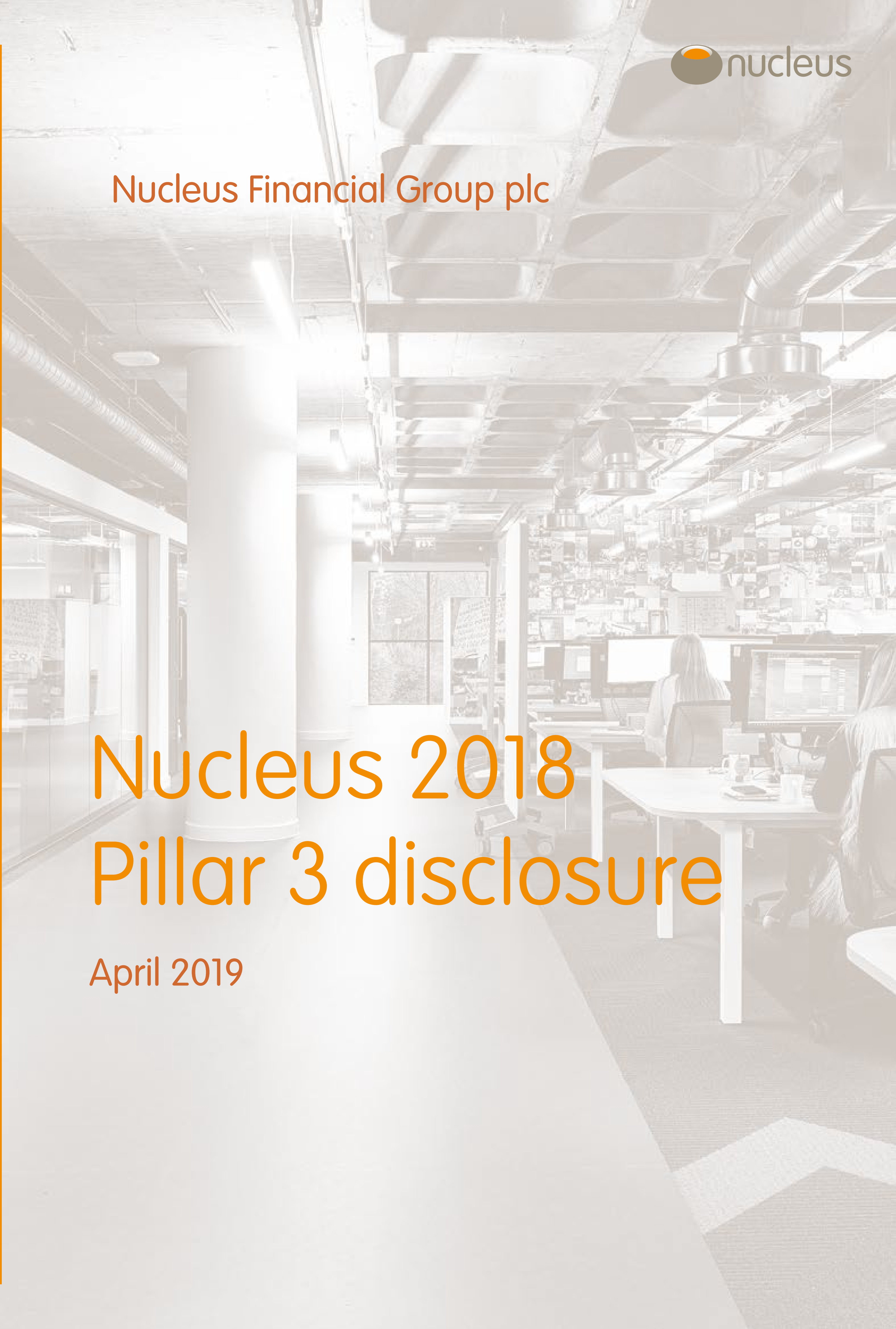

Nucleus Financial Group plc

Nucleus 2018 Pillar 3 disclosure

April 2019

Contents

Introduction

This document contains information prepared on a consolidated group basis in respect of the risk management practices, capital resources, remuneration policies and certain other disclosures of Nucleus Financial Group ("Nucleus"), and other limited disclosures of Nucleus Financial Services Limited (NFS) as at 31 December 2018.

CRD IV is made up of the Capital Requirements Directive (CRD) and the Capital Requirements Regulations 2013 (CRR). The CRD is implemented through national law, and the CRR is directly applicable to Nucleus. Nucleus is regulated by the Financial Conduct Authority (FCA) and must comply with the FCA handbook's rules and guidance when applicable. The CRR and the FCA handbook is referenced within this document.

CRD IV sets out the requirements for the calculation and reporting of regulatory capital adequacy for banking and investment firms in the EU and implements the Basel III framework. The framework is based on three pillars.

Pillar 1

Capital adequacy – sets minimum capital requirements

Pillar 2

Supervisory review – requires the firm to assess internal capital adequacy and introduces basic principles for qualitative supervision and risk management

Pillar 3

Market discipline – sets public disclosure requirements that enable market participants to assess the firm's risks, risk management procedures, capital and capital adequacy.

We will make our Pillar 3 disclosures available on at least an annual basis, as soon as practical after publication of our consolidated financial statements.

This document is a requirement under Part Eight of the CRR and should be read in conjunction with the Nucleus Financial Group plc annual report and financial statements for the year ended 31 December 2018. Both documents are available at www.nucleusfinancial.com.

Nucleus Financial Group overview

Nucleus Financial Group plc ("the company") is the parent company of a group of companies comprising the company and its wholly-owned subsidiaries, Nucleus Financial Services Limited, Nucleus IFA Services Limited and Nucleus IMX Limited. The company's principal activity is that of a holding company and it does not undertake any regulated activities. There are no differences in the basis of consolidation for accounting and prudential purposes.

NFS is authorised and regulated by the FCA and is classified as a Significant IFPRU 125k limited licence investment firm. In addition, NFS has additional FCA and 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").

There is no current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries.

Nucleus provides independent wrap platform services (through NFS) to over 1,390 active advisers across more than 870 financial adviser firms. As at 31 December 2018, it is responsible for assets under administration of £13.9 billion on behalf of more than 93,000 customers. The platform offers a range of custody, trading, payment, reporting, fee-handling, research and integration services and a variety of tax wrappers. Asset choices including cash, OEICs, unit trusts, offshore funds, structured products and listed securities, including ETFs and investment trusts, are available through the platform.

Risk management

The delivery of our strategy and business plan is supported by a robust, scalable and enterprise-wide governance, risk management and control framework. We believe that effective risk management is fundamental to effective decision-making and delivery of an outstanding experience for our customers, employees, business partners and other stakeholders. Risk management is a core skill for our business leaders and people alike. Nucleus operates three lines of defence in assigning risk management responsibilities, which is commonly referred to as the "three lines of defence" model.

The risk and compliance teams are independent second line functions reporting to the CFO. The role of the second line of defence is to develop and maintain the risk management policies and framework and review the effectiveness of the operation of the risk management practices by operational management. Embedding the risk management framework is key to this work, as is providing support and advice to the business risk owners in reporting risk related information, including management information on risk measurement, risk assurance and other risk management matters.

Nucleus has a third line internal audit function that reports directly to the audit committee chair and provides independent assurance on the effectiveness of the group's controls. The internal audit team uses a risk-based approach to define and deliver an internal review plan, and agree this with the audit committee on an annual basis. The plan includes regular reviews of the risk management framework to ensure it remains fit for purpose. New and open internal audit findings are reported through the corporate governance structure and to the audit committee on a quarterly basis.

Risk assessment and identification

We use the risk management framework to effectively identify, assess, manage and report Nucleus' risks and risk profile. The framework is set out in our risk management policy and is subject to annual review and challenge by the risk committee, which is a sub-committee of the board.

Our risk 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 such as operational, liquidity, credit and business risks;
- demonstrating that we meet all applicable regulatory principles and requirements on an ongoing basis and do so on the basis of strong and effective risk management culture and structures;
- embedding a risk aware culture with risk management recognised as a management competence, critical to the delivery of our business strategy and performance targets.

When assessing our risk profile, we consider each corporate risk for current and future assessments, taking into account:

- actual performance;
- sector experience;
- identified process and control weaknesses, or areas requiring improvement;
- short term developments or organisational changes that will mitigate the risk;
- expertise in the senior management team to identify, analyse and manage risks;
- identified mitigants that can reasonably be expected to be implementable (e.g. ability of the firm to re-phase discretionary development spend without adversely impacting future performance of the platform/business);
- planned improvements approved and budgeted for in the 2019 business plan.

Regular reporting is provided to the risk committee on significant risks and agreed actions to mitigate any known gaps.

Principal risks

The risk strategy considers risks against a set of risk categories that are aligned to IFPRU, captured in the ICAAP annual review and approved by the board. The board reviews and approves our risk appetite statements and limits for each of these risk categories on an annual basis. Material risks are tracked through our corporate risk matrix, which is reviewed on a quarterly basis by management and the risk committee. Appropriate management actions are agreed as required in the event that risk appetite tolerances and/ or limits are threatened. Reports on key risks and performance measures are considered at regular management and governance meetings. Our risk appetites are expressed as the level of risk we are prepared to accept to meet our business plan and strategic objectives.

Please see the Nucleus Financial Group plc annual report and financial statements for a more detailed breakdown of relevant risks. A summary of the risks required in a Pillar 3 policy is provided below.

Risk appetites

The board recognises that it is inevitable that some degree of risk is inherent in our activities, business model and markets and has set risk appetites for our key risk categories. The board has no appetite for unmanaged risk from the group's activities or business model. Nucleus' risk profile is reviewed on a quarterly basis against agreed risk appetites by management and the risk committee, with actions plans required where risks are beyond appetite.

Market risk appetite

In the ordinary course of business, market risk does not apply to Nucleus' activities as it does not trade on its own account other than where assets are required to be purchased by the company for operational trading reasons. Should this situation arise, assets are held as available for sale and sold at the earliest opportunity.

Liquidity risk appetite

Liquidity risk is the risk that the holding company or one of its subsidiaries is unable to meet its liabilities as they fall due. In general, the appetite of the board for liquidity risk is that it:

- requires sufficient liquidity to meet liabilities as they fall due, e.g. there are no overdue supplier accounts;
- requires that there be no unfunded client money positions (and therefore no Cass breaches as a result of unfunded positions);
- accepts liquidity risk in respect of fulfilling Cass and HMRC requirements;
- accepts some liquidity risk in relation to risks covered by Professional Indemnity Insurance.

The liquidity management framework comprises strategies, policies, processes and systems through which we identify, measure, manage and monitor liquidity risk to ensure the maintenance of adequate levels of liquidity. Performance is tracked via key risk indicators and CFO reporting to management and the board on a quarterly basis.

Credit/counterparty risk appetite

Credit risk concerns the risk of failing to receive any monies due to us within the agreed timeframe. These can arise from clients in respect of fees due and HMRC in respect of our Sipp operator activities. The group holds the surplus of corporate cash balances over and above its working capital requirements on deposit with its operational banking services providers. The group is therefore exposed to counterparty credit risk and a failure of one or more of these banks would impact Nucleus' resources and its ability to meet its solvency and liquidity requirements. Counterparty risk relates primarily to our corporate cash held at banks.

Credit and counterparty risk exposures are tracked through the corporate risk register. With regard to the group's risk appetite for credit and counterparty risk, Nucleus:

- does not accept any credit risk in relation to client assets unless this is due to pre-funding arrangements, agreed by exception;
- has a low appetite for credit risk in respect of corporate cash;
- requires that all share capital is fully paid up;
- does not accept losses incurred by third-parties due to default of clients or counterparties, including the failure of our main banker.

Regular bank due diligence is performed for corporate and Cass oversight purposes and, at the time of writing, all banking partners have a long-term rating that is BBB+ (S&P) or better.

Operational (including regulatory) risk appetite

The nature of the activities performed by Nucleus is such that a degree of operational risk is unavoidable in relation to losses that could be incurred by us or by others as a consequence of errors or omissions for which Nucleus is ultimately liable. Listed below are key high-level operational risk appetites that cover the range of risks under the operational risk heading, together with examples of quantitative risk appetites:

- we accept the operational risks associated with an outsourcing model and undertake ongoing due diligence. We mitigate this risk in part by establishing robust contractual and service level agreements for all key third-party arrangements with ongoing monitoring of performance in place;
- we are averse to HMRC non-compliance in respect of tax reporting requirements associated with our products on the platform;
- we accept the operational risk associated with a significant business growth plan and identify and manage the risks associated with this. This risk will be monitored on a regular basis using agreed key risk indicators;
- we are averse to any breach of our regulatory and statutory requirements and responsibilities and this is reflected in our compliance and oversight arrangements. This includes product provider and outsourcer requirements in addition to our customer outcome and conduct risk obligations;
- we have no appetite for any breaches of regulatory minimum capital requirements and will seek to ensure Nucleus has the necessary capital resources to support its current and projected business activities, and any known or expected changes in regulatory requirements. This is achieved through the business planning cycle and the annual ICAAP process;
- we do not accept any loss or misuse of client data and are averse to breaches of our information security arrangements;
- we maintain adequate professional indemnity insurance cover to cover operational risks and cyber- related event crystallisation, but also ensure our regulatory obligations in relation to the services we provide;
- we accept the risk of retaining non-advised orphan clients on the platform;
- we accept some risk associated with handling funds originating from retail clients, and we manage any risk through an active anti-money laundering programme.

Our risk profile is dominated by operational risk and our controls frameworks focus on providing assurance over the design and performance of our controls.

Capital requirements

Nucleus' minimum capital resources requirement under Pillar 1 is calculated as the higher of:

- the base requirement, which is EUR 125,000
- the sum of credit and market risk requirements
- the fixed overhead requirement

The IFPRU 2.2 overall financial adequacy rule requires that a firm must, at all times, maintain financial resources and internal capital, including own funds and liquidity resources, that are adequate both as to amount and quality to ensure there is no significant risk that its liabilities cannot be met as they fall due.

As part of meeting this requirement, Nucleus calculates its internal minimum capital requirement as the higher of:

- Pillar 1: Nucleus uses the fixed overhead requirement (FOR) basis as set out in Article 95 of the CRD
- Pillar 2: The Pillar 2 calculation is our own assessment of the capital we need to hold against any risks not adequately covered by Pillar 1. The assessment of these risks is performed on a regular basis for board consideration and approval. The assessment includes consideration of mitigating actions for identified exposures.
- Net cost of wind-down: This is a theoretical exercise to confirm that the group and firm hold sufficient capital to perform an orderly and responsible wind-down of the firm, in line with the FCA statutory objectives of market integrity and protection of customers. We use reverse stress tests to identify the entry point for our wind-down analysis.

We perform the regulatory capital assessment through our ongoing ICAAP programme. The ICAAP is closely aligned with our business strategy and risk management framework, as set out above.

Own funds

The composition of own funds, and a reconciliation from total equity as presented in the Nucleus and NFS statement of financial position is set out below:

	Nucleus Financial Group plc consolidated As at 31 Dec 2018 £'000's	Nucleus Financial Services Limited As at 31 Dec 2018 £'000's	Nucleus Financial Group plc consolidated As at 31 Dec 2017 £'000's	Nucleus Financial Services Limited As at 31 Dec 2017 £'000's
Called up share capital	76	7,595	21	7,595
Audited reserves	17,397	9,062	16,161	5,331
Total equity	17,473	16,657	16,182	12,926
Regulatory deductions				
Other reserves – non qualifying	(132)	(34)	(39)	(39)
Deferred tax asset	(137)	-	(122)	-
Total own funds	17,204	16,623	16,021	12,887

Total own funds exceeded the internal minimum capital requirement at all times throughout 2018 and the prior year. Own funds consist of Common Equity Tier 1 Capital only.

Asset encumbrance and capital ratios

	Nucleus Financial Group plc consolidated As at 31 Dec 2018 £'000's	Nucleus Financial Services Limited As at 31 Dec 2018 £'000's	Nucleus Financial Group plc consolidated As at 31 Dec 2017 £'000's	Nucleus Financial Services Limited As at 31 Dec 2017 £'000's
Total own funds	17,204	16,623	16,021	12,887
Total assets*	31,100	26,739	28,785	22,573
Total risk exposure amount	83,338	84,605	73,837	63,079
Minimum capital requirement – pillar 1	6,667	6,768	5,907	5,046
Surplus / (deficit) own funds over capital requirement.	10,537	9,855	10,114	7,841
Total capital ratio	20.6%	19.6%	21.7%	20.4%
Minimum required capital ratio	8%	8%	8%	8%

*Total assets are encumbered by a fixed and floating charge in respect of an uncommitted overdraft facility of £5,000,000 with The Royal Bank of Scotland International Limited. The purpose of the overdraft is to support the company's discretionary commitment to prefund tax relief on eligible pension contributions and other temporary funding required under the client money and client asset rules. The overdraft facility has not been used in the current or previous year.

Remuneration policy

In the remuneration and HR committee report of the Nucleus Financial Group plc annual report and financial statements, we set out the membership, responsibilities and decision-making powers of the remuneration and HR committee. One of the committee's main responsibilities is to establish and maintain the link between pay and performance.

In the remuneration and HR committee report and note 24. Share-based payments of the financial statements, we set out arrangements for share-based payments in respect of growth shares and options that are granted to directors and employees. This includes information on the performance criteria on which the entitlement to shares is based.

Nucleus is also subject to parts of the FCA's senior management arrangements, systems and controls (SYSC) high level standards, including SYSC 19A IFPRU Remuneration Code. Nucleus has a remuneration policy statement that encompasses the FCA's remuneration principles for IFPRU investment firms. In addition, as a result of the admission to AIM, the remuneration and HR committee approved a directors' remuneration policy (also applicable to executives and other senior leaders) and this was effective from 15 November 2018. Both the policy and statement as designed have utilised the remuneration principles proportionality rule, taking into consideration the size, internal organisation and nature, scope and complexity of the group's activities.

The remuneration of all staff, including those categories of staff whose professional activities have a material impact on the group's risk profile, fall within the scope of the remuneration and HR committee.

Code staff

Employees whose professional activities have a material impact on the firm's risk profile are categorised as remuneration code staff and are made aware of the implications of such status, including the potential for remuneration to be rendered void and recoverable by the firm in certain circumstances.

In total 8 employees (2017 – 9) were categorised as code staff and a summary of their remuneration is set out below:

Code staff remuneration	2018 £'000's	2017 £'000's
Fixed	1,617	1,257
Variable – cash	826	509
Variable – entitlement to ordinary shares *	5,253	-
Total	7,696	1,766

* Entitlement to ordinary shares arose following the realisation of the G1 and G2 growth shares in December 2017, and the realisation of the G3 and G4 growth shares upon the company's admission to the AIM market of the London Stock Exchange. Further details of the growth share scheme are set out in note 24. Share-based payments of the Nucleus Financial Group plc annual report and financial statements.

The company expensed £315k (2017 - £473k) for share-based payments relating to code staff.

The table below summarises code staff employee awards made under the group's share-based incentive schemes during the year.

Award type	Number of participants at year end	Grant date	Awarded during the year	Lapsed during the year	Vested during the year	As at 31 December 2018
LTIP	8	26 July 2018	792,772	(68,865)	-	723,907
SIP	5	-	2,999	-	-	2,999
Total						726,906

The general performance conditions, valuation assumptions and other relevant award information are set out in note 24. Share-based payments of the Nucleus Financial Group plc annual report and financial statements.

Non-executive directors

Non-executive directors are not categorised and formally notified as code staff, however their professional activities do have a material impact on the firm's risk profile. The aggregate remuneration awarded to non- executive directors, of which there were 8 (2017 – 7) amounted to £268,333 (2017 – 277,841) and was all fixed in nature. Upon the company's admission to AIM, the estate of a deceased previously-serving non-executive director became entitled to ordinary shares with a market value of £88k.

Other

As a result of the conversion of the G1 and G2 growth shares, both executive directors' remuneration exceeded EUR 1 million in the 2018 year.

Quantitative information has not been disclosed by business area as this could result in the identification of the remuneration of individual employees.

Governance arrangements

Our corporate governance arrangements are set out in the corporate governance section of the Nucleus Financial Group plc annual report and financial statements from page 24 onwards, including the responsibilities and operation of each of the board sub-committees, being the audit committee, risk committee, nomination committee and remuneration and HR committee.

The company's inclusion and diversity statement can be found on the company's website at www.nucleusfinancial.com/about-us/inclusion-and-diversity

The number of total directorships held and the total number of groupings of directorships held (for the purpose of SYSC4.3A 7(2)) by directors at the end of the year is as follows:

	2018 Total	2018 – SYSC adjusted
J A A Samuels	23	3
T Dunley-Owen*	7	3
J P Gibson	24	1
M Hassall*	7	2
J A Levin	21	3
J C Polin	20	1
M D Seddon**	-	-
S J Tucker**	-	-
D R Ferguson***	7	1
SJ Geard***	6	1

* appointed in 2018
** resigned in 2018
*** executive

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