# Creating value through greater alignment of adviser and customer interests

Nucleus Financial Services Limited

Annual report and financial statements
for the year ended 31 December 2019

Company registration number 05629686

# Contents



## Our purpose

Our purpose has been clear and consistent since our inception and that is to create value through greater alignment of adviser and customer interests.

## Our values

Our values are aligned to our purpose and provide the foundations that support, shape and unify the culture of our business. Together they are a core part of our identity and provide the framework for how we engage with our people, our users and our customers and how we drive value for our shareholders. Naturally, these values align with the principles of our regulator.

### Accountable

We own solving problems and our customers, people, stakeholders and our regulator can rely on each of us to be disciplined and take responsibility. We collaborate, whilst delivering as individuals, overcome challenges and see things through on time. Being accountable means we are reliable; we trust each other to deliver and enjoy autonomy.

### Authentic

We are all human, this gives us the opportunity to be ourselves, do our best work and deliver value for our customers. Being authentic is being honest, respectful, having 'adult-to-adult' relationships and not shying away from candid conversations.

### Energetic

We are proactive, innovative and tenacious. It's about driving our business forward and making a difference for our customers and our people. We balance our drive to change the future with being accountable for delivering every day.

### Inspiring

We think big, act small and are humble. We're always looking to make life better for our customers and our people. We're relentlessly curious, always learning and developing, pushing boundaries and finding better ways, for ourselves and our customers.

# Strategic report

## The directors present their strategic report for the year ended 31 December 2019 for Nucleus Financial Services Limited ("NFS", "the company").

### About NFS

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

David Ferguson
Founder and chief executive

The company is a wholly owned subsidiary of Nucleus Financial Group Plc (NFG) and together with Nucleus IFA Services Limited (NIFAS) forms the group (the group or Nucleus). The group provides a wrap platform to UK financial advisers. 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.

The company is authorised and regulated by the Financial Conduct Authority (FCA) as an IFPRU limited licence investment 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).

Having met, but subsequently ceased to meet the definition of a significant IFPRU firm within the reporting period, the company was required to comply with the rules and requirements applicable to a significant IFPRU firm for a period of twelve months from the date on which the firm ceased to be a significant IFPRU firm (February 2019).

# Business review

## Overview

It's impossible to begin this report without making reference to the Covid-19 pandemic currently wreaking havoc. Whilst it is too early to estimate the impact of the Covid-19 pandemic on the company, the reaction to the uncertainty has reduced the value of most asset classes, which in turn has reduced the company's AUA and could materially impact inflows, with the consequence of both being a negative effect on revenue. Advisers, customers and suppliers will also be affected by the pandemic, although the extent of such disruption is yet to be determined. Notwithstanding this considerable uncertainty, the company has a robust capital structure and solvency position, high conversion rate of profit to cash, no borrowings and available liquidity. I expect us to navigate this period successfully and for us to continue to deliver on those matters within our control. This should mean that as and when some sort of normality returns, we can return to the financial trajectory we had previously been working toward.

These are early days but our Covid-19 response has been anchored around protecting the safety of our people, in maintaining service levels and in continuing to develop the business in accordance with our long-term objectives. We have ceased or limited certain activities (whether in line with government guidance or our values) but in general terms have placed the long-term success of the business ahead of short-term profitability. I strongly believe this approach is best aligned with the interests of our key stakeholders and will ensure we remain well-positioned to capture our share of the structural opportunity of the sector. We are actively engaging with stakeholders as this period of uncertainty continues.

For now I would like to remind you that Nucleus was founded to create value through greater alignment of adviser and customers interests, and we set out to achieve this by building the most technology-led platform in the UK. Despite the challenging sector headwinds, we made good progress during the course of 2019 and closed the year with a stronger than ever combination of online product capability and offline service.

Commercial and regulatory pressures require all market participants to deliver value for money and we are excited about what we can achieve in the coming years.

We were also pleased to win CoreData's 'best medium platform' award for the eighth year in succession and to achieve five-star status in the Financial Adviser service awards.

## Operational performance

Although political and economic uncertainty, largely related to the UK's exit from the EU, generated some headwinds, markets ultimately rose over the year and this, combined with net inflows, helped power us toward a 16.3 per cent increase in assets under administration (AUA) to £16.1bn. Overall gross inflows fell to £1.9bn (from £2.3bn in 2018), however, market share, on a like-for-like basis, remained steady at 3.8 per cent (retail advised platform market).

We were also pleased to post four successive quarters of growth in gross inflows, along with continued growth in active advisers and customers, the latter two of which can be expected to contribute to future inflow growth. We enjoyed a notable uptick in inflows toward the end of the year and this trend has continued strongly into the start of this year.

We experienced a heightened level of outflows when a handful of firms that had been acquired moved some customers off the platform. More positively, we were successful in forging new relationships with a leading IFA consolidator and the biggest adviser support services firm (in the UK), and we are cultivating several other opportunities in this area.

Our product development and operations had a great year with notable progress made on all fronts. We were able to introduce new capabilities such as a Junior Isa, new phased drawdown features, a new customer portal and many other platform enhancements, including improved trading functionality and meeting the new costs and charges disclosure requirements of Mifid II. We also improved the resilience of some of our platform operations and installed new telephony and CRM infrastructure which will help us maintain and improve service levels. These investments were all well received by advisers and customers and I'm really pleased to have achieved the level of change velocity we believe is necessary to support our growth ambitions.

## Strategic development

We have greatly enjoyed the first full year of our direct relationship with Bravura and remain strongly of the view that our blend of in-house development and data services sitting on top of Bravura's market-leading Sonata product is the right technology model for us.

We have improved our flexibility in supporting alternative product and pricing structures for larger scale opportunities and following the year end have packaged this under the Nucleus Enterprise brand, with a view to driving further growth through this channel.

Alongside our core platform product, we made good progress in developing a new approach to investment portfolio management, and I'm very pleased to announce that following confirmation of the relevant regulatory permissions in January 2020 we plan to launch Nucleus IMX, a discretionary investment management proposition, in the first half of 2020. We believe the combination of our data capabilities and the work we have done internally and in partnership with leading investment consultancy firm Hymans Robertson, will allow us to open up a meaningful new revenue stream while further aligning adviser and customer interests.

## Outlook and Covid-19

Notwithstanding the impact of external factors, whether related to market sentiment, the political environment or the current coronavirus pandemic, I believe the business is well-positioned to capitalise on the structural growth themes relating to financial planning and wealth management.

The recent period has seen us materially accelerate our product development efforts and coupled with strong operational performance and high touch offline service, we have started 2020 with a material improvement in inflows. These have been driven by increased demand from existing users and new demand from recently added adviser firms and we look forward to accelerating growth as we add further new firms through the year.

The competitive landscape has adjusted slightly with some legacy companies exiting the market and some more tech-led entrants emerging. There is little doubt that an effective technology model is central to success in this market and we continue to believe that blending Bravura's Sonata product with our in-house capabilities provides the right balance of agility, scalability and resilience to meet user expectations in the short term while also ensuring our business is durable over the long term.

More widely, platforms can play a positive role in helping deliver improved value for money for customers and to this end we are particularly excited about our plans to introduce Nucleus IMX, which has been designed specifically to improve value for money in asset management and if successful should also bolster our overall revenue yield, attract new users and create other interesting product opportunities.

We face a new challenge this year with the rapid change in the development of Covid-19, and it is entirely uncertain what impact this might have on businesses and the economy. The outlook is impossible to predict, but I can say that we remain open for business, and cash generative each day. Our platform is fully operational and all of our people are successfully working remotely with no impact on service. We are in continual dialogue with our users and our material service providers and I consider our operations to be resilient, recognising that our user experience remains reliant (as ever) on the performance of many of the interconnected parties that comprise the overall financial system.

### Dividend

During the year the company paid interim dividends in May and October totalling £4.7m.

### The company's key performance indicators are:

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Assets under administration | 16,141,279 | 13,883,713 |
| Turnover | 51,517 | 49,405 |
| Operating profit | 6,465 | 7,444 |
| Profit for the financial year | 5,502 | 6,021 |

## Principal risks and uncertainties

The following principal risks relate to the group and company's business and the wider sector in which it operates. The risks and uncertainties described below are not intended to be exhaustive.

Additional risks and uncertainties not presently known to the directors or that the directors currently deem to be immaterial could also have an adverse effect on the group's business and financial performance.

The group operates a risk management framework through which it systematically identifies 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, and these are managed within the risk appetites set by the board on an annual basis. Additional information can be found in our Pillar 3 disclosure which can be found on the company's website www.nucleusfinancial.com/invest

### Culture risk

Conduct risk is an intrinsic risk to our business as our behaviour and organisational structures have the ability to impact customer outcomes, market integrity and competition in our chosen markets. Our values are embedded in our business strategy and our internal systems and controls are focused on delivering our business plan while meeting our various culture and conduct expectations. Similarly, as a listed and regulated business, governance risk is intrinsic to our business model. We believe good governance provides assurance to our stakeholders that we are focused on what matters most, our conduct and customer outcomes.

### Strategic and business model risks

#### Fluctuations in capital markets, and economic, political and market factors that are beyond the group's control

The group's turnover and performance are directly linked to the value of AUA held on the platform, which in turn is linked to the level of inflows, outflows and the performance of the assets and asset classes into which customers have invested. A decline in capital market asset values may: (i) reduce the value of the AUA on the platform; (ii) prompt customers (in conjunction with their financial advisers) not to make further investments or to withdraw funds from the platform; and (iii) make it more difficult for financial advisers to attract new customers to advise through the platform.

Economic, political and market factors can also affect the level of inflows and outflows and the performance of investment assets. For example, a general deterioration in the global economy, and the UK economy in particular, may have a negative impact on customers' disposable income and assets, and the value of savings and investments on the platform.

### Competition

The provision of advised platforms is competitive and Nucleus faces significant competition from a number of sources, including other intermediated platform providers, life insurance companies, asset and fund managers and direct to consumer investment platforms. While the group strives to remain competitive by continuing to develop its online and offline offering, the risk exists that it is unable to adapt to changing market pressures or customer demands, keep pace with technological change and platform functionality relative to its competitors or maintain its market share given the intensity of the competition.

Competition may also increase in response to demand dynamics, further consolidation (including vertical integration) in the wider financial services sector, new entrants to the market or the introduction of new regulatory requirements (including those targeted at financial advisers or other market participants). In addition, pricing pressure across the investment lifecycle is prevalent as competitors invest in new technologies and new blends of products and services to deliver value and compelling propositions for their customers and other stakeholders.

### Relationship with financial advisers

While Nucleus has been able to maintain strong, longstanding relationships with its adviser users, there can be no assurance that this will continue. The group could lose or impair relationships as a consequence of, among other things, operational failures, uncompetitive functionality or pricing, reputational damage, consolidation and vertical integration in the financial advice market or the closure of firms of financial advisers. The loss of, or deterioration in, the group's relationships with its financial adviser base, particularly those responsible for directing significant inflows to the platform, could have a material adverse effect on AUA and revenues.

### Reliance on key suppliers

Nucleus, like many other participants in the wrap platform market, operates a business model that outsources selected components of its operations and technology services, and enters into agreements with selected product providers to distribute and administer their products as part of the Nucleus wrap platform.

As a result, the group has a reliance on its key suppliers and performance issues affecting these products and services may have an adverse impact on Nucleus' strategy and business performance.

The group's key suppliers are:

- Genpact WM UK Limited, who provide Nucleus with wrap administration services;
- Bravura Solutions Limited, who provide Nucleus with platform technology services;
- Scottish Friendly Assurance Society Limited and Sanlam Life & Pensions UK Limited, who provide the onshore bond tax wrappers on the platform, and RL360, who provides the offshore bond tax wrapper on the platform, and
- Winterflood Securities Ltd (a division of Winterflood Business Services), who provide Nucleus with stockbroking services.

## Operational and regulatory risks

### Operational

The nature of the activities performed by the group is such that a degree of operational risk is unavoidable. Operational risk may have a number of consequences, including deficient service delivery, poor customer outcomes, an inability to scale effectively, reputational damage and financial loss.

The group's operational risks can be divided into three main categories (people, technology, and operational process and controls) with relevant examples of each below:

### People

- Failure to attract, train, motivate and retain core skills and knowledge in the group,
- people-related errors in core processes.

### Operational process and controls

- Failure in core processes and controls (whether preventative or detective), either by the group or by third parties,
- Failure in systems and controls in place to meet the requirements of taxation and other regulations in respect of the suitability of certain investments to be held within certain tax wrappers and accounts.

### Operational resilience and technology

- Failure of, or disruption to, the sophisticated technology and advanced information systems (including those of the group and its third-party service providers) upon which the group is dependent,
- Inability to respond to the need for technological change as a result of the failure to continue to improve new technologies, through lack of appropriate investment in new technologies or through such investment proving unsuccessful,
- Failure to maintain existing technologies or to invest appropriately in continuing improvements to those technologies,
- Vulnerability of the group's networks and platform (and those of its third-party service providers) to security risks, cyber-attack or other leakage of sensitive or personal data,
- Vulnerability of the group's networks and platform (and those of its third-party service providers) to security risks or cyber-attack leading to direct theft of monies or assets.

### Regulatory

Regulatory risk includes the risk of non-compliance with existing regulatory requirements as well as the risk relating to changes in government policy and applicable regulations:

i. Impact of a material breach of existing regulatory requirements

   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 (not least the applicable regulatory regime relating to the group's FCA authorisations and its FCA regulated activities), there could be both regulatory and financial consequences (including, without limitation, sanctions, fines, censures, loss of permissions and/or the cost of being required to take remedial action).

ii. Impact of material new regulation and forthcoming regulatory change.

### New regulation in 2019

SM&CR came into effect for Nucleus on 9 December 2019. The FCA classes Nucleus as a core SM&CR firm. The four Senior manager function (SMF) holders - Angus Samuels, David Ferguson, Stuart Geard and Yvonne Clough - are now individually accountable to the FCA and will be held responsible for failings within their documented areas of responsibility. The certification regime under SM&CR covers the remaining significant management function holders and staff (certification staff) who can cause 'significant harm' to the firm and/or its customers. The SMFs are responsible for supervising the certification staff and must certify on an annual basis that these individuals remain fit and proper.

In November 2019, new customer information requirements came into effect for pensions. This included the introduction of "wake-up" packs, a single page summary (given at age 50 and included with wake-up packs issued at defined intervals after age 50) and retirement risk warnings.

### Forthcoming regulatory change

Brexit took place on 31 January 2020. Statutory instruments took effect on that date to deliver transitional requirements until the final legislative changes are made. Most existing European financial services regulatory requirements will be grandfathered into UK legislation to allow a smooth transition.

The FCA's investment platforms market study from 2017 introduced changes relating to in-specie transfers between platforms from July 2020. The changes include requiring the facilitation of unit class conversions to enable in-specie transfers.

The new prudential regime for investment firms, the Investment Firm Regime (IFR), comes into effect on 26 June 2021. This will replace the capital requirements directive and regulation (CRD IV and CRR) for small and medium-sized investment firms. We do not anticipate that the changes will be material to our risk profile.

## Financial and liquidity risks

### 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 an IFPRU 125k limited licence investment firm and a non-insured Sipp operator.

The group may require access to additional capital for a number of reasons, including increased regulatory capital requirements, and there is no assurance that such additional capital will be available (or available on favourable terms).

Nucleus is a public company and its entire issued share capital is admitted to trading on the AIM market of the London Stock Exchange (LSE), which provides the group with access to capital markets if required. The group also operates a dividend policy, with the intention that it will pay regular dividends - however the ability of the group to pay dividends is dependent on a number of factors including, among other things, the results of its operations, its financial condition, anticipated cash requirements, regulatory capital requirements, future prospects and its profits available for distribution, and there can be no assurance that the group will pay dividends or, if a dividend is paid, of the amount that any dividend will be.

### Liquidity

The group's liquidity position is subject to a number 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. The group also has a defined liquidity management framework that requires management to monitor and report on liquidity positions and potential risks to the audit committee and board on a quarterly basis.

### 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.

Our framework is concerned with:

- Demonstrating it is proportionate and effective in the governance and performance of risk management for an authorised and regulated investment 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 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,
- 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 is 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 identifying, assessing and managing their risks through a sound set of policies, processes and controls. Business lines are also responsible for the development and deployment of appropriate mitigating actions and embedding of systems and controls.

### Second line of defence

The roles of the second line risk and compliance functions are to develop and maintain the group risk and compliance management policies and frameworks. Review of the effectiveness 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. The risk committee receives regular reporting from the second line on business performance against risk appetites across the risk universe.

### Third line of defence

The group engaged Deloitte 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, Cass handbook arrangements, and cyber frameworks. 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.

The group also engages other third parties to provide independent assurance.

## Going concern

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

- The latest business plan projections of the company, stressed for significant events that would have a material impact on the company's profitability, liquidity, solvency and regulatory capital position.
- Actual performance to date.
- The current operating and trading environment, which has been severely impacted by Covid-19.
- Adequacy of capital to meet operational and regulatory requirements.
- Known risks and uncertainties (including in respect of Covid-19) with consideration of the impact of these on the company's solvency and liquidity position.
- Known and expected changes in the regulatory environment impacting platform operators.

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 6 April 2020 and signed on its behalf.

S J Geard
Director

Section 172 report

# Strategic decisions

Our strategic decision making is driven by a desire to fulfil our purpose, aligned to our values, our policies and our overall attitude to risk. A key input to any strategic decision is its impact on our stakeholders. In addition to the stakeholder specific outcomes set out on the next couple of pages, these case studies highlight how the board took its duties set out in s172(1) of the Companies Act 2006 into account during the course of 2019.

## Case study one

### Propositional enhancements and core technology upgrade

The board constituted the advisory board in 2018 and engages it directly to garner the input of its members. The advisory board is formed of a group of financial advisers and business owners from our user firms, and is tasked with collating the feedback from our platform development group, as well as representing our customers, and engaging with management on various strategic issues from product development and regulatory change to the impacts of industry reviews. The chair of the advisory board reported quarterly to our board during 2019, and that feedback was considered in a number of strategic decisions.

Building on the decision in 2018 to unbundle our outsourced technology and administration contract and enter into a direct technology relationship with Bravura, the board approved a decision to implement our first major upgrade under the new structure in Q2 2019, as well as a number of key releases. The roadmap for these propositional improvements was created taking into account significant input from our users, our suppliers and our customers' needs. With the needs of our stakeholders in view, for example, costs were managed carefully and within budget ensuring no impairment on our ability to meet our dividend policy.

The advisory board also provided valuable feedback to help us shape the proposition for IMX, our new approach to portfolio management, giving both a users' perspective and feedback on the most important features for our customers. The new service builds on our strategic objectives to invest in our data assets and our technology team and create cost effective solutions for our users and customers.

We believe these decisions will create long term value and unlock our ability to become a truly innovative digital platform.

## Case study two

### Culture and governance

A strategic objective for 2019 was to review our conduct, values, policies and accountabilities frameworks, with a view to giving clarity to our people, our users and our regulator on how we are organised, our expected behaviours and our individual accountabilities.

The board took a decision to invest in building a capability and accountability framework, to strengthen our existing systems and controls and align with our delivery of a key regulatory change to comply with the new SM&CR for solo-regulated firms.

Culture and governance were key strategic objectives for Nucleus in 2019, and we were pleased that these were also key objectives for the FCA.

We believe that building the foundations on which to scale will deliver long term value to all our stakeholders.

### Factors all directors must take into account:

1. The likely consequences of any decision in the long term,
2. The interests of the company's employees,
3. The need to foster the company's business relationships with suppliers, customers and others,
4. The impact of the company's operations on the community and the environment,
5. The desirability of the company maintaining a reputation for high standards of business conduct,
6. The need to act fairly as between members of the company.

## Customers

### What matters most

- Transparency and simplicity
- Fair pricing
- Quality of service
- Security of assets

### How do we engage

- Bi-annual investors in customers surveys
- Face to face meetings or events
- Dedicated client relations team
- Clear communications

### How did we respond

- Launched Nucleus Go, our new client portal
- Launched a junior Isa to meet the needs of our target market
- Changed our stockbroker with improved trade execution and pricing for customers
- Created a customer insight team, supported by a suite of conduct and customer policies
- Continued embedding our updated conduct framework to ensure all our people are focused on creating good customer outcomes

## Platform users

### What matters most

- Connection to customers' needs
- Continuous technology and proposition developments
- Dependable and consistent service standards
- Cost-effective platform
- Clear guidance and thought leadership

### How do we engage

- User sessions
- Platform development group
- Practice development group
- Advisory board
- Dedicated account managers and business development team
- Annual strategy event
- Thought leadership platform

### How did we respond

- Delivered a major upgrade and many propositional features on our user-led technology roadmap
- Developed our new approach to portfolio management, permissions for which have been granted, and launch scheduled for 2020
- Changed our stockbroker with improved trade execution and pricing for customers
- Introduced a new telephony infrastructure to improve our service standards
- Built a cost and charges engine into Narrate, our reporting tool, to support users' regulatory obligations
- Developed our strategy to consider alternative product and pricing structures for larger scale opportunities

As directors, we are obliged to fulfil our codified directors' duties under section 172(1) (a)-(f) of the Companies Act 2006, and, in taking decisions, ensure that we promote the success of the company as a whole.

We acknowledge that this involves both judgment and process. We have created a number of forums to facilitate and engage the views and expectations of our stakeholders and seek to ensure we can demonstrate how their views, as well as the long term consequences, are taken into account in our strategic decision making.

We consider our key stakeholders to be our customers, our platform users, our people, our shareholders, our suppliers, our regulators, our community and wider society. We have captured what matters most to each group, how we engage with them and how we have responded to their needs as follows.

## Shareholders

### What matters most

- Compelling business model and growth story
- Stability, resilience and ability to scale
- Reliable returns
- Investing in our talent and succession

### How do we engage

- Investors roadshows twice a year
- 1-2-1s with institutional shareholders
- AGM and regular disclosures

### How did we respond

- Reported quarterly on performance
- Delivered against our dividend policy
- Delivered against our people strategy to create the workforce for the future
- Held more than 50 meetings with shareholders and potential shareholders during the year

## Our people

### What matters most

- Making a difference for our customers
- Autonomy, coupled with clear expectations and boundaries
- Having opportunities to grow and progress
- Being fairly rewarded for their contributions
- Knowing that their voice is heard
- Feeling alignment between company and personal values

### How do we engage

- Regular surveys
- Fortnightly all company briefing sessions and bi-annual strategy updates led by our CEO and his executive team
- Culture champions in each team
- Re-designed induction for all
- Board member responsible for representing employee voice
- 'Ask me anything' lunch with the executive team for new joiners

### How did we respond

- Restatement of our company values
- Focus on culture - creating a new framework for communicating and embedding
- Diversity and inclusion initiatives, building on inclusive hiring practices and encouraging psychological safety and diversity of thought
- Building leadership capability to support delivery and alignment between people and customer experience

## Suppliers

### What matters most

- Trusted partnerships
- Strong governance
- Clear communications
- Our input into their service delivery

### How do we engage

- Regular service reviews
- Clearly documented vendor management onboarding and maintenance policies and practices
- Annual due diligence reviews
- Collaborative engagement

### How did we respond

- Attendance and input to the working group, formed of our core technology supplier's clients. Its aim is to reduce costs and risk and improve outcomes through aligned strategies and regulatory initiatives
- Identified relationship managers across all key suppliers
- Reviewed effectiveness and embedding of our vendor management suite of policies

## Our purpose

Our purpose has been clear and consistent since our inception and that is to create value through greater alignment of adviser and customer interests.

## Regulators

### What matters most

- Understanding and adopting the principles and rules of the FCA Handbook
- Open and transparent communication
- Demonstrating good conduct
- Acting in our customers' best interests

### How do we engage

- Members of the UK platform development group
- Direct communication via our compliance senior manager function holder
- Consultations and policy statements

### How did we respond

- Provided feedback to the Platform Market Study
- Implemented the SM&CR, designing our framework to meet the standards of an enhanced firm
- Refreshed and rolled out our conduct risk framework, and work on embedding it for the benefit of our stakeholders.

## Community and wider society

### What matters most

- Actively supporting local communities
- Engaging in charitable activities
- Providing jobs and investment

### How do we engage

- Support employment and apprenticeship schemes with graduate coding schemes
- Support local STEM initiatives in schools and universities
- Support a chosen charity each year and work collaboratively to reach meaningful targets
- Host and attend meet-ups for Agile Scotland and other Fintechs

### How did we respond

- Our CEO is the chairman of Fintech Scotland, aimed at raising the profile and local investment in technology and financial services in the Scottish economy
- Recruited a number of graduate coding and software engineers through our partnership with Codeclan
- Set up a charity committee which supported initiatives raising over £50,000 for MND Scotland in 2019

# Directors' report

## The directors present their report and the audited financial statements for the year ended 31 December 2019. All content within the strategic report is applicable to the directors' report.

### Introduction

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

The company is authorised and regulated by the FCA as an IFPRU limited licence investment firm. In addition, the company 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). 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).

Having met, but subsequently ceased to meet the definition of a significant IFPRU firm within the reporting period, the company was required to comply with the rules and requirements applicable to a significant IFPRU firm for a period of twelve months from the date on which the firm ceased to be a significant IFPRU firm (February 2019).

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

### Business review and strategic report

The strategic report includes a detailed business review. Within the strategic report we set out information relating to:

- How we fulfil our duties under s172 of the Companies Act 2006, and in taking decisions, ensure that we promote the success of the company as a whole
- The development and performance of the business during the year.
- The financial position of the company at the end of the year.
- Key performance indicators, both financial and non-financial, which are regularly assessed in relation to the development, performance, solvency and liquidity of the business.
- Information relating to likely future developments of the business.

Details of risk management objectives and policies are set out in the risk management framework above.

## Results and dividends

The profit for the year was £5.5m (2018: £6.0m). Turnover increased to £51.5m, (2018: £49.4m), with operating profit decreasing to £6.5m (2018: £7.5m). The full results are set out in the accompanying financial statements and notes.

Dividends amounting to £4,717,488 (2018: £2,335,065) were paid during the year.

## Post balance sheet events

The Covid-19 pandemic, which first impacted the group, its users, its customers and the broader economy in the first quarter of 2020, is considered to be a non-adjusting post balance sheet event.

Effective 1 March 2020 Nucleus Financial Services Limited no longer met the relevant thresholds to be classified as a Significant IFPRU firm. There were no other subsequent events that required adjustment to or disclosure in the financial statements for the period from 31 December 2019 to the date upon which the financial statements were available to be issued.

## Disclosures to the external auditor statement

Each individual director confirms that as far as they are aware, there is no relevant audit information of which the company's auditor is unaware, and that they have taken all the steps that ought to have been taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

## Directors

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

T Dunley-Owen

D R Ferguson

S J Geard

J P Gibson (resigned 25 February 2020)

M G Hassall

J A Levin

J C Polin

J A Samuels

A Tagliabue (appointed 25 February 2020)

## Company registration

The company is a public company limited by shares and is registered with the registrar of companies for England and Wales with company number 05629686.

## Political donations

There have been no political donations made during the year (2018: £nil).

This report was approved by the board on 6 April 2020 and signed on its behalf.

S J Geard
Director

# 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 under UK GAAP in compliance with Financial Reporting Standard 101 "Reduced Disclosure Framework") ("FRS 101"). 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 United Kingdom Accounting Standards, comprising FRS 101, 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 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.

S J Geard
Director

Stuart Geard
Chief financial officer

"…the directors have prepared the financial statements under UK GAAP in compliance with Financial Reporting Standard 101 "Reduced Disclosure Framework") ("FRS 101")."

# 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 2019 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 comprehensive income, the Statement of financial position as at 31 December 2019; and 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

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.

We have nothing to report in respect of the above matters.

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 2019 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 18, 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 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
- 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.

Lindsay Gardiner (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

Edinburgh

6 April 2020

# Statement of comprehensive income

| | Note | 2019 £'000 | Restated* 2018 £'000 |
|---|---|---|---|
| Turnover | 3 | 51,517 | 49,405 |
| Cost of sales | | (22,817) | (20,587) |
| Gross profit | | 28,700 | 28,818 |
| Administrative expenses | | (22,340) | (21,375) |
| Other operating income | 4 | 105 | 1 |
| Operating profit | | 6,465 | 7,444 |
| Interest receivable and similar income | 8 | 70 | 10 |
| Interest payable and similar expenses | 9 | (2) | (3) |
| Profit before taxation | 5 | 6,533 | 7,451 |
| Tax on profit on ordinary activities | 11 | (1,031) | (1,430) |
| Profit for the financial year | | 5,502 | 6,021 |
| Items that may be subsequently reclassified to profit and loss | | - | - |
| Total comprehensive income for the financial year | | 5,502 | 6,021 |

*Details of the 2018 cost of sales and administrative expenses restatement are set out in note 2.

The notes on pages 25 to 42 form part of these financial statements.

# Statement of financial position

| | Note | 31 December 2019 £'000 | 31 December 2018 £'000 |
|---|---|---|---|
| **Fixed Assets** | | | |
| Intangible assets | 12 | 253 | - |
| Right of use lease assets | 13 | 13 | - |
| Tangible fixed assets | 14 | 764 | 991 |
| Investments | 15 | 1 | 1 |
| | | 1,031 | 992 |
| **Current Assets** | | | |
| Debtors | 16 | 9,567 | 9,988 |
| Investments | 17 | 107 | 84 |
| Cash and cash equivalents | 18 | 16,749 | 15,691 |
| | | 26,423 | 25,763 |
| **Creditors** | | | |
| Amounts falling due within one year | 19 | (9,347) | (9,514) |
| **Net current assets** | | 17,076 | 16,249 |
| **Total assets less current liabilities** | | 18,107 | 17,241 |
| **Creditors** | | | |
| Amounts falling due after more than one year | 20 | - | (6) |
| Provision for liabilities | 23 | (716) | (628) |
| Net assets | | 17,391 | 16,607 |
| **Capital and reserves** | | | |
| Called up share capital | 25 | 7,595 | 7,595 |
| Reatined earnings | 26 | 9,796 | 9,012 |
| **Total equity** | | 17,391 | 16,607 |

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 6 April 2020.

S J Geard
Director

The notes on pages 25 to 42 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 2019 | 7,595 | 9,012 | - | 16,607 |
| Changes in equity | | | | |
| Dividend paid | - | (4,718) | - | (4,718) |
| Profit for the financial year | - | 5,502 | - | 5,502 |
| Balance at 31 December 2019 | 7,595 | 9,796 | - | 17,391 |
| Balance at 1 January 2018 | 7,595 | 5,292 | 39 | 12,926 |
| Changes in equity | | | | |
| Dividend paid | - | (2,335) | - | (2,335) |
| Profit for the financial year | - | 6,021 | - | 6,021 |
| Reclassify investments from FVOCI to FVPL | - | 34 | (39) | (5) |
| Balance at 31 December 2018 | 7,595 | 9,012 | - | 16,607 |

The notes on pages 25 to 42 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 28 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. Further information relevant to the directors' assessment of going concern is set out in the strategic report on page 11. 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 45(b) and 46 to 52 of IFRS 2 Share based payments;
- The requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures; and
- 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

There have been no changes in accounting policies during the year.

# Notes to the financial statements

## 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. Platform fees are calculated monthly using contractual basis point rate cards applied to the daily valuation of assets under administration on the platform. Performance obligations are satisfied as the wrap platform service is provided to customers. Accrued income represents fees that are collected in the following month.

## Internally generated intangible assets

Expenditure on internally generated brands, goodwill and the maintenance of intangible assets is expensed. Where development expenditure is incurred that satisfies the general asset recognition criteria and where there is the intention, feasibility and capability to complete the development, then this expenditure is capitalised. The cost of internally generated intangible assets includes directly attributable third party and internal staff costs. Impairment reviews are carried out where there are indicators of impairment.

## Amortisation of intangible assets

Intangible assets with a limited useful life, once brought into use, are amortised using the straight-line method over the following period:

| | |
|---|---|
| Licenses | 5 years |

## 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 statement of comprehensive income.

## 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.

# Notes to the financial statements

## 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 statement of comprehensive income.

## Leases

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability. Assets and liabilities arising from a lease are initially measured on a present value basis. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Short term and low value leases are expensed. Details of the assets can be found in note 13.

## Finance leases

For the year ended 31 December 2018 where assets were financed by leasing agreements that gave rights approximating to ownership, the assets were treated as if they had been purchased outright. The amount capitalised was 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 was depreciated over its useful life of three years on a straight-line basis. Depreciation on the relevant assets was charged to the statement of comprehensive income. Interest on the finance lease was recognised in the statement of comprehensive income 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.

# Notes to the financial statements

### 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 income statement.

### Bad and doubtful debt provision

An expected loss provisioning model is used to calculate a bad and doubtful debt provision. We have implemented a simplified approach to measuring expected credit losses arising from trade and other receivables, being a lifetime expected credit loss. This is calculated based on an evaluation of our historic experience plus an adjustment based on our judgement of whether this historic experience is likely reflective of our view of the future at the balance sheet date. In the previous year the incurred loss model is used to calculate the impairment provision.

### 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 statement of comprehensive income 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, key sources of estimation uncertainty, and restatements

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. The critical accounting judgements and the key sources of estimation uncertainty are as follows:

### 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 14 for the carrying amount of fixed assets and note 1 for the useful economic lives for each class of asset.

### Provisions

The company has recognised provisions in respect of client compensation, outsourced service and dilapidations. Further detail on these provisions, the rationale behind their recognition is included in note 23.

### Restatements

### Cost of sales presentation

Platform related mailings, bank charges and errors and losses, which were previously disclosed in administrative expenses, have been reclassified to cost of sales to achieve better presentation. There is no impact on the reported profit or net assets of the group as a result of these restatements.

# Notes to the financial statements

## 2. Critical accounting judgements, key sources of estimation uncertainty, and restatements (continued)

| | 2018 £'000 | Platform related cost Adjustment £'000 | Restated 2018 £'000 |
|---|---|---|---|
| Continuing operations | | | |
| Turnover | 49,405 | - | 49,405 |
| Cost of sales | (19,809) | (778) | (20,587) |
| Gross profit | 29,596 | (778) | 28,818 |
| Other operating income | 1 | - | 1 |
| Administrative expenses | (22,153) | 778 | (21,375) |
| Operating profit | 7,444 | - | 7,444 |
| Profit for the financial year | 6,021 | - | 6,021 |

## 3. Turnover

All turnover is attributable to the principal activity of the company and arose within the United Kingdom (2018: all United Kingdom).

## 4. Other operating income

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Other operating income | 105 | 1 |

## 5. Profit before taxation

The profit before taxation is stated after charging:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Depreciation of tangible fixed assets | 450 | 368 |
| Depreciation of right of use assets | 100 | 5 |
| Loss on disposal of fixed assets | 3 | 5 |
| Foreign exchange differences | 5 | 3 |
| Movement in bad debt provision | 59 | 8 |

# 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:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Wages and salaries | 11,992 | 11,643 |
| Social security costs | 1,380 | 1,404 |
| Other pension costs | 983 | 893 |
| Share-based payment costs | 448 | - |
| | 14,803 | 13,940 |

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:

| | 2019 | 2018 |
|---|---|---|
| Employees | 219 | 201 |

## 7. Directors' remuneration

The directors are remunerated by the holding company NFG. Further detail of the consideration paid can be found in the NFG consolidated financial statements which can be obtained from Companies House, the Company Secretary at Nucleus HQ, Greenside, 12 Blenheim Place, Edinburgh, EH7 5JH or the group's website www.nucleusfinancial.com

## 8. Interest receivable and similar income

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Bank interest receivable | 70 | 10 |

## 9. Interest payable and similar expenses

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Finance charges payable under finance leases | 1 | 2 |
| Other interest | 1 | 1 |
| | 2 | 3 |

# Notes to the financial statements

## 10. Auditors' remuneration

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Audit of the financial statements | 49 | 43 |
| Client assets assurance report | 175 | 151 |
| All other services | 6 | - |
| | 230 | 194 |

## 11. Taxation

### Analysis of tax expense

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Current tax: | | |
| Tax on profits for the year | 1,049 | 1,435 |
| Deferred tax: | | |
| Reversal of timing differences in relation to disallowable provisions | (18) | (5) |
| Tax expenses in income statement | 1,031 | 1,430 |

### Factors affecting the tax expense

The tax assessed for the year is lower (2018: higher than) the standard rate of corporation tax in the UK of 19 per cent.

(2018: 19 per cent). The differences are reconciled below:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Profit before taxation | 6,533 | 7,451 |
| Profit before taxation multiplied by the standard rate of corporation tax in the UK of 19.00 per cent (2018: 19.00 per cent) | 1,241 | 1,416 |
| Effects of: | | |
| Expenses not deductible for tax purposes | 11 | 4 |
| Other tax adjustments, reliefs and transfers | (12) | 10 |
| Income not taxable for tax purposes | (20) | - |
| Adjustments in respect of prior periods | (189) | - |
| Tax expense in income statement | 1,031 | 1,430 |

# Notes to the financial statements

## 12. Intangible assets

| | Wrap platform £'000 | Total £'000 |
|---|---|---|
| **Cost** | | |
| At 1 January 2019 | - | - |
| Additions | 253 | 253 |
| Disposals | - | - |
| At 31 December 2019 | 253 | 253 |
| **Amortisation** | | |
| At 1 January 2019 | - | - |
| Charge for the year | - | - |
| Eliminated on disposal | - | - |
| At 31 December 2019 | - | - |
| **Net book value** | | |
| At 31 December 2019 | 253 | 253 |
| At 31 December 2018 | - | - |

The intangible acquired during 2019 was for Nucleus IMX.

# Notes to the financial statements

## 13. Right of use lease assets

| | Right of use asset Office Equipment Edinburgh £'000 |
|---|---|
| **Cost** | |
| At 1 January 2019 | - |
| Transition to IFRS 16 | 360 |
| Additions | 1 |
| Disposals | - |
| At 31 December 2019 | 361 |
| **Depreciation** | |
| At 1 January 2019 | - |
| Transition to IFRS 16 | 248 |
| Charge for the year | 100 |
| Eliminated on disposals | - |
| At 31 December 2019 | 348 |
| **Net book value** | |
| At 31 December 2019 | 13 |
| At 31 December 2018 | - |

# Notes to the financial statements

## 14. Tangible fixed assets

| | Fixtures and fittings £'000 | Office equipment £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2019 | 527 | 1,508 | 2,035 |
| Transition to IFRS 16 | - | (360) | (360) |
| Additions | 28 | 310 | 338 |
| Disposals | (4) | - | (4) |
| At 31 December 2019 | 551 | 1,458 | 2,009 |
| **Depreciation** | | | |
| At 1 January 2019 | 127 | 917 | 1,044 |
| Transition to IFRS 16 | - | (248) | (248) |
| Charge for the year | 131 | 319 | 450 |
| Eliminated on disposal | (1) | - | (1) |
| At 31 December 2019 | 257 | 988 | 1,245 |
| **Net book value** | | | |
| At 31 December 2019 | 294 | 470 | 764 |
| At 31 December 2018 | 400 | 591 | 991 |

# Notes to the financial statements

## 15. Investments

| | Investment in subsidiary companies £'000 |
|---|---|
| **Cost** | |
| At 1 January 2019 and 31 December 2019 | 1 |
| **Net book value** | |
| At 31 December 2019 | 1 |
| At 31 December 2018 | 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 | Elder House St Georges Business Park<br>207 Brooklands Road<br>Weybridge<br>Surrey<br>England<br>KT13 0TS |
| Class of shares | Ordinary |
| Holding | 100% |
| Principal activity | 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. |

| | 2019<br>£ | 2018<br>£ |
|---|---|---|
| Aggregate capital and reserves | 1 | 1 |

# Notes to the financial statements

## 15. Investments (continued)

### Nucleus Trustee Company Limited

| | |
|---|---|
| Registered office | Greenside<br>12 Blenheim Place<br>Edinburgh<br>Scotland<br>EH57 5JH |
| Class of shares | Ordinary |
| Holding | 100% |
| Principal activity | To act as trustee of the self-invested personal pension operated by NFS. |

| | 2019<br>£ | 2018<br>£ |
|---|---|---|
| Aggregate capital and reserves | 1,000 | 1,000 |

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

## 16. Debtors: amounts falling due within one year

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Other debtors | 1,124 | 2,166 |
| Amounts owed by HMRC | 1,929 | 1,754 |
| Trade debtors | 444 | 429 |
| Prepayments and accrued income | 6,070 | 5,639 |
| | 9,567 | 9,988 |

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. The total loss allowance provided for trade and other receivables is £230,410 (2018: £176,784).

## 17. Current asset investments

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Valuation | | |
| At 1 January | 84 | 99 |
| Additions in year | 39 | - |
| Disposals in year | (23) | (10) |
| Unrealised gain/(loss) | 7 | (5) |
| At 31 December | 107 | 84 |

# Notes to the financial statements

## 18. Cash and cash equivalents

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Cash at bank and in hand | 16,749 | 15,691 |

The company has a £5,000,000 uncommitted overdraft facility with 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. Interest is charged on this facility at 3 per cent plus base rate up to an overdrawn amount of £5,000,000 and 5 per cent 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.

## 19. Creditors: amounts falling due within one year

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Preference shares | 50 | 50 |
| Obligations under finance leases | - | 87 |
| Trade creditors | 1,018 | 3,305 |
| Amounts owed to group undertakings | 2,252 | 727 |
| Corporation tax | 324 | 740 |
| Social security and other taxes | 1 | 1 |
| Other creditors | 2,196 | 1,809 |
| Amounts owed to HMRC | 118 | 240 |
| Accruals | 3,388 | 2,555 |
| | 9,347 | 9,514 |

## 20. Creditors: amounts falling due after more than one year

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Obligations under finance leases | - | 6 |

# Notes to the financial statements

## 21. Financial liabilities - borrowings

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Current: | | |
| Preference shares | 50 | 50 |
| Finance lease | - | 87 |
| | 50 | 137 |
| Non-current: | | |
| Finance lease | - | 6 |

Terms and debt repayment schedule

| | < 1 year £'000 | 1-2 years £'000 | 2-5 years £'000 | Total £'000 |
|---|---|---|---|---|
| Cash and cash equivalents | 50 | - | - | 50 |
| | 50 | - | - | 50 |

The holder of preference shares, NFG, has the right to receive a non-cumulative fixed preferential dividend, calculated at the rate of 3 per cent 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.

# Notes to the financial statements

## 22. Finance leases

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Gross obligations payable: | | |
| Within one year | - | 88 |
| Between one and five years | - | 6 |
| | - | 94 |

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Finance charges payable: | | |
| Within one year | - | 1 |
| Between one and five years | - | - |
| | - | 1 |

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Net obligations payable: | | |
| Within one year | - | 87 |
| Between one and five years | - | 6 |
| | - | 93 |

## 23. Provision for liabilities

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Deferred tax | 22 | 41 |
| Other provisions: | | |
| Client compensation | 535 | 429 |
| Outsourced service | 159 | 158 |
| | 694 | 587 |
| Aggregate amounts | 716 | 628 |

# Notes to the financial statements

## 23. Provision for liabilities (continued)

| | Deferred tax £'000 | Client compensation £'000 | Outsourced service £'000 | Total £'000 |
|---|---|---|---|---|
| At 1 January 2018 | 46 | 98 | 204 | 348 |
| Provided during year | - | 435 | 612 | 1,047 |
| Utilised during year | - | (73) | (333) | (406) |
| Unused amounts reversed during year | - | (31) | - | (31) |
| Credit to statement of comprehensive income | (5) | - | (325) | (330) |
| At 31 December 2018 | 41 | 429 | 158 | 628 |
| Provided during year | - | 389 | - | 389 |
| Utilised during year | - | (122) | - | (122) |
| Unused amounts reversed during year | - | (160) | - | (160) |
| Credit to statement of comprehensive income | (19) | - | - | (19) |
| At 31 December 2019 | 22 | 536 | 158 | 716 |

### Deferred tax

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.

### Client compensation

The company remediates clients affected by errors on the platform and calculates any amounts due in line with guidance given by the Financial Ombudsman Service in respect of the type of client loss, distress and inconvenience for which clients should be compensated. Where actual trading losses are suffered by clients, these are calculated in accordance with MiFID II best execution rules to ensure clients are restored to the position they would have been in had the error or omission not been made. Amounts are provided and utilised against the administrative expenses line in the statement of comprehensive income and the majority of the outstanding issues are expected to be agreed in the first half of 2020.

### Outsourced service

As part of the commercial agreement with our outsourced BPO service provider, should any key performance criteria not be met, the company is entitled to receive a discount on the wrap administration fees charged. Where these are agreed, they are deducted from the invoiced fee and the net expense is charged through the statement of comprehensive income. Where these are uncertain or in dispute with the service provider, a provision is booked in recognition of the uncertainty regarding the outcome.

# Notes to the financial statements

## 24. Dividends

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Interim dividend 46p per share (2018 20p per share) | 3,518 | 1,498 |
| Interim dividend 16p per share (2018 11p per share) | 1,200 | 837 |
| | 4,718 | 2,335 |

## 25. Share capital

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Shares classified as equity: | | |
| Allotted, called up and fully paid | | |
| 7,595,000 ordinary shares of £1 each (2018: 7,595,000) | 7,595 | 7,595 |

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.

There were no shares issued during the year.

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Shares classified as debt: | | |
| Allotted, called up and fully paid | | |
| 50,000 ordinary shares of £1 each (2018: 50,000) | 50 | 50 |

## 26. Reserves

### Retained earnings

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

# Notes to the financial statements

## 27. Related party transactions

As a 100 per cent 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).

## 28. 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. 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 2019. 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

## 29. Events after the reporting period

The Covid-19 pandemic, which first impacted the group, its users, its customers and the broader economy in the first quarter of 2020, is considered to be a non-adjusting post balance sheet event. Further information relevant to the directors' assessment of going concern is set out in the strategic report on page 11.

From March 2020 NFS was no longer required to meet the rules and requirements of a significant IFPRU firm as NFS last met the IFPRU definition for a significant firm in February 2019.

There were no other subsequent events that required adjustment to or disclosure in the financial statements for the period from 31 December 2019 to the date upon which the financial statements were available to be issued.

# Company information

## Directors

T Dunley-Owen
D R Ferguson
S J Geard
M G Hassall
J A Levin
J C Polin
J A Samuels
A Tagliabue (appointed 25 February 2020)

## Company secretary

N C Megaw

## Registered number

05629686

## Registered office

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## Independent auditors

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## Bankers

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