEUS FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2014 £	2013 £
Interest payable on overdrafts and bank loans	10,728	1,820
Interest payable on other loans	-	2,127
Preference share dividend payable	-	1,500
	<u>10,728</u>	<u>5,447</u>

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2014 £	2013 £
Analysis of tax credit in the year:		
UK corporation tax on profits for the year	-	-
Adjustments in respect of prior periods	-	(10,000)
Total current tax credit	<u>-</u>	<u>(10,000)</u>
	2014	2013
	£	£
Deferred tax:		
Origination and reversal of timing differences	<u>6,563</u>	<u>(35,000)</u>
Total deferred tax charge/(credit)	<u>6,563</u>	<u>(35,000)</u>
	<u>6,563</u>	<u>(45,000)</u>
Tax on profit on ordinary activities	<u>6,563</u>	<u>(45,000)</u>
	2014	2013
	£	£
Provision for deferred tax:		
Short term timing differences	<u>(28,437)</u>	<u>(35,000)</u>
	2014	2013
	£	£
Movement in provision:		
Provision at start of year	(35,000)	-
Deferred tax charge/(credit) in the profit and loss account for the year	<u>6,563</u>	<u>(35,000)</u>
Provision at end of year	<u>(28,437)</u>	<u>(35,000)</u>

NUCLEUS FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

7. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

	2014	2013
	£	£
Factors affecting tax charge for the year:		
Profit on ordinary activities before tax	286,417	196,399
Profit on ordinary activities multiplied by small companies' rate of corporation tax in the UK of 20.00% (2013: 20.00%)	57,283	39,280
Effects of:		
Expenses not deductible for tax purposes	278	10,300
Group relief claimed	(50,998)	(84,580)
Adjustments to tax charge in respect of previous periods	-	(10,000)
Other short term timing differences	(6,563)	35,000
Current tax charge for the year	-	(10,000)

Factors that may affect future tax charges:

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

	2014	2013
	£	£
Losses	-	-
Deferred tax asset at beginning of the year	(35,000)	-
Deferred tax charge in the profit and loss account for the year	6,563	(35,000)
Deferred tax asset at end of the year	(28,437)	(35,000)

8. FIXED ASSET INVESTMENTS

	Shares in Group undertakings £
Cost	
At 1 January 2014	1,001
Additions	-
At 31 December 2014	1,001

Details of the subsidiary undertakings are shown in note 9.

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

NUCLEUS FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

9. SUBSIDIARY UNDERTAKING

The following were subsidiary undertakings of the Company:

Company name	Percentage Shareholding
NFS (Nominees) Limited	100% ordinary shares
Nucleus Trustee Company Limited	100% ordinary shares

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

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

10. CURRENT ASSET INVESTMENTS

	Other investments £
Valuation	
At 1 January 2014	-
Additions at cost	29,756
Unrealised gain on investments	<u>87,628</u>
At 31 December 2014	<u>117,384</u>

11. DEBTORS

	2014 £	2013 £
Other debtors	1,185,667	1,110,759
Less: bad debt provision	<u>(151,839)</u>	<u>(175,000)</u>
	1,033,828	934,759
Amounts due from HMRC	2,116,306	281,246
Prepayments and accrued income	2,558,338	2,104,282
Deferred tax asset	<u>28,437</u>	<u>35,000</u>
	<u>5,736,909</u>	<u>3,356,287</u>

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.

NUCLEUS FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

11. DEBTORS (continued)

Bad debt provision for Offshore Bond Withholding Tax reclaim

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

12. CREDITORS

Amounts falling due within one year:

	2014 £	2013 £
Bank overdraft	1,133,939	45,147
Trade creditors	1,784,724	1,505,521
Amounts owed to Group undertakings	1,012,014	1,349,646
Amounts due to HMRC	213,682	245,961
Sundry creditors	32,134	2,765
Accruals	1,006,389	799,157
	<u>5,182,882</u>	<u>3,948,197</u>

13. CREDITORS

Amounts falling due after more than one year:

	2014 £	2013 £
50,000 (2013: 50,000) Preference shares of £1 each	<u>50,000</u>	<u>50,000</u>

Preference share dividends due in the year are included within amounts owed to Group undertakings (note 12). No share dividends have been declared in respect of 2014 (2013: £1,500).

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.

NUCLEUS FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

13. CREDITORS

Amounts falling due after more than one year (continued)

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.

14. CALLED UP SHARE CAPITAL

	2014 £	2013 £
Allotted, called up and fully paid		
2,595,000 (2013: 2,595,000) Ordinary shares of £1 each	<u>2,595,000</u>	<u>2,595,000</u>

15. RESERVES

	Profit and Loss Account £	Fair Value Reserve £
At 1 January 2014	578,533	-
Profit for the financial year	279,854	-
Unrealised gain on investments	-	<u>87,628</u>
At 31 December 2014	<u>858,387</u>	<u>87,628</u>

16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2014 £	2013 £
Opening shareholders' funds	3,173,533	2,932,134
Profit for the financial year	279,854	241,399
Unrealised gain on investments	87,628	-
Closing shareholders' funds	<u>3,541,015</u>	<u>3,173,533</u>

17. 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 8 paragraph 3(c).

NUCLEUS FINANCIAL SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

18. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

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 2014. 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