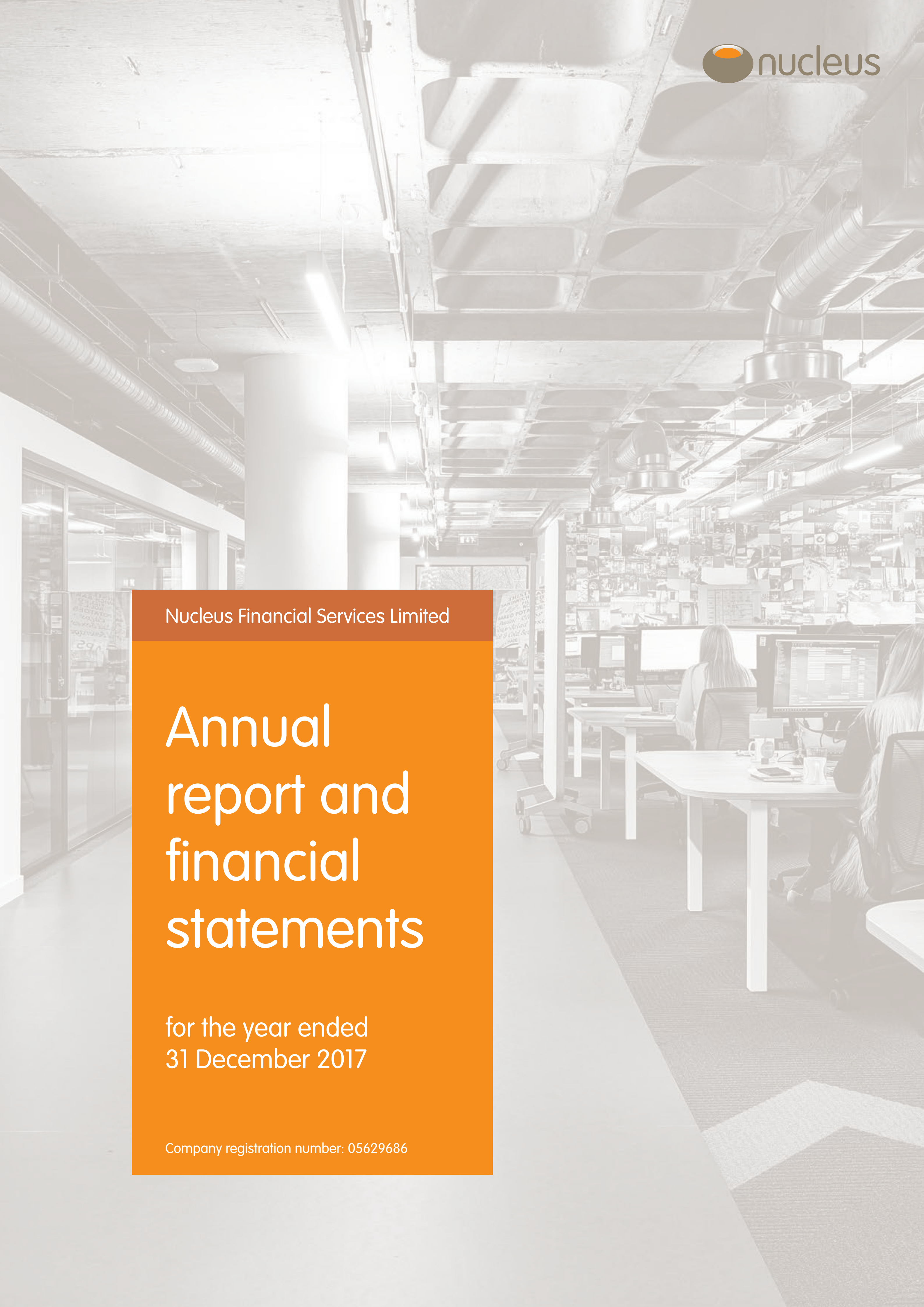


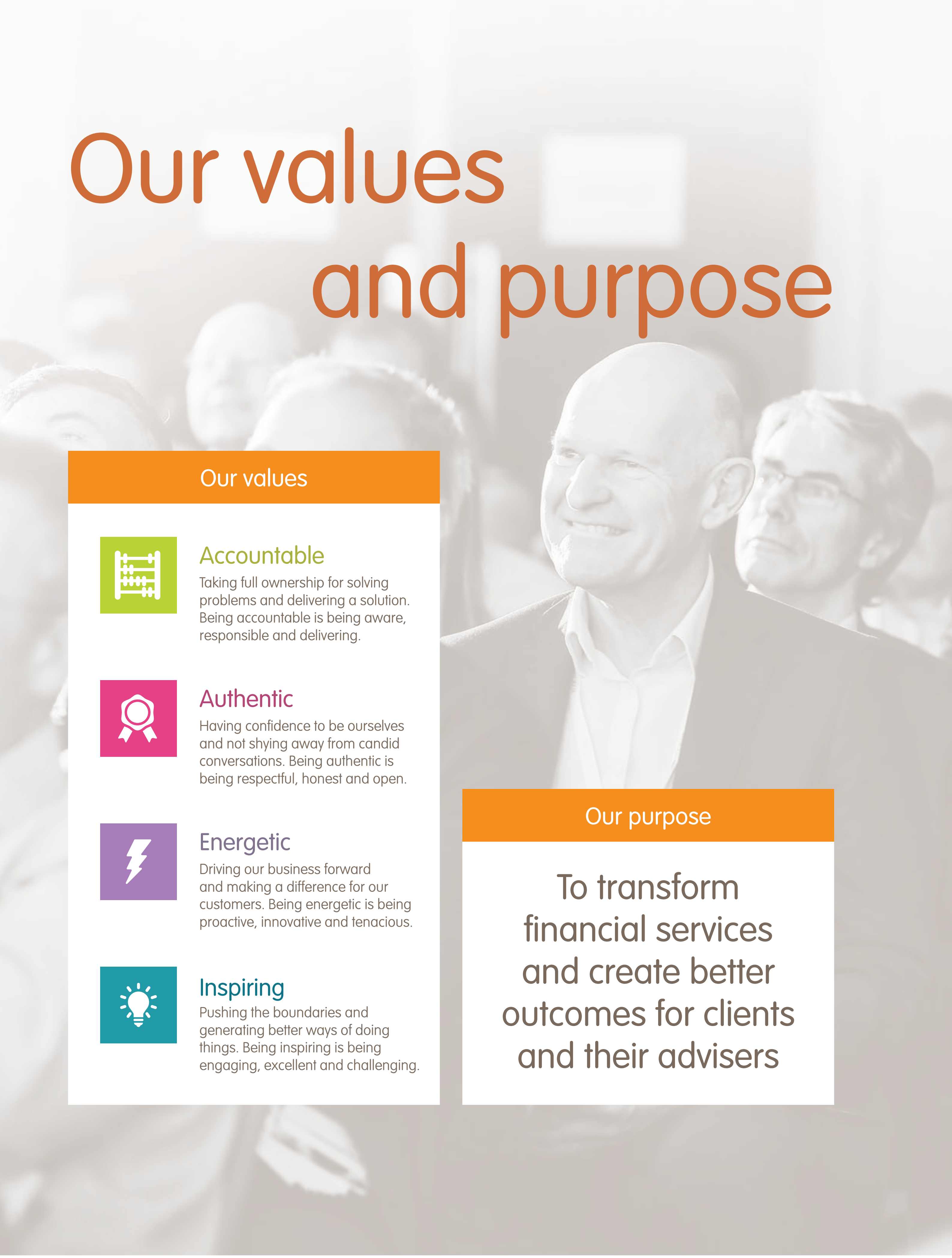
Nucleus Financial Services Limited

Annual report and financial statements

for the year ended
31 December 2017

Company registration number: 05629686

What's inside



Our values and purpose

Our values

Accountable

Taking full ownership for solving problems and delivering a solution. Being accountable is being aware, responsible and delivering.

Authentic

Having confidence to be ourselves and not shying away from candid conversations. Being authentic is being respectful, honest and open.

Energetic

Driving our business forward and making a difference for our customers. Being energetic is being proactive, innovative and tenacious.

Inspiring

Pushing the boundaries and generating better ways of doing things. Being inspiring is being engaging, excellent and challenging.

Our purpose

To transform financial services and create better outcomes for clients and their advisers

Strategic report

David Ferguson
Founder and chief executive

The directors present their strategic report for the year ended 31 December 2017 for Nucleus Financial Services Limited ("NFS", "the company").

The company's key performance indicators are

	2017 £'000	2016 £'000
Assets under administration	13,576,703	11,143,757
Turnover	40,365	33,281
Operating profit	5,534	3
Profit for the financial year	4,420	-

About NFS

The company's principal activity is the provision of "wrap" investment administration services to selected financial advisers in the UK.

The company is a wholly owned subsidiary of Nucleus Financial Group Limited ("NFG") and together with Nucleus IFA Services Limited ("NIFAS") and Nucleus IMX Limited ("IMX") forms the group ("the group"). The group provides a wrap platform to UK financial advisers. The Nucleus wrap platform allows clients to invest directly, or via various 'tax wrappers' into a broad range of asset types, including cash, unit trusts, OEICs, ETFs, investment trusts and other securities.

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

The company is authorised and regulated by the Financial Conduct Authority ("FCA") and is classified as an IFPRU limited licence investment firm. Since June 2016 when it met the relevant threshold, the company has been further classified as a Significant IFPRU firm. In addition, the company has additional FCA and Her Majesty's Revenue and Customs ("HMRC") obligations relating to its activities as an operator of a Self Invested Personal Pension scheme ("a Sipp Operator") and also those relating to the management of Individual Savings Accounts ("an Isa Manager"). The company is authorised to hold and control client money as part of its activities and is therefore subject to the FCA's client asset rules ("Cass rules").

In terms of recent regulatory change we believe that our business model and corporate culture are consistent with the FCA agenda to promote ever higher standards of conduct and client-centricity across the financial services industry. We welcome the increased levels of professionalism in the adviser market.

Business review

53 advisory firms (representing 200 additional advisers) signed up to the platform as new users in 2017, bringing the total number of registered users to over 2,300. Collectively they added 12,432 new clients in 2017, a 6% increase on the previous year, bringing the total number of clients to 88,244.

Gross inflows, which increased by 41% to £2.6bn, continued to benefit from increased investor confidence, the now well-established industry adoption of platforms, the success of our adviser audience, as well as specific industry themes, including the pension freedoms introduced in 2015 and transfers out from defined benefit pension schemes. The increase in net inflows of 72%, from £1.0bn to £1.7bn (and representing a net/gross ratio of 64%), was even more encouraging, with the level of outflows from the platform remaining within expectations.

During the year, Nucleus has taken steps to simplify its legal entity structure and improve the flow of capital and liquidity resources within the group. In order to achieve this, NIFAS transferred its trade and assets to NFS on 1 April 2017. To enable NFS to meet its increased capital requirements following the transfer of trade, it increased its capital resources by way of issue of 5 million £1 ordinary shares on 29 March 2017.

As a consequence of the increase in assets under administration, our revenue increased by 21% to £40.4m. Our revenue margin fell slightly from 33.5bp in 2016 to 32.6bp in 2017, reflecting the impact of the price reduction for larger portfolios that we were able to introduce with effect from July 2017.

Principal risks and uncertainties

The following principal risks relate to the group's 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.

The group operates a risk framework through which it can systematically identify actual and potential risk events and seeks to put in place appropriate policies and controls as safeguards. Our key risk categories as set out in our risk taxonomy are summarised below, are managed within the risk appetites set by the board on an annual basis. Additional information can be found in our pillar 3 disclosures.

The group's strategic and business model risks are:

Relationship with financial advisers

As with all operators in the adviser platform market, attracting, engaging and retaining advisers and their clients is an important part of the group's growth plans. Specifically, the group provides a white label platform solution to Paradigm Partners LLP and in 2017 approximately one quarter of new business originated through this arrangement. Changes in the environment due to regulator or competitor actions could adversely affect the group's ability to continue its offering to financial advisers and have a material adverse effect on the group's revenues.

Reliance on key suppliers

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

Our key suppliers are:

- Genpact, who we outsource platform administration services to. 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 provides the offshore bond;
- Stocktrade, who provides stockbroking services;
- Allfunds who provides fund trading services;
- Royal Bank of Scotland plc who provides operational, client money and corporate banking facilities;
- Bank of Scotland plc who provides client money and corporate banking facilities; and
- Lloyds Bank plc who provides client money facilities.

Competition

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

Operational

The nature of the activities performed by the group is such that a degree of operational risk is unavoidable in relation to losses that could be incurred by the group or by others because of errors or omissions for which the group is ultimately liable.

Particular operational risks for the group are considered as:

- people risk – we consider the two most significant risks are the risk of failure to attract and retain core skills and knowledge in the company, and people-related errors in core processes;
- operational control failures in core processes – there is always a risk of failure in core processes, either directly by the company and/or by third parties which would result in operational losses, poor client outcomes and reputational damage; and
- systems related risks including cyber-attacks, data leakage and business continuity events.

Regulated industry

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

(i) Impact of a breach of FCA and product related regulations

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

(ii) New and forthcoming regulation

The UK Treasury has decided to extend the Senior Managers and Certification Regime to all financial services firms in 2018. Senior managers will be held responsible in the event of failings and will need to prove that they took all reasonable steps to prevent conduct breaches. Furthermore, the Certification Regime covers the remaining significant influence function holders plus other staff who can cause 'significant harm' to the firm and/or customers. They must be self supervised and 'certified' as fit and proper by the firm annually.

The FCA published its final report on its asset management market study, which suggested that there is weak price competition in a number of areas of the asset management industry. The FCA exposed the lack of price competition in a number of areas, no clear relationships between charges and performance, a lack of investor awareness and focus on charges. As a result, it has suggested a package of remedies.

Nucleus participated in, and awaits the results of the FCA's platform market study. This study was initiated as a result of the competition concerns identified in the asset management study. We expect the interim results to be published during summer 2018.

The regulatory stage at European level has also brought and is bringing into force regulations that will affect the operations of the group. These include the Fourth Anti Money Laundering Directive (MLD IV), Mifid II, Packaged Retail Insurance based Investment Products Regulation (PRIIPs) and General Data Protection Regulation (GDPR).

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

Mifid II came into force in January 2018, with broad reaching impact on the industry in which the group operates. The main changes required by the group were in respect of product governance, client reporting and transaction reporting.

The PRIIPs regulation also came into force in January 2018, this required standardised key information documents, with the aim of providing more clarity and comparability for investors.

GDPR will be effective from May 2018. The concept of accountability is at the heart of the GDPR rules: it means that organisations will need to be able to demonstrate that they have analysed the GDPR's requirements in relation to their processing of personal data and that they have implemented a system or program that allows them to achieve compliance. Consent must be clear and distinguishable from other matters and provided in an intelligible and easily accessible form, using clear and plain language. It must be as easy to withdraw consent as it is to give.

The group's financial and liquidity risks are:

Solvency (including access to capital)

The group is required to maintain and have available to it a sufficient level of capital as determined by the requirements applicable to a Limited License Investment Firm and a non insured Sipp operator. The group may require access to additional capital in the longer term due to changes in a range of factors including increased regulatory capital requirements.

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

Liquidity

The group's liquidity position is subject to a range of factors that may generate liquidity strain in the short or medium term. The group manages its liquidity risk through an ongoing evaluation of its working capital requirements against available cash balances and credit facilities.

Risk management framework

The board's objective regarding risk management is to deliver the group's strategy and business plan supported by a robust, scalable and enterprise wide governance, risk management and control framework.

The framework is concerned with:

- demonstrating that it is proportionate and effective in the governance and performance of risk management for a significant IFPRU firm;
- evidencing our business strategy and business planning process are aligned with the risk management framework;
- demonstrating we manage our risk appetite tolerances and limits across agreed risk categories;
- demonstrating that we meet all applicable regulatory principles and requirements on an ongoing basis and do so based on strong and effective risk management culture and structures; and
- embedding a risk aware culture with risk management recognised as a management competence, critical to the delivery of our business strategy and performance targets.

We use a clearly defined risk framework to effectively identify, assess, manage and report the group's risks. The framework is set out in our risk management policy and subject to annual review and challenge by the risk committee. In assigning risk management responsibilities, the group operates an approach to risk management that is commonly referred to as the "three lines of defence" model. The activities within each of the three lines are:

First line of defence

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

Second line of defence

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

The roles of the second line functions are to develop and maintain the risk and compliance management policies and frameworks. Review of the effectiveness of the performance of the risk management practices performed by operational management is evidenced through effective assurance reporting to management and the audit committee. The second line also provides support and advice to the business risk owners in reporting risk related information within the group, including management information on risk and assurance matters to the audit and risk committees and the board.

Third line of defence

During the year the group engaged Grant Thornton UK LLP as an appointed internal audit function to serve as its third line of defence on a fully outsourced basis. Through the model the group obtains independent assurance on the effectiveness of its control environment for material processes. Internal audit, through a risk-based approach, provides assurance to the audit committee and the board on how effectively risks are assessed and managed, and the effectiveness of the risk management framework. Findings arising from these audit processes are reported to the audit committee.

On 15 December 2017 the group approved the change of internal auditor from Grant Thornton UK LLP to Deloitte LLP. Following a period of transition, the Deloitte engagement commenced on 1 April 2018.

The group also engages external audit to deliver independent assurance for the purposes of its Cass handbook arrangements, information security arrangements and statutory financial management obligations.

Going concern

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

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

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

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

This report was approved by the board on 24 April 2018 and signed on its behalf.

S J Geard
Director

Directors' report

Stuart Geard
Chief financial officer

The directors present their report and the audited financial statements for the year ended 31 December 2017. All content within the strategic report is applicable to the directors' report.

Directors

The directors who served during the year and up to the date of signing the financial statements were:

- P R Bradshaw (deceased 12 January 2017)
- D R Ferguson
- S J Geard
- J P Gibson
- J A Levin (appointed 11 April 2017)
- J C Polin
- J A A Samuels
- M D Seddon
- S J Tucker

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

Directors' responsibilities statement

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

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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 the financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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.

The directors 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 of the ultimate parent company are responsible for the maintenance and integrity of the of the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Political donations

There have been no political donations made during the year (2016: £nil).

This report was approved by the board on 24 April 2018 and signed on its behalf.

S J Geard
Director

Financials

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

Report on the audit of the financial statements

Opinion

In our opinion, Nucleus Financial Services Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the annual report and financial statements (the "annual report"), which comprise: the statement of financial position as at 31 December 2017; the income statement, the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the annual report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the strategic report and directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the strategic report and directors' report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the strategic report and directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 11, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

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

- we have not received all the information and explanations we required for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Catrin Thomas (senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

Edinburgh

24 April 2018

Income statement

	Note	2017 £'000	2016 £'000
Turnover	3	40,365	33,281
Cost of sales		(17,415)	(25,467)
Gross profit		22,950	7,814
Administrative expenses		(17,424)	(7,861)
Other operating income	4	8	50
Operating profit		5,534	3
Interest receivable and similar income	8	1	2
Interest payable and similar expenses	9	(3)	1
Profit before taxation	5	5,532	6
Tax on profit on ordinary activities	11	(1,112)	(6)
Profit for the financial year		4,420	-

The notes on pages 18 to 38 form part of these financial statements.

Statement of comprehensive income

	2017 £'000	2016 £'000
Profit for the financial year	4,420	-
Unrealised loss on investments	(1)	(3)
Total comprehensive income/(loss) for the financial year	4,419	(3)

The notes on pages 18 to 38 form part of these financial statements.

Registered number: 05629686

Statement of financial position

	Note	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Fixed assets					
Tangible assets	12		950		-
Investments	13		1		1
			951		1
Current assets					
Debtors	14	9,108		9,149	
Investments	15	99		69	
Cash and cash equivalents	16	13,366		4,905	
		22,573		14,123	
Creditors					
Amounts falling due within one year	17	(10,157)		(10,482)	
Net current assets			12,416		3,641
Total assets less current liabilities			13,367		3,642
Creditors					
Amounts falling due after more than one year	18		(93)		(50)
Provisions for liabilities	21		(348)		(85)
Net assets			12,926		3,507
Capital and reserves					
Called up share capital	22		7,595		2,595
Fair value reserve	23		39		40
Retained earnings	23		5,292		872
Shareholders' funds			12,926		3,507

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 24 April 2018.

S J Geard
Director

The notes on pages 18 to 38 form part of these financial statements.

Statement of changes in equity

	Called up share capital £'000	Retained earnings £'000	Fair value reserve £'000	Total equity £'000
Balance at 1 January 2016	2,595	872	43	3,510
Changes in equity				
Unrealised loss on investments	-	-	(3)	(3)
Balance at 31 December 2016	2,595	872	40	3,507
Changes in equity				
Issue of share capital	5,000	-	-	5,000
Profit for the financial year	-	4,420	-	4,420
Unrealised loss on investments	-	-	(1)	(1)
Balance at 31 December 2017	7,595	5,292	39	12,926

The notes on pages 18 to 38 form part of these financial statements.

Notes to the financial statements

1. Accounting policies

Basis of preparation

The financial statements of the company have been prepared in compliance with Financial Reporting Standard 101 "Reduced Disclosure Framework") ("FRS 101"), the Companies Act 2006 ("the Act") and the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410). FRS 101 sets out a reduced disclosure framework for a qualifying entity as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

The company is a qualifying entity for the purposes of FRS 101. Note 26 gives details of the company's parent and from where its consolidated financial statements prepared in accordance with IFRS may be obtained.

The company's financial statements are prepared on a going concern basis, under the historical cost convention. The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 101":

- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1; and
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D and 111 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group.

Changes in accounting policies

These are the first financial statements of the company prepared in accordance with FRS 101. The financial statements were previously reported under FRS 102 and the company's date of transition to FRS 101 is 1 January 2016. FRS 101 sets out amendments to EU adopted IFRS that are necessary to achieve compliance with the Act and related Regulations. Note 27 details the impact of transitioning to FRS 101 on the company's previously presented financial information.

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 exclusive of Value Added Tax and net of large case discounts. They are recorded in the year to which they relate and can be reliably measured. Fees are calculated on a basis point rate applied on a daily basis to assets under administration on the platform.

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 charged so as to allocate the cost of the assets less their residual value over their estimated useful lives, using the straight-line method.

The estimated useful lives range as follows:

Fixtures and fittings	4 years straight line
Office equipment	3 years straight line

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

Notes to the financial statements

Taxation

Current taxes are based on the results shown in the financial statements and are calculated according to local tax rules, using tax rates enacted or substantially enacted by the statement of financial position date.

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 statement of financial position date.

Deferred tax assets and liabilities are not discounted.

Foreign currency

The company's functional and presentation currency is the Pound Sterling, generally rounded to the nearest thousand. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of transactions are recognised in the income statement.

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 lower of the fair value of the leased asset and the present value of the minimum lease payments. Office equipment acquired under finance leases is depreciated over its useful life of three years on a straight-line basis. Depreciation on the relevant assets is charged to the income statement. Interest on the finance lease is recognised in the income statement using the effective interest method.

Defined contribution pension scheme

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

Expense recognition

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

Cash and cash equivalents

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

Interest income

Interest received is recognised in the income statement as it is earned.

Finance costs

Interest expense is recognised in the income statement in the year to which it relates.

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

Current asset investments

The company has investments held by it on the platform for operational purposes. These are recognised and measured at fair value using the most recent available market price with gains and losses recognised immediately in the statement of comprehensive income.

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 statement of financial position date.

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 is fully provided for.

Notes to the financial statements

Provisions for liabilities

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

Provisions are charged as an expense to the income statement in the year that the company becomes aware of the obligation, and are measured at the best estimate at the statement of financial position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the statement of financial position.

2. Critical accounting judgements and key sources of estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. There are no critical accounting judgements and the key sources of estimation uncertainty are as follows:

Impairment of debtors

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

Useful economic lives of tangible assets

The annual depreciation charge for tangible fixed assets is sensitive to changes in the estimated useful lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. There have been no changes to the useful lives of tangible assets during the year. See note 12 for the carrying amount of fixed assets and note 1 for the useful economic lives for each class of asset.

Notes to the financial statements

3. Turnover

All turnover is attributable to the principal activity of the company and arose within the United Kingdom (2016: all United Kingdom).

4. Other operating income

	2017	2016
	£'000	£'000
Other operating income	8	50

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

5.Profit before taxation

The profit before taxation is stated after charging:

	2017	2016
	£'000	£'000
Depreciation of tangible fixed assets	312	-
Loss on disposal of fixed assets	51	-
Foreign exchange differences	1	-
Movement in bad debt provision	(287)	291

Notes to the financial statements

6. Employees

The staff who manage the affairs of the company are employed by NFG.

Staff costs, including directors' remuneration, recharged to the company were as follows:

	2017	2016
	£'000	£'000
Wages and salaries	9,298	3,763
Social security costs	1,136	445
Other pension costs	675	304
	11,109	4,512

NFS does not directly employ any staff. The average monthly number of employees, including the directors, whose salaries were recharged to the company during the year was as follows:

	2017	2016
Employees	157	85

Notes to the financial statements

7. Directors' remuneration

	2017 £'000	2016 £'000
Directors' remuneration	606	359
Company contributions to defined contribution pension schemes	40	20
	646	379

The directors are employed by the holding company NFG.

The number of directors to whom retirement benefits were accruing was as follows:

Defined contribution pension schemes	2	2

Information regarding the highest paid director is as follows:

	2017 £'000	2016 £'000
Remuneration	275	163
Company contributions to defined contribution pension schemes	20	11
	295	174

Notes to the financial statements

8. Interest receivable and similar income

	2017	2016
	£'000	£'000
Bank interest receivable	1	2

9. Interest payable and similar expenses

	2017	2016
	£'000	£'000
Interest reversed on preference shares	-	(1)
Finance charged payable under finance leases	3	-
	3	(1)

10. Auditors' remuneration

The company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the company.

	2017	2016
	£'000	£'000
Audit of the financial statements	39	20
Client assets audit services	240	85
All other services	-	62
	279	167

Notes to the financial statements

11. Taxation

Analysis of tax expense

	2017 £'000	2016 £'000
Current tax:		
Tax on profits for the year	1,052	-
Deferred tax:		
Reversal of timing differences in relation to disallowable provisions	14	6
Accelerated capital allowances	46	-
Tax expense in income statement	1,112	6

Factors affecting the tax expense

The tax assessed for the year is higher than (2016: higher than) the standard rate of corporation tax in the UK of 19.25% (2016: 20%). The differences are reconciled below:

	2017 £'000	2016 £'000
Profit before taxation	5,532	6
Profit before taxation multiplied by the standard rate of corporation tax in the UK of 19.25% (2016: 20%)	1,065	1
Effects of:		
Expenses not deductible for tax purposes	5	4
Adjust closing deferred tax to average rate of 19.25% (2016: 20%)	(1)	1
Adjust opening deferred tax to average rate of 19.25% (2016: 20%)	-	(1)
Group relief surrendered	-	1
Other tax adjustments, reliefs and transfers	43	-
Tax expense in income statement	1,112	6

Notes to the financial statements

12. Tangible fixed assets

	Fixtures and fittings £'000	Office equipment £'000	Totals £'000
Cost			
At 1 January 2017	-	-	-
Additions	298	179	477
Disposals	(175)	(508)	(683)
Transferred from NIFAS	234	1,632	1,866
At 31 December 2017	357	1,303	1,660
Depreciation			
At 1 January 2017	-	-	-
Charge for year	28	284	312
Eliminated on disposal	(161)	(470)	(631)
Transferred from NIFAS	167	862	1,029
At 31 December 2017	34	676	710
Net book value			
At 31 December 2017	323	627	950
At 31 December 2016	-	-	-

The net book value of tangible fixed assets includes £232,113 (2016: £nil) in respect of assets held under finance leases.

Notes to the financial statements

13. Investments

	Investments in subsidiary companies
	£'000
Cost	
At 31 December 2017	1
Net book value	
At 31 December 2017	1
At 31 December 2016	1

The company's investments at the statement of financial position date in the share capital of companies include the following:

NFS (Nominees) Limited
Registered office: England and Wales
Class of shares: Ordinary
Holding: 100%
Nature of business: Vehicle to ensure appropriate registration of title of client assets for the purposes of the client money rules as defined by the Financial Conduct Authority

	2017	2016
	£	£
Aggregate capital and reserves	1	1

Nucleus Trustee Company Limited
Registered office: Scotland
Class of shares: Ordinary
Holding: 100%
Nature of business: To act as trustee of the self-invested personal pension operated by NFS .

	2017	2016
	£	£
Aggregate capital and reserves	1,000	1,000

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

Notes to the financial statements

14. Debtors: amounts falling due within one year

	2017 £'000	2016 £'000
Other debtors	2,042	1,464
Amounts owed by HMRC	1,831	3,446
Trade debtors	481	275
Deferred tax asset	-	14
Prepayments and accrued income	4,754	3,950
	9,108	9,149

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

15. Current asset investments

	2017 £'000	2016 £'000
Valuation:		
At 1 January	69	72
Purchase of investments	31	-
Unrealised loss	(1)	(3)
At 31 December	99	69

Notes to the financial statements

16. Cash and cash equivalents

	2017	2016
	£'000	£'000
Cash at bank and in hand	13,366	4,905

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

17. Creditors: amounts falling due within one year

	2017	2016
	£'000	£'000
Preference shares	50	-
Obligations under finance leases	107	-
Trade creditors	4,452	1,216
Amounts owed to group undertakings	2,046	7,372
Corporation tax	1,122	-
Social security and other taxes	2	1
Other creditors	645	367
Amounts owed to HMRC	117	79
Accruals	1,616	1,447
	10,157	10,482

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

Notes to the financial statements

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

	2017 £'000	2016 £'000
Preference shares	-	50
Obligations under finance leases	93	-
	93	50

19. Financial liabilities – borrowings

	2017 £'000	2016 £'000
Current:		
Preference shares	50	-
Finance leases	107	-
	157	-
Non-current:		
Preference shares	-	50
Finance leases	93	-
	93	50

As part of the transfer of trade and assets from NIFAS on 1 April 2017, NFS took on finance liabilities totalling £275,059.

The balances above represent the remaining liabilities as at 31 December 2017.

Terms and debt repayment schedule

	1 year or less £'000	1-2 years £'000	2-5 years £'000	Totals £'000
Preference shares	50	-	-	50
Finance leases	107	87	6	200
	157	87	6	250

Notes to the financial statements

19. Financial liabilities – borrowings (continued)

The holder of preference shares, NFG, 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 the preference shares will be entitled to the amount paid up on the preference share and the amount of any dividend which is due for payment on or after the date the winding up commenced.

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

20. Finance leases

Minimum lease payments under finance leases fall due as follows:

	2017	2016
	£'000	£'000
Gross obligations repayable:		
Within one year	109	-
Between one and five years	94	-
	203	-
Finance charges repayable:		
Within one year	2	-
Between one and five years	1	-
	3	-
Net obligations repayable:		
Within one year	107	-
Between one and five years	93	-
	200	-

Notes to the financial statements

21. Provisions for liabilities

	2017 £'000	2016 £'000
Deferred tax	46	-
Other provisions:		
Client compensation	98	85
Outsourced service	204	-
	302	85
Aggregate amounts	348	85

	Deferred tax £'000	Compensation £'000	Outsourced service £'000	Total £'000
At 1 January 2016	-	390	-	390
Utilised during year	-	(307)	-	(50)
Unused amounts reversed during year	-	(33)	-	(290)
Provided during year	-	35	-	35
At 31 December 2016	-	85	-	85
Utilised during year	-	(28)	-	(28)
Unused amounts reversed during year	-	(5)	-	(5)
Provided during year	-	46	204	250
Charge to income statement	46	-	-	46
At 31 December 2017	46	98	204	348

Deferred tax provision

The deferred tax liability arises as a result of temporary differences between the company's accounting and tax carrying values, the anticipated and enacted tax rate and estimated taxes payable for the current year.

Notes to the financial statements

21. Provisions for liabilities (continued)

Compensation provision

The company remediates clients affected by errors on the platform, ensuring the client does not suffer a financial loss as a result. The compensation provision represents the company's best estimate of its present obligation arising from such events which remained unresolved at 31 December 2017. Amounts are provided and reversed against the administrative expenses line in the income statement. A resolution of outstanding issues is expected to be agreed in the first half of 2018 and following this the provision will be utilised or reversed as appropriate.

Outsourced service

As part of the commercial agreement with our outsourced service provider, Genpact, should they fail any key performance criteria, the company is entitled to receive a discount on the wrap administration fees charged. Where failures are agreed between both parties, the credit is recognised in the income statement and those that remain in dispute are recognised as a provision in the statement of financial position. The total amount disputed at 31 December 2017 was £203,716. Discussions continue with Genpact to ascertain liability and we expect to reach an agreement in the first half of 2018. The timing and amount of the cash flow will be dependent on the outcome of these negotiations.

22. Called up share capital

Shares classified as equity:

Allotted, issued and fully paid:

	2017	2016
	£'000	£'000
7,595,000 (2016: 2,595,000) ordinary shares of £1 each	7,595	2,595

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

5,000,000 ordinary shares of £1 were issued during the year for consideration of £5,000,000.

Shares classified as debt:

Allotted, issued and fully paid:

	2017	2016
	£'000	£'000
50,000 (2016: 50,000) Preference shares of £1 each	50	50

Notes to the financial statements

23. Reserves

Retained earnings

Retained earnings includes all current and prior year retained profits and losses.

Fair value reserve

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

24. Business combinations

Nucleus has taken steps to simplify its legal entity structure and improve the flow of capital and liquidity resources within the group. In order to achieve this, Nucleus transferred the trade and assets of NIFAS into the company on 1 April 2017. The consideration paid was the fair value of the assets and liabilities of NIFAS at the date of transfer which totalled £1,344,632 and detail is noted below:

	Consideration
	£'000
Cash	2,339
Fixed assets	836
Other debtors	17
Prepayments	26
Trade creditors	(570)
Accruals	(702)
Corporation tax	(288)
Deferred tax	(32)
Other creditors	(281)
Consideration paid	1,345

As part of the transfer, the company took on finance lease liabilities totalling £275,059. This is included in the other creditors balance above.

Notes to the financial statements

25. Related party transactions

As a 100% subsidiary of NFG, the company is exempt from disclosing transactions with entities that are part of the group, in accordance with the requirements of FRS 101 section 8(k).

26. Ultimate controlling party

NFS is a company incorporated in England and Wales. The immediate parent undertaking is NFG, a company incorporated in England and Wales.

The key shareholders of NFG 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.

NFG is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements at 31 December 2017. The consolidated financial statements of NFG can be obtained from Companies House or the company secretary at Nucleus HQ, Greenside, 12 Blenheim Place, Edinburgh, EH7 5JH or the group's website www.nucleusfinancial.com.

Notes to the financial statements

27. Transition to FRS 101

This is the first year that the company has presented its results under FRS 101. The last financial statements for the year ended 31 December 2016 were produced under FRS 102. The date of transition to FRS 101 is 1 January 2015. Set out below are the changes in accounting which reconcile profit for the financial year ended 31 December 2016 and the total equity as at 1 January 2016 and 31 December 2016 between FRS 101 and previously reported FRS 102.

Reconciliation of equity as at transition date of 1 January 2016

	FRS 102	Effect of transition to FRS 101	FRS 101
	£'000	£'000	£'000
Fixed assets			
Investments	1	-	1
Current assets			
Debtors	6,865	-	6,865
Investments	72	-	72
Cash and cash equivalents	3,987	-	3,987
	10,924	-	10,924
Creditors			
Amounts falling due within one year	(7,365)	390	(6,975)
Net current assets	3,559	390	3,949
Total assets less current liabilities	3,560	390	3,950
Creditors			
Amounts falling due after more than one year	(50)	-	(50)
Provisions for liabilities	-	(390)	(390)
Net assets	3,510	-	3,510
Capital and reserves			
Called up share capital	2,595	-	2,595
Other reserves	43	-	43
Retained earnings	872	-	872
Shareholders' funds	3,510	-	3,510

Provisions

During the transition to IFRS, the group identified the mis-classification of client compensation and has subsequently re-classified a provision of £389,601 from accruals to provisions for liabilities. There has been no change to the overall total shareholders' funds figure of £3,510,380.

Notes to the financial statements

27. Transition to FRS 101 (continued)

Reconciliation of equity as at 31 December 2016

	FRS 102 £'000	Effect of transition to FRS 101 £'000	FRS 101 £'000
Fixed assets			
Investments	1	-	1
Current assets			
Debtors	9,149	-	9,149
Investments	69	-	69
Cash and cash equivalents	4,905	-	4,905
	14,123	-	14,123
Creditors			
Amounts falling due within one year	(10,567)	85	(10,482)
Net current assets	3,556	85	3,641
Total assets less current liabilities	3,557	85	3,642
Creditors			
Amounts falling due after more than one year	(50)	-	(50)
Provisions for liabilities	-	(85)	(85)
Net assets	3,507	-	3,507
Capital and reserves			
Called up share capital	2,595	-	2,595
Fair value reserve	40	-	40
Retained earnings	872	-	872
Shareholders' funds	3,507	-	3,507

Provisions

During the transition to IFRS, the group identified the mis-classification of client compensation and has subsequently re-classified a provision of £85,111 from accruals to provisions for liabilities. There has been no change to the overall total shareholders' funds figure of £3,506,910.

Notes to the financial statements

27. Transition to FRS 101 (continued)

Reconciliation of profit for the year ended 31 December 2016

	FRS 102 £'000	Effect of transition to FRS 101 £'000	FRS 101 £'000
Turnover	33,281	-	33,281
Cost of sales	(25,467)	-	(25,467)
Gross profit	7,814	-	7,814
Administrative expenses	(7,861)	-	(7,861)
Other operating income	50	-	50
Operating profit	3	-	3
Interest receivable and similar income	2	-	2
Interest payable and similar expenses	1	-	1
Profit before taxation	6	-	6
Tax on profit	(6)	-	(6)
Profit for the financial year	-	-	-

There has been no change in the profit for the financial year as a result of transition to FRS 101.

Company information

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S J Geard
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J A Levin
J C Polin
J A A Samuels
M D Seddon
S J Tucker

Company secretary

N C Megaw

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