# Nucleus Financial Group Limited consolidated financial statements

For the year ended 31 December 2015

Edition 01

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Registered number 05522098

# 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

## Company secretary

N C Megaw

## Registered number

05522098

## Registered office

One London Wall
London
United Kingdom
EC2Y 5AB

## Independent auditors

PricewaterhouseCoopers LLP
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

## Bankers

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London
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PO Box 17235
Edinburgh
EH11 1YH

# Contents

# Chairman's statement

2015 was a successful year for the Company during which many of our commercial premises were proven to be both correct and durable. Our operating profit of £4.8m (2014: £2.5m), representing an increase of 92%, compares with increases in turnover of 23% and average platform assets of 16.2%. Our profit margin (operating profit as a percentage of turnover) increased from 10.5% to 16.6%.

This demonstration that expenses do not need to increase at the same pace as turnover is a comforting affirmation of the fundamental value and durability of the business. Future results may mask this trend as we invest in the functionality of our business, but the fundamental reality that long-term assets are the core value constituent is unarguable.

Assets on the platform finished the year at £9.1bn reflecting net inflows of £1.2bn, a highly credible result given both volatile markets and the service issues discussed below.

Along with the rest of the board I was delighted to see the way the top team, strengthened by Andrew Smith and Doug Heron at the beginning of the year, worked together through both challenging times and more relaxed environments. The individuals involved in managing the business have grown and matured into a totally professional team, at ease with each other and more than capable of growing the business way beyond its current level.

Last year I highlighted that we were alone in transitioning to modern platform architecture and, almost unbelievably, that remains the case. Although we were bitterly disappointed to have to return to our stakeholders with service issues it is evident that competitors are struggling with budgets and time scales to even begin the essential transition to modern architecture. The reality is that UK financial services are complex and the real entry barrier is the translation and control of that complexity.

Nothing matters more to Nucleus than high quality service and a totally professional control environment. The lapses experienced last year represented the major preoccupation of the board during the period. We finished the year with customer feedback and the fundamental control KPIs at a much more acceptable level and the board expects that substantive service issues should now be a thing of the past. Nevertheless, the board remains acutely aware of its responsibilities in this regard and will continue to monitor closely actual customer feedback as well as the key control KPIs

As ever, our market has a very positive outlook. Platforms are no longer young innovators, rather the accepted service delivery mechanism. Customers struggling with ever greater complexity, especially on pensions, are seeking advice in ever increasing numbers and the more difficult capital markets being experienced during 2016 only increase the need for professional help. Our ability to assist advisers to deliver much more professional asset risk management services is an essential element in generating good customer outcomes.

We are in a very strong position to gain market share through our modern technology, uniquely close adviser engagement and our strong management team.

My thanks as ever to board colleagues for their tireless help, support and counsel. In particular to Lukas van der Walt who stepped down in early 2016, and my welcome to Jonathan Polin who will be the new Sanlam board representative.

P R Bradshaw
Chairman

# Strategic and Directors' reports

The Directors present their Strategic and Directors' Reports and the audited consolidated financial statements for the year ended 31 December 2015. Nucleus Financial Group Limited ("the Company") is the parent company of a group of companies comprising Nucleus Financial Group Limited and its subsidiaries Nucleus Financial Services Limited ("NFS") and Nucleus IFA Services Limited ("NIFAS") ("the Group" or "Nucleus").

With effect from 1 January 2015, the Financial Reporting Council revised financial reporting standards and issued Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS 102"). This is the first year that the Company and Group have presented its results under FRS 102. The last financial statements prepared under UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2014 and details of the transition are disclosed in note 25.

## Strategic report

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

NFS is 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 rules ("CASS rules").

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

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

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

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 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.

In June 2014 we completed a migration of our technology to the Sonata system, giving us and our users access to modern and scalable technology that we believe will become the leading architecture in our market. There are regular updates planned for 2016 which will give us extended capability and greater efficiency.

In August 2015 the Company also entered into a new agreement for a period of 7 years with Genpact WM UK Limited ("Genpact"), who acquired the operations of Citi Openwealth, our former business process outsourcer ("BPO"). Genpact now provide the Company with a range of outsourced operational services.

The year closed with £9.1bn of assets under management, representing an increase of 16.2% from the end of 2014.

During the year we added £2bn of gross inflows (£1.2bn net) and a 17% increase in firms with meaningful inflow support. We now support 2,584 users, an increase of 43% in the year. Group financial performance was pleasing, with turnover up 23% to £29m and profit after tax rising to £4.3m (2014: £2.5m). The consolidated profit margin increased to 16.6% from 10.5% as we continue to realise the expected operational benefit of scale.

### 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 IFA Company ("NIFAC") (the investment company through which many adviser shareholders hold their investment in Nucleus) continues to consider its future role and we will continue to support its decision-making process. At the balance sheet date, the Company provided £319,020 of loan support which is repayable on giving three months' notice at a date no earlier than 1 March 2017.

## 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 could also have an adverse effect on the Group's business and financial performance.

# Strategic and Directors' reports

## 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. Specifically, Nucleus provides a white label platform solution to Paradigm Partners LLP and in 2015 approximately one quarter of new business originated through this arrangement. 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.

## Reliance on key suppliers

Nucleus, like many other participants in the wrap platform market, operates a business model that outsources aspects of operational or technology services, and enters into agreements with product providers to deliver components of the Nucleus wrap. As a result we have a reliance on our suppliers and performance issues affecting these products and services may impact on our business performance. Our key suppliers are:

- Genpact, to whom we outsource platform administration services. In the delivery of its services, Genpact outsources platform technology to Bravura Solutions Limited;
- Scottish Friendly Assurance Society and Sanlam Life & Pensions UK Limited, who provide the onshore bonds;
- RL360, who provide the offshore bond;
- Royal Bank of Scotland plc who provide operational, client money and corporate banking facilities;
- Bank of Scotland plc 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 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 is specified flexibility 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, 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, 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. Furthermore, the FCA's Financial Advice Market Review ("FAMR") report looks at how to resolve concerns about the affordability and accessibility of financial advice and guidance.

The regulatory stage at European level has also brought into force regulations that will affect the operations of the Group. These 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 MiFID II has been delayed by one year, however it is essential our preparatory work continues to be a focus because of the breadth and scale of the required changes.

The Fourth Anti-Money Laundering Directive 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.

The implementation of the CRD 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.

# Strategic and Directors' reports

The FCA introduced new CASS rules in 2014, with their 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 on the Group and its operations.

## Results and key performance indicators

The consolidated profit after tax for the financial year was £4,300,354 (2014: £2,471,595). This was in line with Directors' expectations. The key performance indicators the Board uses to assess financial performance are:

| | 2015 | 2014 |
|---|---|---|
| | £ | £ |
| Assets under management | 9,068,788,558 | 7,807,689,863 |
| Turnover | 28,956,914 | 23,604,193 |
| Consolidated operating profit | 4,793,652 | 2,466,738 |
| Consolidated profit after tax | 4,300,354 | 2,471,595 |
| Consolidated net assets | 12,166,622 | 7,367,937 |

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

## Directors' report

The Directors present their report and the audited financial statements of the Group and Company for the year ended 31 December 2015.

### 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, in assigning risk management responsibilities, Nucleus 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 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. It also provides 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 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 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.

## Financial risk management

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

### Exposure to securities markets

Nucleus' 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.

### 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 information can be found in our Pillar 3 disclosures.

# Strategic and Directors' reports

### 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 Group and Company's ability to continue as a going concern, the Directors evaluate this taking into account:

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

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

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

## 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

J A A Samuels

M D Seddon

S J Tucker

L van der Walt (resigned 20 January 2016)

## 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 and the Group'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 and the Group's auditors in connection with preparing its report and to establish that the Company and the Group's auditors are aware of that information.

# Strategic and Directors' reports

## Statement of directors' responsibilities

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

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

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

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

The 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 22 April 2016 and signed on its behalf.

S J Geard
Director

# Independent auditors' report

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

## Report on the financial statements

### Our opinion

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

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2015 and of the group's profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### What we have audited

Nucleus Financial Group Limited's financial statements comprise:

- the Consolidated and Company Balance Sheets as at 31 December 2015;
- the Consolidated Profit & Loss Account for the year then ended;
- the Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Cash Flow Statement for the year then ended;
- the Consolidated and Company Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

### Opinion on other matter prescribed by the Companies Act

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

We have no exceptions to report arising from this responsibility.

### Directors' remuneration

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

### Responsibilities for the financial statements and the audit

### Our responsibilities and those of the directors

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

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.

# Independent auditors' report

## What an audit of financial statements involves

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

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

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

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

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

Catrin Thomas (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
22 April 2016

# Consolidated profit and loss account

| | Note | 2015 £ | 2014 £ |
|---|---|---|---|
| Turnover | 4 | 28,956,914 | 23,604,193 |
| Cost of sales | | (10,522,674) | (10,032,416) |
| Gross profit | | 18,434,240 | 13,571,777 |
| Administrative expenses | | (14,517,894) | (11,133,363) |
| Other operating income | 5 | 877,306 | 28,324 |
| Operating profit | 6 | 4,793,652 | 2,466,738 |
| Loss on disposal of fixed assets | | (3,886) | - |
| Interest receivable and similar income | | 9,491 | 12,678 |
| Interest payable and similar charges | 9 | (26,080) | (10,728) |
| Profit on ordinary activities before taxation | | 4,773,177 | 2,468,688 |
| Tax on profit on ordinary activities | 10 | (472,823) | 2,907 |
| Profit for the financial year | | 4,300,354 | 2,471,595 |

All amounts relate to continuing operations.

All profit for the financial year is attributable to owners of the parent.

The notes on pages 19 to 44 form part of these financial statements.

# Consolidated statement of comprehensive income

| | Note | 2015 £ | 2014 £ |
|---|---|---|---|
| Profit for the financial year | | 4,300,354 | 2,471,595 |
| Unrealised (loss)/gain on investments | 14 | (44,714) | 87,628 |
| Total comprehensive income for the financial year | | 4,255,640 | 2,559,223 |

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

The notes on pages 19 to 44 form part of these financial statements.

# Consolidated balance sheet as at 31 December 2015

| | Note | 2015 £ | 2015 £ | 2014 £ | 2014 £ |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Tangible assets | 11 | | 469,208 | | 342,319 |
| **Current assets** | | | | | |
| Current asset investments | 14 | 72,670 | | 117,384 | |
| Debtors: amounts falling due within one year | 15 | 7,245,243 | | 6,632,181 | |
| Debtors: amounts falling due after more than one year | 16 | 366,852 | | 47,832 | |
| Cash at bank and in hand | | 12,858,427 | | 6,812,402 | |
| | | 20,543,192 | | 13,609,799 | |
| Creditors: amounts falling due within one year | 17 | (8,845,778) | | (6,584,181) | |
| **Net current assets** | | | 11,697,414 | | 7,025,618 |
| **Net assets** | | | 12,166,622 | | 7,367,937 |
| **Capital and reserves** | | | | | |
| Called up share capital | 19 | | 21,329 | | 20,885 |
| Share premium account | | | 15,746,001 | | 15,744,226 |
| Share-based payments reserve | | | 1,291,559 | | 750,733 |
| Profit and loss account | | | (4,935,181) | | (9,235,535) |
| Fair value reserve | | | 42,914 | | 87,628 |
| **Total shareholders' funds** | | | 12,166,622 | | 7,367,937 |

The notes on pages 19 to 44 form part of these financial statements.

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 22 April 2016.

S J Geard
Director

# Company balance sheet as at 31 December 2015

| | Note | 2015 £ | 2015 £ | 2014 £ | 2014 £ |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Tangible assets | 11 | 11,578 | | 20,120 | |
| Investments | 12 | 2,645,002 | | 2,645,002 | |
| | | | 2,656,580 | | 2,665,122 |
| **Current assets** | | | | | |
| Debtors: amounts falling due within one year | 15 | 1,075,855 | | 842,689 | |
| Debtors: amounts falling due after more than one year | 16 | 2,682,898 | | 8,664,409 | |
| Cash at bank and in hand | | 8,870,335 | | 3,893,387 | |
| | | 12,629,088 | | 13,400,485 | |
| Creditors: amounts falling due within one year | 17 | (1,680,304) | | (1,360,037) | |
| **Net current assets** | | | 10,948,784 | | 12,040,448 |
| **Net assets** | | | 13,605,364 | | 14,705,570 |
| **Capital and reserves** | | | | | |
| Called up share capital | 19 | | 21,329 | | 20,885 |
| Share premium account | | | 15,746,001 | | 15,744,226 |
| Share-based payment reserve | | | 1,291,559 | | 750,733 |
| Profit and loss account | | | (3,453,525) | | (1,810,274) |
| **Total shareholders' funds** | | | 13,605,364 | | 14,705,570 |

The notes on pages 19 to 44 form part of these financial statements.

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 22 April 2016.

S J Geard
Director

# Consolidated statement of changes in equity

| | Called up share capital | Share premium account | Share based payment reserve | Profit and loss account | Fair value reserve | Total |
|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ |
| Balance as at 1 January 2014 | 20,879 | 15,744,202 | 254,202 | (11,707,130) | - | 4,312,153 |
| Profit for the financial year | - | - | - | 2,471,595 | - | 2,471,595 |
| Share based payments charge | - | - | 496,531 | - | - | 496,531 |
| Proceeds from shares issued | 6 | 24 | - | - | - | 30 |
| Unrealised gain on investments | - | - | - | - | 87,628 | 87,628 |
| Balance as at 31 December 2014 | 20,885 | 15,744,226 | 750,733 | (9,235,535) | 87,628 | 7,367,937 |
| Balance as at 1 January 2015 | 20,885 | 15,744,226 | 750,733 | (9,235,535) | 87,628 | 7,367,937 |
| Profit for the financial year | - | - | - | 4,300,354 | - | 4,300,354 |
| Share based payments charge | - | - | 540,826 | - | - | 540,826 |
| Proceeds from shares issued | 444 | 1,775 | - | - | - | 2,219 |
| Unrealised loss on investments | - | - | - | - | (44,714) | (44,714) |
| Balance as at 31 December 2015 | 21,329 | 15,746,001 | 1,291,559 | (4,935,181) | 42,914 | 12,166,622 |

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

# Company statement of changes in equity

| | Called up share capital | Share premium account | Share based payment reserve | Profit and loss account | Total |
|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ |
| Balance as at 1 January 2014 | 20,879 | 15,744,202 | 254,202 | (566,168) | 15,453,115 |
| Loss for the financial year | - | - | - | (1,244,106) | (1,244,106) |
| Share based payments charge | - | - | 496,531 | - | 496,531 |
| Proceeds from shares issued | 6 | 24 | - | - | 30 |
| Balance as at 31 December 2014 | 20,885 | 15,744,226 | 750,733 | (1,810,274) | 14,705,570 |
| Balance as at 1 January 2015 | 20,885 | 15,744,226 | 750,733 | (1,810,274) | 14,705,570 |
| Loss for the financial year | - | - | - | (1,643,251) | (1,643,251) |
| Share based payments charge | - | - | 540,826 | - | 540,826 |
| Proceeds from shares issued | 444 | 1,775 | - | - | 2,219 |
| Balance as at 31 December 2015 | 21,329 | 15,746,001 | 1,291,559 | (3,453,525) | 13,605,364 |

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

# Consolidated cash flow statement

| | 2015 | 2014 |
|---|---|---|
| | £ | £ |
| **Cash flows from operating activities** | | |
| Profit for the financial year | 4,773,177 | 2,468,688 |
| Adjustments for: | | |
| Depreciation of fixed assets | 182,573 | 152,849 |
| Loss on disposal of fixed assets | 3,886 | - |
| Share based payment charge | 540,826 | 496,531 |
| Bad debt provision | 12,737 | (23,161) |
| Increase in debtors | (1,282,194) | (2,550,351) |
| Increase in creditors | 3,268,995 | 761,301 |
| Unrealised loss on foreign currency | 1,457 | 1,334 |
| Interest paid | 26,080 | 10,728 |
| Interest received | (9,491) | (12,678) |
| Taxation | - | - |
| **Net cash from operating activities** | 7,518,046 | 1,305,241 |
| **Cash flows from investing activities** | | |
| Purchase of tangible fixed assets | (313,348) | (284,126) |
| Purchase of investments | - | (29,756) |
| **Net cash from investing activities** | (313,348) | (313,882) |
| **Cash flows from financing activities** | | |
| Interest paid | (26,080) | (12,833) |
| Interest received | 9,491 | 12,678 |
| Issue of ordinary share capital | 2,219 | 30 |
| Capital element of finance lease repayments | (8,907) | (21,377) |
| Bank overdraft | (1,133,939) | 1,088,792 |
| **Net cash from financing activities** | (1,157,216) | 1,067,290 |
| Net increase in cash and cash equivalents | 6,047,482 | 2,058,649 |
| Unrealised loss on foreign currency | (1,457) | (1,334) |
| | 6,046,025 | 2,057,315 |
| Cash and cash equivalents at 1 January | 6,812,402 | 4,755,087 |
| Cash and cash equivalents at 31 December | 12,858,427 | 6,812,402 |

# Notes to the financial statements

## 1. Statement of compliance

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

## 2. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The Group and the Company has adopted FRS 102 in these financial statements and details of the transition to FRS 102 are disclosed in note 25.

### 2.1 Basis of preparation of financial statements

The Company's and the Group's financial statements have been prepared on a going concern basis, under the historical cost convention as modified by the recognition of certain financial assets measured at fair value. The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

### 2.2 Basis of consolidation

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

### 2.3 Going concern

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

### 2.4 Exemptions for qualifying entities under FRS 102

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

### 2.5 Turnover

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

### 2.6 Interest income

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

### 2.7 Expenses recognition

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

### 2.8 Finance costs

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

### 2.9 Tangible fixed assets

Tangible fixed assets are stated at historic cost less depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Impairment reviews are performed by the Directors at each reporting date. There was no impairment of fixed assets in the year. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

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

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in profit or loss.

# Notes to the financial statements

## 2. Accounting policies (continued)

### 2.10 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.

### 2.11 Current asset investments

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

### 2.12 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.

### 2.13 Operating leases

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

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

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

### 2.14 Finance leases

Where assets are financed by leasing agreements that give rights approximating to ownership, the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. Assets acquired under hire purchase contracts are depreciated over their useful lives on the following basis:

| | |
|---|---|
| Office equipment | Over 3 years straight line |

Depreciation on the relevant assets is charged to the profit and loss account. There was no interest on the finance lease.

### 2.15 Defined contribution pension scheme

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

### 2.16 Share-based payments

#### (a) Share options

The Company operates two equity-settled share based payment compensation plans, under which the Group receives services from Directors and senior managers as consideration for equity instruments (options) of the Company. These are accounted for in accordance with FRS 102. The fair value of services received in exchange for the grant of options is recognised as an expense over the vesting period of these options.

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

At the end of each reporting period, the Company revises its estimates of the number of options that are expected to vest to reflect latest expectations on the Group's ability to achieve the specified performance criteria and actual or anticipated leavers from the scheme. The Company recognises the impact of any revision to the prior year's estimates in the profit and loss account, with a corresponding adjustment to equity. When the options are exercised the proceeds received net of any directly attributable transaction costs are credited to share capital and share premium account.

#### (b) Growth shares

The Company also operates a growth share scheme under which the Company receives services from Directors and staff as consideration for Unrealised G Ordinary Shares. This scheme is accounted for as an equity-settled share based payment in accordance with FRS 102. Consequently, the fair value of services received in exchange for the grant of growth shares is recognised as an expense in the profit and loss account during the vesting period.

During 2015 the Company obtained Shareholder consent to issue 44,364 Unrealised G3 Ordinary Shares. The vesting period associated with the new issue is 31 December 2019.

# Notes to the financial statements

## 2. Accounting policies (continued)

Unrealised G Ordinary Shares form part of the share capital of the Company, are not transferable, are eligible to receive dividends and do not have any voting rights. Holders of Unrealised G Ordinary Shares are subject to good and bad leaver provisions and enter into individual subscription agreements that specify certain performance targets that are to be achieved during the period to 31 December 2017 or 31 December 2019. If these performance targets are met these shares can be deemed by the Company's Remuneration and Nomination Committee to be realised. In addition, a proportion of existing and new Unrealised G Ordinary Shares will not be subject to the requirement to achieve performance targets during the vesting period. The Remuneration and Nomination Committee also has the right to exercise discretion in determining if any awards are due under the Growth Share scheme.

Unrealised G Ordinary Shares are issued in tranches, each tranche determined by the date of issue and the applicable performance conditions attached. As at the date of signing, five tranches of shares have been issued. Realised G Ordinary Shares have the right to participate in any proceeds of a capital distribution amongst shareholders or participate in the proceeds of a sale of the Company should either occur before 31 December 2017 (for G1 and G2 shares) and 31 December 2019 (for G3 shares). In the event of a listing of the Company on a recognised stock exchange on or before 31 December 2017 (for G1 and G2 shares) and 31 December 2019 (for G3 shares), whichever is the earlier, any G Ordinary Shares that are deemed to have become Realised are converted into Ordinary Shares at a rate determined by the relative open market values of G Ordinary Shares and Ordinary Shares. In the event of a listing, the Company also has the option to settle the value of the Realised G Ordinary Shares in cash rather than issue Ordinary shares before the listing occurs. The Realised G Ordinary Shares only participate in any capital distribution or sale of the Company to the extent that the value generated exceeds a specified hurdle. This valuation hurdle is also taken into consideration in determining the open market value of a Realised G Ordinary Share.

The total amount to be recognised in the financial statements in respect of the Growth Share scheme is determined by reference to the fair value of the Unrealised G Ordinary Shares at the date of grant, calculated using the Black-Scholes methodology. Details of the assumptions used are included in Note 24. At the end of each reporting period, the Company reviews its estimate of the number of Unrealised G Ordinary Shares that is expected to become realised at 31 December 2017 and 31 December 2019 and then recognises the associated charge in the profit and loss account throughout the remainder of the vesting period, with a corresponding adjustment to equity.

### 2.17 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.

### 2.18 Foreign currency

The Group and Company's functional and presentation currency is the Pound Sterling and no rounding is used. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. At each year end, foreign currency monetary items are translated using the closing rate. Foreign exchange gains and losses resulting from the settlement of transactions at year end exchange rates of monetary assets denominated in foreign currencies are recognised in the profit and loss account.

### 2.19 Bad and doubtful debt provision

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

### 2.20 Share capital

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

## 3. Critical accounting judgements and 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.

# Notes to the financial statements

## 3. Critical accounting judgements and estimation uncertainty (continued)

### Critical judgements in applying the entity's accounting policies

#### 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.

### Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

#### Useful economic lives of tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 11 for the carrying amount of fixed assets and note 2.9 for the useful economic lives for each class of assets.

#### Impairment of debtors

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

#### Share-based payments

At the end of each reporting period, the Company revises its estimate of the number of options and shares under the growth share scheme that are expected to vest to reflect latest expectations on the Group's ability to achieve the specified performance criteria and actual or anticipated leavers from the schemes. The Company recognises the impact of any revision to the prior year's estimates in the profit and loss account, with a corresponding adjustment to equity.

## 4. Turnover

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

All turnover arose within the United Kingdom (2014: United Kingdom).

## 5. Other operating income

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.

# Notes to the financial statements

## 6. Operating profit

The operating profit is stated after charging:

| | 2015 | 2014 |
|---|---|---|
| | £ | £ |
| Movement in bad debt provision | 12,737 | (23,161) |
| Loss on foreign exchange | 1,282 | 1,092 |
| | | |
| Depreciation of tangible fixed assets: | | |
| - owned by the Group | 175,431 | 131,425 |
| - leased by the Group | 7,142 | 21,425 |
| | | |
| Operating lease rentals: | | |
| - land and buildings | 196,400 | 176,735 |
| | | |
| Audit fees payable to the Group's auditor: | | |
| - for the audit of the Company's and subsidiaries' financial statements | 102,376 | 88,400 |
| - in respect of the client assets audit | 103,191 | 53,573 |
| - in respect of all other services | 112,800 | 54,000 |

# Notes to the financial statements

## 7. Staff costs

### Group

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

| | 2015 £ | 2014 £ |
|---|---|---|
| Wages and salaries | 7,372,429 | 5,982,811 |
| Costs of employee share schemes | 540,826 | 496,531 |
| Social security costs | 863,935 | 665,231 |
| Pension costs | 588,254 | 464,131 |
| | 9,365,444 | 7,608,704 |

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

| | 2015 Number | 2014 Number |
|---|---|---|
| Wrap administration services | 138 | 111 |

# Notes to the financial statements

## 7. Staff costs (continued)

### Key management compensation

Key management includes the Directors and members of senior management. The compensation paid to key management for employee services is shown below:

| Group | 2015 | 2014 |
|---|---|---|
| | £ | £ |
| Aggregated emoluments | 1,194,783 | 1,286,348 |
| Costs of employee share schemes | 364,858 | 361,699 |
| | 1,560,641 | 1,648,047 |
| Company pension contributions to defined contribution pension schemes | 84,154 | 69,830 |

# Notes to the financial statements

## 8. Directors' remuneration

| Group | 2015 | 2014 |
|---|---|---|
| | £ | £ |
| Aggregated emoluments | 769,711 | 1,135,574 |
| Costs of Directors' participation in share schemes | 286,749 | 339,237 |
| | 1,056,460 | 1,474,811 |
| Company pension contributions to defined contribution pension schemes | 41,614 | 57,080 |

During the year retirement benefits were accruing to 2 Directors (2014: 3) in respect of defined contribution pension schemes.

The highest paid Director received remuneration of £342,625 (2014: £409,025).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £23,138 (2014: £22,464).

## 9. Interest payable and similar charges

| | 2015 | 2014 |
|---|---|---|
| | £ | £ |
| Interest payable on bank overdrafts | 26,080 | 10,728 |
| | 26,080 | 10,728 |

# Notes to the financial statements

## 10. Tax on profit on ordinary activities

| | 2015 | 2014 |
|---|---|---|
| Group | £ | £ |
| Analysis of tax charge/(credit) in the year: | | |
| Current tax | | |
| UK corporation tax at 20.25% (2014: 20%) | 135,448 | - |
| Deferred tax | | |
| Origination and reversal of timing differences | 319,454 | (2,907) |
| Effect of tax rate change on opening balance | 17,921 | - |
| Total deferred tax charge/(credit) | 337,375 | (2,907) |
| Tax charge/(credit) on profit on ordinary activities | 472,823 | (2,907) |

| | 2015 | 2014 |
|---|---|---|
| | £ | £ |
| Provision for deferred tax: | | |
| Accelerated capital allowances | 40,943 | (93,064) |
| Short term timing differences | (62,001) | (265,369) |
| Total deferred tax asset | (21,058) | (358,433) |

| | 2015 | 2014 |
|---|---|---|
| | £ | £ |
| Movement in provision: | | |
| Provision at start of year | (358,433) | (355,526) |
| Deferred tax charge/(credit) in the profit and loss account for the year | 337,375 | (2,907) |
| Provision at end of year | (21,058) | (358,433) |

# Notes to the financial statements

## 10. Tax on profit on ordinary activities (continued)

| | 2015 | 2014 |
|---|---|---|
| | £ | £ |
| Factors affecting tax charge/(credit) for the year: | | |
| Profit on ordinary activities before tax | 4,773,177 | 2,468,688 |
| Profit on ordinary activities multiplied by small companies' rate of corporation tax in the UK of 20.25% (2014: 20.00%) | 966,342 | 493,737 |
| Effects of: | | |
| Fixed asset differences | 1,156 | 2,379 |
| Expenses not deductible for tax purposes | 144,044 | 119,677 |
| Income not taxable for tax purposes | (3,246) | (1,074) |
| Adjustments to brought forward values | (17,989) | - |
| Losses eliminated | 17,989 | - |
| Timing differences not recognised in the computation | 2,942 | - |
| Adjust closing deferred tax to average rate of 20.25% | 20,581 | - |
| Adjust opening deferred tax to average rate of 20.25% | (15,657) | - |
| Deferred tax not recognised | (643,339) | (617,626) |
| Tax charge/(credit) for the year | 472,823 | (2,907) |

| | 2015 | 2014 |
|---|---|---|
| | £ | £ |
| Unrecognised deferred tax assets comprise: | | |
| Fixed asset timing differences | - | 4,714 |
| Short term timing differences | - | 12,249 |
| Losses and other deductions | 296,634 | 923,010 |
| Unrecognised deferred tax asset | 296,634 | 939,973 |

The total potential deferred tax asset arising in respect of unutilised tax losses and timing differences at 31 December 2015 is £362,975 (2014: £1,298,406). As a result of the uncertainty in the opinion of the Directors regarding the timing and extent of future profit generation by the Group, a deferred tax asset of £296,634 (2014: £939,973) has not been recognised.

# Notes to the financial statements

## 10. Tax on profit on ordinary activities (continued)

| | 2015 | 2014 |
|---|---|---|
| Company | £ | £ |
| Analysis of tax credit in the year: | | |
| Current tax | | |
| UK corporation tax at 20.25% (2014: 20%) | - | - |
| Deferred tax | | |
| Origination and reversal of timing differences | (43,332) | (2,907) |
| Effect of tax rate change on opening balance | 145 | - |
| Total deferred tax credit | (43,187) | (2,907) |
| Tax credit on profit on ordinary activities | (43,187) | (2,907) |

| | 2015 | 2014 |
|---|---|---|
| | £ | £ |
| Provision for deferred tax: | | |
| Accelerated capital allowances | (4,340) | - |
| Short term timing differences | (41,754) | (2,907) |
| Total deferred tax asset | (46,094) | (2,907) |

| | 2015 | 2014 |
|---|---|---|
| | £ | £ |
| Movement in provision: | | |
| Provision at start of year | (2,907) | - |
| Deferred tax credit in the profit and loss account for the year | (43,187) | (2,907) |
| Provision at end of year | (46,094) | (2,907) |

# Notes to the financial statements

## 10. Tax on profit on ordinary activities (continued)

| | 2015 | 2014 |
|---|---|---|
| | £ | £ |
| Factors affecting tax credit for the year: | | |
| Loss on ordinary activities before tax | (1,686,438) | (1,247,013) |
| Tax on loss on ordinary activities at standard rate of 20.25% (2014: 20%) | (341,446) | (249,403) |
| Effects of: | | |
| Fixed asset differences | 667 | 1,896 |
| Expenses not deductible for tax purposes | 138,870 | 119,399 |
| Income not taxable for tax purposes | (3,246) | (1,074) |
| Adjustments to brought forward values | (17,989) | - |
| Losses eliminated | 17,989 | - |
| Transfer pricing adjustments | (33,425) | (54,327) |
| Timing differences not recognised in the computation | 2,942 | - |
| Group relief surrendered | 224,624 | 50,998 |
| Adjust closing deferred tax to average rate of 20.25% | 22,486 | - |
| Adjust opening deferred tax to average rate of 20.25% | (4,314) | - |
| Deferred tax not recognised | (50,345) | 129,604 |
| Tax credit for the year | (43,187) | (2,907) |

| | 2015 | 2014 |
|---|---|---|
| | £ | £ |
| Unrecognised deferred tax assets comprise: | | |
| Fixed asset timing differences | - | 4,714 |
| Short term timing differences | - | 12,249 |
| Losses and other deductions | 296,634 | 330,016 |
| Unrecognised deferred tax asset | 296,634 | 346,979 |

The total potential deferred tax asset arising in respect of unutilised tax losses and timing differences at 31 December 2015 is £342,728 (2014: £349,886). As a result of the uncertainty in the opinion of the Directors regarding the timing and extent of future profit generation by the Group, a deferred tax asset of £296,634 (2014: £346,979) has not been recognised.

# Notes to the financial statements

## 11. Tangible fixed assets

| Group | Short-term leasehold costs | Furniture and fittings | Office Equipment | Total |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| Cost | | | | |
| At 1 January 2015 | 32,060 | 170,337 | 685,658 | 888,055 |
| Additions | - | 26,160 | 287,188 | 313,348 |
| Disposals | (4,848) | (1,548) | - | (6,396) |
| Transfers between categories | - | (5,062) | 5,062 | - |
| At 31 December 2015 | 27,212 | 189,887 | 977,908 | 1,195,007 |
| Accumulated depreciation | | | | |
| At 1 January 2015 | 11,940 | 106,225 | 427,571 | 545,736 |
| Charge for the year | 4,987 | 26,680 | 150,906 | 182,573 |
| Eliminated on disposal | (1,293) | (1,217) | - | (2,510) |
| Transfers between categories | - | (1,266) | 1,266 | - |
| At 31 December 2015 | 15,634 | 130,422 | 579,743 | 725,799 |
| Net book value | | | | |
| At 31 December 2015 | 11,578 | 59,465 | 398,165 | 469,208 |
| At 31 December 2014 | 20,120 | 64,112 | 258,087 | 342,319 |

The net book value of office equipment includes assets held under finance leases or hire purchase contracts with a net book value amounting to £nil (2014: £7,142).

At 31 December 2015 the Group had the following future minimum lease payments under finance leases for each of the following periods:

| | 2015 | 2014 |
|---|---|---|
| Group | £ | £ |
| Commitments due: | | |
| Within 1 year | - | - |
| Within 2 to 5 years | - | - |
| After more than 5 years | - | - |

# Notes to the financial statements

## 11. Tangible fixed assets (continued)

| Company | Short-term leasehold |
|---|---|
| | £ |
| **Cost** | |
| At 1 January 2015 | 32,060 |
| Additions | - |
| Disposals | (4,848) |
| At 31 December 2015 | 27,212 |
| | |
| **Accumulated Depreciation** | |
| At 1 January 2015 | 11,940 |
| Charge for the year | 4,987 |
| Eliminated on disposal | (1,293) |
| As 31 December 2015 | 15,634 |
| | |
| **Net book value** | |
| At 31 December 2015 | 11,578 |
| | |
| At 31 December 2014 | 20,120 |

## 12. Fixed asset investments

| Company | Shares in Group undertakings |
|---|---|
| | £ |
| **Cost** | |
| At 1 January 2015 | 2,645,002 |
| Additions | - |
| At 31 December 2015 | 2,645,002 |

Details of the subsidiary undertakings are shown in note 13 below and the trading activities of these subsidiaries are described in the Directors' Report. The Directors believe that the carrying value of the investments is supported by their underlying net assets.

# Notes to the financial statements

## 13. Subsidiary undertakings

The following were subsidiary undertakings of the Company:

| Company name | Percentage Shareholding | Nature of business |
|---|---|---|
| Nucleus Financial Services Limited | 100% ordinary shares | Provision of wrap investment administration services to selected Financial Advisers in the United Kingdom |
| Nucleus IFA Services Limited | 100% ordinary shares | Provision of platform technology, sales, marketing and platform development services to Nucleus Financial Services Limited |

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

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

## 14. Current asset investments

| Group | Other investments<br>£ |
|---|---|
| Valuation | |
| At 1 January 2015 | 117,384 |
| Unrealised loss on investments | (44,714) |
| At 31 December 2015 | 72,670 |

# Notes to the financial statements

## 15. Debtors

### Amounts falling due within one year:

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | £ | £ | £ | £ |
| Amounts owed by Group undertakings | - | - | 669,511 | 285,329 |
| Other debtors | 1,343,696 | 1,518,035 | 124,740 | 332,368 |
| Less: bad debt provision | (164,576) | (151,839) | - | - |
| | 1,179,120 | 1,366,196 | 794,251 | 617,697 |
| Amounts owed by HMRC | 2,534,803 | 2,116,306 | - | - |
| Prepayments and accrued income | 3,510,262 | 2,791,246 | 235,510 | 222,085 |
| Deferred tax | 21,058 | 358,433 | 46,094 | 2,907 |
| | 7,245,243 | 6,632,181 | 1,075,855 | 842,689 |

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

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

### 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.

# Notes to the financial statements

## 16. Debtors

Amounts falling due after more than one year:

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | £ | £ | £ | £ |
| Amounts owed by Group undertakings | - | - | 2,316,046 | 8,616,577 |
| Other debtors | 366,852 | 47,832 | 366,852 | 47,832 |
| | 366,852 | 47,832 | 2,682,898 | 8,664,409 |

Amounts owed by Group undertakings are unsecured and have agreed repayment terms. Interest accrues on the loan at a rate of The Royal Bank of Scotland plc base rate plus 2% per annum.

## 17. Creditors

Amounts falling due within one year:

| | Group | | Company | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | £ | £ | £ | £ |
| Bank overdrafts | - | 1,133,939 | - | - |
| Trade creditors | 3,943,262 | 2,574,900 | 119,984 | 196,058 |
| Amounts owed to HMRC | 494,704 | 213,682 | - | - |
| Taxation and social security | 238,922 | 162,914 | 238,184 | 162,914 |
| Corporation tax | 135,448 | - | - | - |
| Other creditors | 689,963 | 112,769 | 12,894 | 72,729 |
| Accruals | 3,343,479 | 2,385,977 | 1,309,242 | 928,336 |
| | 8,845,778 | 6,584,181 | 1,680,304 | 1,360,037 |

Included within other creditors is a lease agreement which is unsecured and has agreed repayment terms. There is no interest on the lease agreement.

# Notes to the financial statements

## 18. Contingent liabilities

During the current and previous year, Nucleus remediated clients affected by errors following its system migration in June 2014. The net cost to Nucleus of these errors was not material, individually or in aggregate.

At the end of the year, a small number of scenarios requiring remediation remained and Nucleus is in the process of addressing these. Although Nucleus does not expect there to be any net liability to the Group, at this point in time it is not possible to quantify the financial impact to Nucleus or any amounts due from other parties and, as a result, Nucleus has not made any provision in its accounts.

## 19. Called up share capital

| | 2015 | 2014 |
|---|---|---|
| Company and Group | £ | £ |
| Allotted and fully paid | | |
| 1,000,000 (2014: 1,000,000) Ordinary Shares of 1p each | 10,000 | 10,000 |
| 761,028 (2014: 761,028) B Ordinary Shares of 1p each | 7,610 | 7,610 |
| 202,304 (2014: 202,304) G1 Ordinary Shares of 1p each | 2,023 | 2,023 |
| 125,187 (2014: 125,187) G2 Ordinary Shares of 1p each | 1,252 | 1,252 |
| 44,364 (2014: nil) G3 Ordinary Shares of 1p each | 444 | - |
| | 21,329 | 20,885 |

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

Of the G1, G2 and G3 Ordinary Shares 116,100 (2014: 116,100) are held by Directors of the Company.

# Notes to the financial statements

## 20. Reserves

Called up share capital – Represents the nominal value of shares that have been issued.

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

Share based payment reserve – The fair value of services received in exchange for the grant of options and growth shares is recognised over their vesting period.

Profit and loss account – Includes all current and prior year retained profits and losses.

Fair value reserve – Represents the gains and losses on investments held on the platform for operational purposes.

## 21. Operating lease commitments

At 31 December 2015 the Group and Company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

### Land and buildings

| | 2015 | 2014 |
|---|---|---|
| Group and Company | £ | £ |
| Commitments due: | | |
| Within 1 year | 157,661 | 206,259 |
| Within 2 to 5 years | 690,826 | 795,823 |
| After more than 5 years | - | 52,664 |

# Notes to the financial statements

## 22. Related party transactions

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

Nucleus IFA Company Limited ("NIFAC") has a significant interest in the shareholding of Nucleus Financial Group Limited. Transactions with NIFAC during the year and at year end were as follows:

| | 2015<br>£ | 2014<br>£ |
|---|---|---|
| Additional loans provided by Nucleus Financial Group Limited | 37,132 | 92,576 |
| Subordinated loan facility cap | 425,000 | 390,000 |
| Interest charged at 2.5% (2014: 2.5%) | 2,065 | 2,014 |
| Interest charged at 3.0% (2014: 3.0%) | 6,380 | 4,289 |
| Amounts owed to Nucleus Financial Group Limited | 319,020 | 281,889 |
| Board fees paid by Nucleus Financial Group Limited on behalf of NIFAC | 6,155 | 6,772 |
| Board fees due to be paid by Nucleus Financial Group Limited on behalf of NIFAC | 927 | 3,150 |
| Board fees due to be paid by Nucleus Financial Group to Sanlam UK Limited on behalf of NIFAC | 7,308 | 3,600 |

Sanlam UK Limited also has a significant interest in the shareholding of Nucleus Financial Group Limited. Transactions with Sanlam UK Limited during the year and at year end were as follows:

| | 2015<br>£ | 2014<br>£ |
|---|---|---|
| Amounts owed by/(to) Nucleus Financial Group Limited in respect of Board fees | 3,649 | (5,112) |
| Amounts owed by Nucleus Financial Services Limited in respect of fees for the Onshore Bond | 39,883 | 13,430 |
| Amounts charged to Nucleus Financial Services Limited in respect of the Onshore Bond | 215,285 | 130,189 |
| Amounts owed by Nucleus Financial Services Limited in respect of tax collected from the Onshore Bond | 93,164 | 19,223 |

# Notes to the financial statements

## 22. Related party transactions (continued)

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

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

## 23. Controlling party

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

## 24. Share-based payments

### Employee Share Ownership Trust

An Employee Share Ownership Trust (ESOT) was established on 2 December 2010. At inception the ESOT purchased 23,500 Ordinary shares from former employees and consultants that had become "bad leavers" under the terms of the Company's shareholder agreement. The Company gifted £235 to facilitate this initial purchase. Thereafter, the ESOT has disposed of 3,475 shares to employees exercising options under the 2008 Share Option Scheme. The Company has agreed to provide a loan facility to the ESOT to enable the ESOT to meet its external expenses. As at the balance sheet date £47,990 (2014: £42,065) was due to the Company from the ESOT and this is included in external debtors on the Company and Group balance sheets. The Company has not consolidated the results of the ESOT on the grounds of materiality.

### Share options

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

Details of the share options are as follows:

| | Date granted | Exercise price £ | Exercisable from | Exercisable to | Equity based share options outstanding 31/12/2015 | Equity based share options outstanding 31/12/2014 |
|---|---|---|---|---|---|---|
| Directors' Scheme | | | | | | |
| | 27/07/2010 | 13.20 | 28/02/2013 | 28/02/2017 | 2,400 | 2,400 |
| | 27/07/2010 | 13.20 | 28/02/2014 | 28/02/2017 | 800 | 800 |
| | 27/07/2010 | 13.20 | 28/02/2015 | 28/02/2017 | 800 | 800 |
| | | | | | 4,000 | 4,000 |
| Senior Management Scheme | | | | | | |
| | 25/01/2010 | 13.20 | 31/12/2012 | 31/12/2016 | 3,000 | 3,000 |
| | 25/01/2010 | 13.20 | 31/12/2013 | 31/12/2016 | 2,250 | 2,250 |
| | 25/01/2010 | 13.20 | 31/12/2014 | 31/12/2016 | 2,250 | 2,250 |
| | | | | | 7,500 | 7,500 |

# Notes to the financial statements

## 24. Share-based payments (continued)

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

| Grant date | 27/07/2010 | 25/01/2010 |
|---|---|---|
| Price of the underlying Ordinary share | £13.20 | £13.20 |
| Effective strike price of the option | £13.20 | £13.20 |
| Expected volatility of the share price | 50% | 50% |
| Risk-free rate interest rate over the life of the option | 1.72% | 2.35% |
| Dividend yield | Nil | Nil |
| Fair value per option at grant date | £1.37 | £1.41 |

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

During the year £39 was charged (2014: £7,413 credit) to the profit and loss account in respect of this scheme.

### Growth shares

G1, G2 and G3 Ordinary Shares are granted to Directors and employees. Details of the rights and the conditions attached to these shares are included in note 2.16(b) Share-based payments.

Details of the G Ordinary Shares are as follows:

| | Date granted | Par value £ | Realisable | G Ordinary Shares in issue 31/12/2015 | G Ordinary Shares in issue 31/12/2014 |
|---|---|---|---|---|---|
| Growth share scheme | | | | | |
| G1 Shares | 15/10/2012 | 0.05 | 31/12/2017 | 45,000 | 45,000 |
| G1 Shares | 19/09/2013 | 0.05 | 31/12/2017 | 157,304 | 157,304 |
| G2 Shares | 19/07/2013 | 0.05 | 31/12/2017 | 124,600 | 124,600 |
| G2 Shares | 14/03/2014 | 0.05 | 31/12/2017 | 587 | 587 |
| G3 shares | 06/10/2015 | 0.05 | 31/12/2019 | 44,364 | - |
| Total Growth Shares | | | | 371,855 | 327,491 |

# Notes to the financial statements

## 24. Share-based payments (continued)

The G1, G2 and G3 Ordinary Shares granted were valued as at the date of grant or entitlement using the Black-Scholes model. The significant assumptions used are shown in the table below:

| Grant date | G1 Shares 15/10/2012 | G1 Shares 19/09/2013 | G2 Shares 19/07/2013 | G2 Shares 14/03/2014 | G3 Shares 06/10/2015 |
|---|---|---|---|---|---|
| Price of the underlying Ordinary share | £28.22 | £28.43 | £28.43 | £28.43 | £34.41 |
| Effective strike price of the G Ordinary Share | £24.10 | £24.10 | £31.24 | £31.24 | £34.41 |
| Expected volatility of the share price | 40% | 40% | 40% | 25% | 25% |
| Risk-free rate interest rate over the life of the G Ordinary Share | 0.79% | 1.47% | 1.08% | 1.36% | 1.05% |
| Dividend yield | Nil | Nil | Nil | Nil | Nil |
| Fair value per G Ordinary Share at grant date | £11.82 | £11.44 | £8.91 | £4.95 | £7.61 |

The volatility measured is based on historical volatility of similar listed entities between 2008 and 2015.

During the year £540,787 (2014: £503,944) was charged to the profit and loss account in respect of these shares.

# Notes to the financial statements

## 25. Transition to FRS 102

This is the first year that the Company and Group has presented its results under FRS 102. The last financial statements prepared under UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2014. Set out below are the changes in accounting policies which reconcile profit for the financial year ended 31 December 2014 and the total equity as at 1 January 2014 and 31 December 2014 between UK GAAP as previously reported and FRS 102.

### Reconciliation of consolidated profit for the financial year

| | Note | | Year ended 31 December 2014 £ |
|---|---|---|---|
| UK GAAP (as previously stated) | | | 2,478,200 |
| Adjustment to depreciation | (a) | 5,021 | |
| Operating lease incentives | (b) | (14,533) | |
| Total adjustment to profit before tax for the financial year | | | (9,512) |
| Deferred tax impact of adjustments: | | | |
| Operating lease incentives | (d) | | 2,907 |
| Profit after tax per FRS 102 | | | 2,471,595 |

# Notes to the financial statements

## 25. Transition to FRS 102 (continued)

### Reconciliation of consolidated equity

| | Note | At 1 January 2014 £ | At 31 December 2014 £ |
|---|---|---|---|
| Capital and reserves (as previously stated) | | 4,319,829 | 7,382,218 |
| Adjustment to depreciation | (a) | - | 5,021 |
| Operating lease incentives | (b) | - | (14,534) |
| Legal fees removed from fixed assets | (c) | (7,675) | (7,675) |
| Deferred tax impact of adjustments: | | | |
| Operating lease incentives | (d) | - | 2,907 |
| Capital and reserves (as restated) | | 4,312,154 | 7,367,937 |

(a) As a result of the adjustment made in (c) below, it was required to remove depreciation charged to the profit and loss account in 2014 in respect of the capitalised legal fees.

(b) Under previous UK GAAP, operating lease incentives, including rent free periods, were spread over the shorter of the lease period or the period to when the rental was set to a fair market rent. FRS 102 requires that such incentives are spread over the lease period. The Company has taken advantage of the exemption for existing leases at the transition date to continue to recognise these lease incentives on the same basis as previous UK GAAP. Accordingly, the FRS 102 accounting policy has been applied to new operating leases entered into since 1 January 2014 and the operating lease charge has increased by £14,534 for the year to 31 December 2014 with a corresponding increase in the accrued lease liability at 31 December 2014.

(c) In 2010, £24,983 of legal fees were capitalised and up until 31 December 2013, a total of £17,308 was depreciated in respect of these assets. It is not permissible to capitalise such expenditure under FRS 102, therefore the total fees of £24,983 should be reflected in the profit and loss reserve at the date of transition. As £17,308 had already been debited to the profit and loss account, an additional £7,675 was required to be debited to reserves as at the transition date.

(d) A deferred tax asset of £2,907 has been recognised to treat the transitional operating lease incentive debit as tax deductible.

(e) The Group's cash flow statement reflects the presentation requirements of FRS 102 which is different to that prepared under FRS 1. In addition, the cash flow statement reconciles to cash and cash equivalents whereas under previous UK GAAP the cash flow statement reconciled to cash.

# Notes to the financial statements

## 25. Transition to FRS 102 (continued)

### Reconciliation of Company equity

| | Note | At 1 January 2014 | At 31 December 2014 |
|---|---|---|---|
| | | £ | £ |
| Capital and reserves (as previously stated) | | 15,460,790 | 14,719,851 |
| Adjustment to depreciation | (a) | - | 5,021 |
| Operating lease incentives | (b) | - | (14,534) |
| Legal fees removed from fixed assets | (c) | (7,675) | (7,675) |
| Deferred tax impact of adjustments: | | | |
| Operating lease incentives | (d) | - | 2,907 |
| Capital and reserves (as restated) | | 15,453,115 | 14,705,570 |

(a) As a result of the adjustment made in (c) below, it was required to remove depreciation charged to the profit and loss account in 2014 in respect of the capitalised legal fees.

(b) Under previous UK GAAP, operating lease incentives, including rent free periods, were spread over the shorter of the lease period or the period to when the rental was set to a fair market rent. FRS 102 requires that such incentives are spread over the lease period. The Group has taken advantage of the exemption for existing leases at the transition date to continue to recognise these lease incentives on the same basis as previous UK GAAP. Accordingly, the FRS 102 accounting policy has been applied to new operating leases entered into since 1 January 2014 and the operating lease charge has increased by £14,534 for the year to 31 December 2014 with a corresponding increase in the accrued lease liability at 31 December 2014.

(c) In 2010, £24,983 of legal fees were capitalised and up until 31 December 2013, a total of £17,308 was depreciated in respect of these assets. It is not permissible to capitalise such expenditure under FRS 102, therefore the total fees of £24,983 should be reflected in the profit and loss reserve at the date of transition. As £17,308 had already been debited to the profit and loss account, an additional £7,675 was required to be debited to reserves as at the transition date.

(d) A deferred tax asset of £2,907 has been recognised to treat the transitional operating lease incentive debit as tax deductible.

## 26. Events after the reporting period

On 10 March 2016, the Group agreed an overdraft facility of £5,000,000 with The Royal Bank of Scotland plc for working capital purposes in support of the Group's discretionary commitment to prefund tax relief on eligible pension contributions. Interest is charged on this facility at 3% plus base rate up to an overdrawn amount of £5,000,000 and 5% plus base rate on any amount over £5,000,000. The overdraft is secured by a fixed and floating charge over all the Group's assets.

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