nucleus

Nucleus Financial Group plc

Annual report and financial statements

For the year ended 31 December 2020

Registered number 05522098

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2020 was by any measure one of the most challenging and uncertain years in recent memory. Dominated by the Covid-19 pandemic and exacerbated by the continued uncertainty around Brexit, the year ended with one of the most divisive US presidential election campaigns contested.

By far the most disruptive and damaging, the Covid-19 pandemic has had far-reaching consequences for all. That millions of people across the globe would be required to quarantine themselves in their home (with the more fortunate ones) using video technology as their primary communication method would have been unimaginable a year ago. The ramifications of this anomalous year will play out for some time to come, and while the world rightly celebrated the scientific breakthrough of a Covid-19 vaccine at the end of the year, it is clear that we have some way to go before the world tips back on its axis.

The company's response to the unfolding crisis at the end of March last year was swift, with all staff working safely from home within the first few days of lockdown. That was a testament to the technology, systems and business continuity efforts of the entire team. On behalf of the board I would like to pay tribute to everyone at Nucleus who adapted so quickly to ensure the business remained open and operational throughout. The fact that we retained our FT Adviser 5-star service award, improved our Platforum service ratings and increased our net promoter score throughout this period demonstrates the commitment of the Nucleus people to delivering excellent customer outcomes come what may.

Chairman's statement

Given the extraordinary circumstances of 2020, I am pleased to report a resilient financial performance for the year with net inflows of £0.7bn (2019: £0.5bn) and adjusted Ebitda of £5.7m (2019: £7.9m) on a net revenue of £46.0m (2019: £45.2m) as we continued to invest in the long-term prospects of the business throughout the pandemic. Assets under administration (AUA) grew 7.9 per cent to £17.4bn despite significant falls in the UK stock market during the period, with the FTSE All-Share Index falling 12.5 per cent year-on-year. It was also particularly pleasing to note that customers grew to over 100,000 for the first time. Full detail of the key financial results is contained in the reports that follow. It is positive to see continued growth across many of our key performance indicators (KPIs) including growth in assets, net inflows, revenue, customers and advisers using the platform.

The year ended with two further significant events, both a little closer to home. Firstly, the acquisition of the UK business and assets (as they pertain to Nucleus) of OpenWealth, a business process outsourcing company providing account servicing and administration. This acquisition sought to allow the business to increase control over its processes, service and product development. The acquisition completed in December and is expected to be earnings enhancing in 2021 and increasingly accretive thereafter.

The second significant event was the announcement in December that the company had received proposals regarding possible cash offers for the business after the company's largest shareholder, Sanlam UK Limited, initiated a process to sell its stake in Nucleus. In February 2021 a cash offer of 188p per share to acquire the entire issued and to be issued share capital of Nucleus was announced by James Hay Holdings Limited, backed by its owners, Epiris. This offer was unanimously recommended to shareholders by the board. At this point, the acquisition is awaiting shareholder, legal and regulatory approvals and, subject to these, is currently estimated to complete in Q2 2021.

Following completion, it is intended that the existing business activities of Nucleus and James Hay will continue within the combined group and merge over time. The coming together of these two businesses represents an opportunity to create a leading financial planning and retirement-focused platform with c£45bn of AUA.

Governance

The company has adopted the Quoted Companies Alliance (QCA) corporate governance code, and the board reviews the company's compliance with this on an annual basis. Board composition remained broadly unchanged throughout the financial year, save for the appointment of Alfio Tagliabue in February 2020 who joined as one of Sanlam's two board representatives to replace Jeremy Gibson. I remain confident that the breadth of skills and the depth of experience we have on the board provide equal measures of support and appropriate challenge to the company's strategic direction.

The business' long-term success is reliant on the strength of its corporate culture, and the board advocates the importance of good governance and effective systems and controls in supporting the executive management in their development and delivery of the company's strategy. A full governance report detailing our compliance with the QCA corporate governance code, and the work of the board and its committees can be found in the corporate governance report on page 25.

The company's purpose 'to create value through greater alignment of adviser and customer interests' has remained unchanged since inception and stakeholder engagement has long been a key element. The Section 172 statement on pages 10 to 13 sets out how the board has engaged with key stakeholders to better understand stakeholder needs throughout the year and how this engagement has informed key decisions.

Should the acquisition by James Hay Holdings proceed as planned, the existing non-executive directors – Tracy Dunley-Owen, Margaret Hassall, John Levin, Jonathan Polin, Alfio Tagliabue and myself - will step down on completion.

Chairman's statement

Culture and people

Given the challenges thrown at us all during this most troubling of years, the business has done extremely well to keep culture and its people at the top of the agenda.

Culture, values and engagement have been central to Nucleus' success over the years, and this year has been no exception. Our focus on ensuring our people's care while working remotely has had a positive impact reflected in our people engagement scores where we saw a 7 per cent uplift to 81 per cent.

The business welcomed an additional 130 people (114 employees and 16 agency contractors) into the fold at the end of the year with the acquisition of the relevant assets of the OpenWealth business and this is already reaping many rewards with improvement in communication and service levels.

Dividend

After having decided not to recommend a second interim dividend in 2019 as a consequence of the board's belief that the downside risk of Covid-19 had not reduced sufficiently, the board did resolve to pay an interim dividend in October 2020 of 1.0p per share, in line with our dividend policy. Given the proposed acquisition of the business, the board has resolved not to recommend a final dividend relating to the financial year ending 31 December 2020.

Outlook

The business has adapted well to the unprecedented change to the way we live and work as a consequence of the Covid-19 pandemic, and many of these changes will likely endure for much of the year ahead and beyond.

While there remains much uncertainty regarding the pandemic, the rollout of the vaccine in the UK, the signing of a UK-EU Trade and Cooperation Agreement and the transition of presidential powers in the US have done much to ease market uncertainty. We have seen early and encouraging signs of recovery in investor confidence, with Nucleus recording a 35.9 per cent increase in net inflows in the last quarter of the year compared to the same period in the previous year and a 152 per cent increase on the previous quarter (Q3 2020). This very positive momentum has continued into the early weeks and months of the new year, with net inflows of £69m in January 2021 representing an 11.3 per cent increase on the previous year (January 2020: £62m) and the team is confident they can build on this.

Market commentators Fundscape project a 'realistic' assumption of 12 per cent compound annual growth for the market over the next five years, taking total assets to £1.3 trillion by 2025. With the retail advised sector making up 63 per cent of the overall market projection, our sector's future looks assured.

Against one of the most challenging economic backdrops of recent times, I am pleased with the company's financial performance over the past year. While the longer-term economic consequences of the pandemic are unknown and the James Hay acquisition is not yet approved, Nucleus' recurring fee income model and strong balance sheet give the board confidence in the company's ability to deliver on its future plans.

Finally, on behalf of the board, I would like to offer my gratitude to all of the people at Nucleus, whether you have chosen to be with us or have newly joined the business as part of the OpenWealth acquisition, for your exceptional work, dedication and fortitude under very uncertain and trying conditions. While there remains some future uncertainty, I am confident the determination you have shown to get Nucleus to this point will carry you through to future success.

Angus Samuels
Chairman

Strategic report

Chief executive's report

Since last year's report, Covid-19 has had an extraordinary impact on our lives, financial markets and global systems. 2020 was simply a year like no other and that makes me especially proud of the material progress achieved over the period.

Our people and their welfare are always in focus and never more so than when Covid-19 hit. I was moved to see everyone adjusting so brilliantly to maintain our online and offline services, to develop new digital services and to achieve a successful soft launch of IMX, our new model portfolio service. Overall, their efforts led to a 42 per cent increase in net inflows, a 4 per cent increase in new customers and closing AUA of £17.4bn.

Toward the end of the year, we were able to reach agreement with Genpact to acquire the business and assets of OpenWealth as they pertained to our business, giving us greater control over our operations, more flexibility over product and service improvements and a transformational outlook for margins as we grow AUA.

Overall, we closed the year with our highest ever net promoter score, our best ever people engagement score and were awarded CoreData's 'best medium platform' for the ninth successive year.

Since the close of the financial year (and following a process initiated by our majority shareholder), the board has recommended a cash offer to shareholders from James Hay Holdings valuing the company at £144.62m. Becoming part of this enlarged group gives Nucleus a key role in a much bigger story where we can create a leading independent platform of scale with a high tech, high touch proposition and philosophy. I think the combination of our people's talents and the size of the opportunity can see us carefully navigate the roadmap to deliver on this collective medium-term goal.

Regardless of our ownership, I hope we are able to build on the successes of last year and the positive momentum we have enjoyed in early 2021 which has resulted in us now being responsible for £17.8bn of AUA.

Operational performance

Inflows began the year strongly as investor sentiment improved following the decisive general election result and our Q1 net inflows were up 100 per cent over the previous year, a marked improvement that would have been better still were it not for the onset of the pandemic in March. Adviser and customer activity slowed materially through Q2 before beginning to recover through Q3 and then accelerate through Q4. Overall we increased our market share of retail advised net inflows from 2.3 per cent to 2.9 per cent, and these were up 42 per cent over 2019, a good result in the circumstances even if our pre-pandemic expectations had been greater. Outflows continued to fall through the year, a positive trend exacerbated by the pandemic.

Chief executive's report

We had another strong year on product development and operations, responding quickly to working from home and adapting processes in March and delivering notable enhancements, including the delivery of digital signatures, better tax reporting, phased drawdown automation and enhanced bulk tools through the year.

We also entered into a long-term agreement to move the hosting of the platform into the cloud. This work will be carried out in collaboration with our long-term partners Bravura Solutions and is expected to result in our platform being hosted in AWS by the end of this year. This infrastructure change is expected to improve our flexibility, resilience and scalability.

We also achieved a soft-launch of IMX, our new model portfolio service which aims to improve the probability of customers achieving their financial goals. We have partnered with Hymans Robertson to engineer a product which promotes better alignment between customer goals and the way portfolios are constructed and the combination of low costs and this more personal approach has been well received.

Sector pricing trends are developing broadly as expected with larger adviser firms continuing to exert pressure on behalf of their customers. We have refreshed our pricing strategy and developed a new enterprise sales channel to target larger firms (including IFA consolidators) and have now established two new relationships (one since the end of December) and a pipeline of other potential opportunities.

In addition to securing our latest CoreData award, we received an FT Adviser 5-star service award, posted successive and substantial improvements in our Platforum ranking and landed a highly commended second place at the Schroders platform of the year awards.

Financial performance and dividend

Our 2020 profit was impacted by three pandemic-driven themes.

Firstly, income was hit by the fall in markets (and AUA) and despite the subsequent recovery and our improvement in inflows, net revenue was only marginally up to £46.0m. Secondly, we benefitted from substantial savings in some cost lines, especially in travel and entertainment, marketing and recruitment fees. Thirdly and perhaps most significantly, we made a clear and early decision to continue to invest through the pandemic and while this has contributed to improved user sentiment (and outlook) it had a predictably negative impact on profit in the short term. I am entirely comfortable this was the right decision and although adjusted Ebitda was down 27.9 per cent to £5.7m, most of that was achieved in H2 during which we outperformed our expectations.

Following last year's decision to not recommend a final dividend in respect of 2019, we were pleased to reinstate our dividend with an interim 2020 payment made in October. Our capital position continued to improve through H2 and I suspect that we may have revisited the 2019 dividend had our capital requirement not increased by a broadly-equivalent amount following the OpenWealth acquisition. In light of the recommended offer by James Hay Holdings, no final dividend will be recommended in respect of 2020.

Our people

The resilience of our systems and our people allowed us to make a prompt and seamless move to working from home and throughout the rest of the year almost all of us worked from our kitchens, lounges and spare rooms. I am indebted to the way in which everyone responded, a sentiment that extends to the 154 new colleagues we welcomed in the course of the year, including the 130 who joined us through the OpenWealth transaction.

We made substantial effort to ensure the wellbeing of our people through the difficult circumstances and continue to encourage our leaders to monitor this area closely as the impact of the pandemic and lockdown wearies us all. We now operate a 'work from anywhere' policy and will continue with this model post-pandemic expecting perhaps 40-50 per cent of working time to be spent in one of our offices in the medium term.

We continue our controlled shift toward technology roles and by the end of the year, 85 per cent of our 384-strong team were involved in product management, platform operations or directly servicing our audience.

Following a restructure of the executive team and some other senior management changes, I am sorry to say that our gender pay gap widened for the upper pay quartile. This is regrettable and is being actively addressed with new focus with a view to improving our performance in this important area.

Prior to the announcement of the potential change to our ownership, overall people engagement was at an all-time high with 93 per cent considering themselves proud to work here. There has been a notable improvement in service since the OpenWealth transaction completed and I hope this will be maintained. We achieved all the objectives detailed in our people strategy and continue to invest in learning and development to support the growth of the business.

Chief executive's report

Although perhaps not really 'our people' I also remain grateful to the members of our advisory board, platform development group and regional practice development groups – the individual and collective input is greatly valued. I will also take this opportunity to thank Mike Seddon who has chosen to step down as chair of our advisory board for all he has contributed in various roles (including on the main board) over the years.

Last and far from least we were terribly sorry to lose our much-loved friend and colleague Mike Wallis to MND. He remains greatly missed.

Climate change

We recognise the threat posed by climate change and our responsibility to help the UK transition to a low-carbon economy and also believe that action in this area is an important consideration for our people and our attractiveness as an employer. It is our intention to address these challenges by adopting and promoting low-energy technologies and working practices, and to help hold other organisations to account through more transparent reporting and particularly through the climate-related elements of our IMX investment beliefs.

Strategic development and outlook

The advised platform sector remains buoyant and our important role in improving value for money for customers remains as valid as ever. The market remains competitive with a combination of established and new participants and there is a growing trend toward consolidation. This has been building for a while but we have only recently seen the first transactions where profitable platforms are being acquired. Scale is becoming an important sectoral consideration but we continue to see scalability and value for money as equally important medium/long-term drivers of success.

We have now completed the reshaping of our operating model and subject to any changes that may be triggered by a change in ownership I believe we are very well positioned for further growth. The combination of our online product and offline service is increasingly competitive and the inflow momentum we expect from our core and enterprise audiences is expected to deliver the scale that is required to expand our operating margins from what is now a largely fixed cost base. Pricing pressure is expected to continue (and perhaps accelerate) but the shape of the organisation and the scalability we've achieved through automation mean we are well-prepared for that challenge.

Our combination of agility, scalability and resilience should allow us to continue to improve the sentiment of existing users and to grow our user base. This can then be expected to accelerate inflow growth, adding to AUA and driving future revenue growth. The operational gearing in the business model is expected to result in a substantial majority of revenue growth falling through to profit, and margins can be expected to grow further if we are able to achieve scale with IMX.

The regulatory environment for adviser platforms remains benign although the ongoing scrutiny of the advice and asset management sectors may trigger a need for us to respond. We also expect to have to make product changes triggered by the review of the UK tax system and by Brexit. The scope of these remains unclear but we expect to be able to meet any new requirements in a timely and cost-effective manner.

David Ferguson
Founder and chief executive

Strategic report

About Nucleus

Nucleus is an independent wrap platform that allows customers to hold all of their pensions, Isas and other investments in one secure place online.

We were founded in 2006 and built in collaboration with financial advisers committed to altering the balance of power in the industry by putting the customer centre stage. We work with more than 1,400 active financial advisers from more than 860 financial advice firms as at 31 December 2020. We are responsible for AUA of £17.4bn on behalf of more than 101,000 customers.

The platform offers a range of custody, trading, payment, reporting, fee-handling, research and integration services across a variety of tax wrappers and more than 6,500 asset choices including cash, OEICs, unit trusts, offshore funds, structured products and listed securities, including ETFs and investment trusts, and currently facilitates over 1.1 million customer account transactions on average per month.

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, while 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

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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, the case studies below provide two examples of how the board took its duties set out in s172(1) of the Companies Act 2006 into account during the course of 2020.

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 for the benefit of its members 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, environment and wider society. The Covid-19 pandemic has brought unprecedented change to the way we all live and work and, as announced by the company back in March 2020, the company's highest priority would be and continues to be the health and wellbeing of its people, users and customers. We have captured what matters most to each of our stakeholders, how we engage with them and how we have responded to their needs during this unprecedented time on the following pages.

Case study one

Nucleus IMX ("IMX") launch

As reported in our 2019 annual report and financial statements we planned to launch IMX, a discretionary managed portfolio service, in 2020. We wished to create a service delivering value for money, take an outcome-led approach to investment management, and empower our advisers by helping to improve the alignment between their clients' goals and their investments. The board approved the full launch of IMX in December 2020 following a period of soft launch, which enabled collaboration with a number of onboarded advisers to refine the proposition ahead of full launch. We believe the development and deployment of IMX to be a clear strategic example of our values and of how we are working to achieve greater alignment of adviser and customer interests.

The IMX journey had stakeholder engagement at its core. The board approved the establishment of an investment committee in late 2019 comprising two external independent members to provide challenge and guidance to IMX development. This committee continues to operate and engage with our investment consultant, a key supplier, as part of IMX governance, providing oversight of IMX investment and management activities. A board workshop was carried out in early 2020 to ensure that board input was incorporated into the IMX design. The board received feedback from the IMX team who had consulted with advisers to understand how we could better their clients' journey, our investment consultant on portfolio creation, our regulator and external lawyers to ensure all regulatory, legal and compliance obligations and expectations were met.

IMX is underpinned by a number of investment beliefs, one of which is responsible investing. Environmental, Social and Governance (ESG) considerations are integrated in our investment and monitoring processes and are a key factor in selecting fund managers for IMX portfolios. Moreover, our responsible investing approach will adapt as the industry evolves with new products and tools becoming available.

Case study two

Acquisition of certain assets of OpenWealth

On 2 November 2020 we announced to the market that we had entered into a binding agreement to acquire certain assets of Genpact Wealth Management Limited (which operated under the trading name OpenWealth) as they pertain to the group (the "Acquisition"). The Acquisition completed on 10 December 2020 representing the achievement of a key strategic objective for 2020 and a step in our journey to increase control over our processes, service offering, hosting of key applications and product development.

Prior to the deal being agreed there were a number of consultations carried out with key stakeholders. Vendor meetings were setup to ensure a seamless transition of both service and license novation, assessment workshops covering planning and impact analysis were conducted with our material vendors and management meetings were completed to assess the impact on staff and morale leading up to completion. Staff engagement also commenced prior to the deal being completed with TUPE consultations and cultural alignment sessions taking place.

The regulator was updated at the key milestones over the year. The board received feedback and updates on interactions to ensure stakeholder expectation and requirements were met.

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We believe that the Acquisition will deliver long term value to all our stakeholders. It is expected to be earnings enhancing in 2021 before becoming increasingly accretive thereafter benefitting shareholders. It will help us to further accelerate our product development and automation programme benefitting customers and users, allow for implementation of a scalable hosting solution and enhance offline services for our users. Our integration programme has been designed to assist our people and facilitate the transition of new employees to the group, move to a new office in Glasgow and rationalise technology hosting and applications. Together we aim to enhance our user experience and help to realise our goal of achieving a market leading proposition for our customers. We believe that the Acquisition will help unlock further potential in our continuing efforts to carry out our purpose of creating value through greater alignment of adviser and customer interests.

Stakeholders

Customers

What matters most:

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

How do we engage:

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

How did we respond:

- Continued embedding our updated conduct framework to ensure all our people are focused on creating good customer outcomes
- Maintaining online and offline service levels throughout the pandemic, retaining a 5-star service rating at the 2020 Financial Adviser Awards and achieving improved Platforum service ratings and our best-ever net promoter score
- Adapted to meet customer and adviser needs, evolving to accept scanned documents and e-signatures.

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
- Regular Illuminate events
- Thought leadership platform

How did we respond:

- Delivered a major propositional release delivering key propositional changes such as a bulk rebalance rebuild and phased investment enhancements.
- Developed and launched Nucleus IMX, a discretionary managed portfolio service
- Embedded our strategy to consider alternative product and pricing structures for larger scale opportunities, including completing our pricing review.
- Achieved a major strategic objective of acquiring certain assets from OpenWealth.
- Converted all face-to-face user events to online without loss of engagement or support.

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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 updates from the people and development team on Covid-19 and our wellbeing approach
- 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
- Board member responsible for representing employee voice
- 'Ask me anything' lunch with the executive team for new joiners

How did we respond:

- By taking a people first approach to our Covid-19 response, reviewing flexible working and building leadership capability to support and monitor the wellbeing of our people as we settle into a distributed way of working
- Maintaining productivity and engagement during the Covid-19 – working proactively to create a sense of stability, safety and community for our people with initiatives such as wellbeing Wednesdays and highlighting the roles of our mental health first aiders
- Successful TUPE and culture first integration of Genpact OpenWealth colleagues – resulting in 46 per cent increase in headcount. Building leadership capability to support delivery and alignment between people and customer experience
- Delivered against our people strategy to create the workforce for the future
- Maintained a charity committee which supported initiatives

Suppliers

What matters most:

- Commercial relationship
- 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:

- Identified relationship managers across all key suppliers
- Reviewed effectiveness and embedding of our vendor management suite of policies.
- Agreed a definitive sale agreement with Genpact, created a clear position with regards to historic liabilities and entered into a definitive TSA that established the mutual responsibilities of the parties for a limited period
- Extended the agreement with Bravura Solutions for a further two years including addition to hosting services

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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:

- Investor roadshows twice a year
- 1-2-1s with institutional shareholders
- Ongoing dialogue with analysts
- AGM and regular disclosures

How did we respond:

- Reported quarterly on trading and AUA
- Communicated the acquisition of certain assets from OpenWealth
- Preserved capital during the Covid-19 pandemic
- Held more than 40 meetings with shareholders and potential shareholders throughout the year

Regulators

What matters most:

- Understanding and adhering to 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 chief risk officer and compliance lead
- Consultations and policy statements

How did we respond:

- Direct engagement with the FCA platform team
- Embedded our SM&CR documentation and policies and preparedness for our transition to an enhanced firm in 2021
- Operated our conduct group as an established part of our governance framework
- Reviewed conduct in our 2020 compliance monitoring plan

Community, the environment and wider society

What matters most:

- Actively supporting local communities
- Recognising the threat posed by climate change and our responsibility to help the UK transition to a low carbon economy
- Providing jobs and investment

How do we engage:

- Support employment and apprenticeship schemes with graduate coding schemes.
- Engaging in charitable activities
- Promote low-energy technologies and working practices

How did we respond:

- Set up a charity committee which supported initiatives raising over £67,000 for MND Scotland
- Sponsored and attended Lean Agile Edinburgh meet-ups
- Adopted ESG investing as part of our Nucleus IMX proposition

Strategic report

Chief financial officer's report

In a year that was dominated by the Covid-19 pandemic, Nucleus' financial performance proved resilient.

After the Covid-19-induced slow down over the spring and summer, net inflows recovered strongly in Q4 and AUA rose in line with the recovery in global markets to end the year at £17.4bn. Similarly, underlying profitability, which was negatively impacted in H1 by the sharp fall in market levels, increased steadily towards the end of the year, with the company now well-positioned to grow its operating margin off an increasingly fixed cost base.

Financial key performance indicators

	Year ended December 2020	Year ended December 2019	Year ended December 2018	Year ended December 2017	Year ended December 2016
Group	£'000	£'000	£'000	£'000	£'000
AUA[1]	17,415,185	16,141,279	13,883,713	13,576,703	11,143,757
Gross inflows[1]	1,829,389	1,941,712	2,290,236	2,607,759	1,854,830
Net inflows[1]	722,765	509,444	1,193,502	1,668,237	970,263
Revenue	51,809	51,517	49,405	45,462	37,483
Net revenue[1]	45,974	45,234	43,154	39,361	32,407
Adjusted EBITDA[1]	5,711	7,923	8,304	6,248	5,141
Profit for the period after tax	3,178	5,953	4,756	4,111	3,387
Dividend paid	760	3,873	3,933	4,813	nil
Adjusted EBITDA margin[1]	12.4%	17.5%	19.2%	15.9%	15.8%

[1] Industry-specific financial performance measures. Included within this results announcement are alternative measures that the directors believe help to inform the results and financial position of the group.

Financial review

Group	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
Opening AUA	16,141	13,884
Inflows	1,829	1,941
Outflows	(1,106)	(1,432)
Net inflows	723	509
Market movements	551	1,748
Closing AUA	17,415	16,141
Average AUA	15,885	15,180

Group	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Revenue	51,809	51,517
AUA related fees paid	(5,835)	(6,283)
Net revenue	45,974	45,234
Other income	74	105
Total operating income	46,048	45,339
Staff costs	(16,593)	(14,590)
AUA related costs	(10,368)	(10,197)
Other direct platform costs	(4,087)	(3,389)
Platform development costs	(3,046)	(2,948)
Other costs	(6,243)	(6,292)
Adjusted EBITDA*	5,711	7,923
Depreciation*	(583)	(667)
Amortisation	(22)	-
Adjusted EBIT	5,106	7,256
Interest income	40	80
Interest expense*	-	(2)
Adjusted profit before tax	5,146	7,334
Other non-operating income	13	17
Exceptional items - OpenWealth acquisition fees	(217)	-
Exceptional items - James Hay Holdings offer fees	(113)	-
Share-based payments	(799)	(349)
Statutory profit before tax	4,030	7,002
Taxation	(852)	(1,049)
Statutory profit after tax	3,178	5,953
Adjusted profit after tax	4,168	5,941
Basic EPS	4.2p	7.8p
Adjusted EPS	5.5p	7.8p
Blended revenue yield (bps)**	28.9	29.8
Adjusted EBITDA margin	12.4%	17.5%

* Adjusted EBITDA excludes non-operating income, exceptional items and share-based payments and includes ROU asset depreciation and ROU lease liability interest. It is included within the strategic report as the directors believe this is a better representation of the underlying performance of the business.

** Blended revenue yield is calculated by dividing annualised revenue over average AUA.

Chief financial officer's report

Revenue

Having opened the year at £16.1bn, AUA continued to increase in the first quarter on the back of relatively stable market levels and recovering net inflows. This positive momentum reflected the rebound in investor sentiment post the general election and Brexit withdrawal agreement, as well as a number of Nucleus-specific factors, such as the continued growth of some of our largest supporting IFA firms, the development of a number of new relationships and a sustained period of service and proposition delivery.

After the very positive start to the year, which saw net inflows of £268 million increasing by 100 per cent on the same quarter of the prior year, markets and, as a consequence, AUA fell sharply towards the end of March as the Covid-19 pandemic hit. Although markets recovered much of their losses over the next two quarters, it was not until the final quarter of the year that the development of a Covid-19 vaccine, resolution of the US presidential elections and the expectation of a UK-EU trade deal pushed investor sentiment, market levels and AUA above the level seen at the start of the year.

The year ended strongly, with AUA closing at £17.4bn, a net increase of 7.9 per cent over the prior year, compared to a decrease in the FTSE All-Share index of 12.5 per cent over the same period. The £1.3bn increase in AUA reflects the impact of the market fall and subsequent recovery (£0.5bn), as well as net inflows for the period of £723m, which, whilst a 42 per cent uplift on 2019, were unsurprisingly reflective of the volatile external environment. As such, the full year's result consisted of the very positive first quarter, the Covid-19 impacted Q2 and Q3, and the encouraging recovery in the final quarter.

The trading environment in Q1 2021 to date remains uncertain, with expectations of a post-pandemic recovery being tempered by the risk associated with bringing the virus under control and the enormous economic cost associated of the pandemic to date.

Average AUA, which increased by 4.6 per cent over the year from £15.2bn to £15.9bn, captures the impact of market volatility throughout the year. As Nucleus' revenue accrues on a daily basis, average AUA is a better indicator of top-line growth and compares to growth in net revenue for the year of 1.6 per cent (from £45.2m in 2019 to £46.0m in 2020). The lower rate of growth in net revenue resulted in a blended revenue yield for the year of 28.9 basis points (2019: 29.8 basis points), with the decrease being mainly due to the existence of improved terms for a small number of large adviser groups.

Costs

The most important event of the year from a cost base perspective was the completion, in December, of the transaction with Genpact. This resulted in the termination of the wrap administration services agreement (and hence the AUA-related fees historically payable to Genpact), the transfer of 130 employees (including 16 fixed-term contractors) to Nucleus, the transfer of a number of contracts and licences required to service the acquired operations, and the entering into of a transitional services agreement with Genpact, under which Genpact will continue to provide hosting and production support, IT and office services to Nucleus for a limited period of time.

The impact of the transaction is a shift out of AUA-related costs and into staff, other direct platform and other costs (although less than one month of these costs were incurred in the year under review) and results in the cost base of the group becoming increasingly fixed in nature.

In the year under review, staff costs increased by 13.7 per cent from £14.6m in 2019 to £16.6m in 2020. Full-time equivalent permanent headcount increased from 236 to 356 over the year, of which 113 transferred to the group from Genpact in mid-December. The balance of the increase in employee numbers represents net recruitment into the business, principally in technology and change-related roles. With the OpenWealth acquisition now complete, we expect total staff numbers to stabilise and that, within the overall headcount, there will be a continued increase in technology-related roles and a reduction in certain operational roles.

AUA-related costs, comprising principally the fees paid to Genpact (for administration services) and Bravura Solutions (for the licence of Sonata) increased by 1.7 per cent from £10.2m in 2019 to £10.4m in 2020, at an average cost of 6.53 basis points (2019: 6.72 basis points). This overall result includes, up until the date of completion of the OpenWealth transaction, a lower level of 'fixed discounts' that formed part of the Genpact contract renegotiation in 2018, offset to some extent by the impact of service credits. Looking forward, this category of costs will be substantially less significant in amount and we may look to integrate it within other direct platform costs in future reporting.

Chief financial officer's report

Other direct platform costs increased from £3.4m to £4.1m, primarily as a result of 2020 including the full-year costs of platform hosting and platform-related printing and posting. This increase in costs remains consistent with guidance given previously and represents an increase in the fixed cost base of the group since August 2019. Platform hosting services will continue to be provided by Genpact (on the same cost basis) under the transitional services agreement with them until Nucleus completes its planned migration to a more flexible and modern cloud-based solution, expected towards the end of 2021 or the beginning of 2022. The balance of other direct platform costs relates to surround platform licence fees, bank charges and compensation costs. These costs decreased from £2.3m in 2019 to £1.8m in 2020, mainly as a result of lower than expected compensation costs.

Platform development expenditure of £3.0m was in line with our expectations, prior year and our stated plans. The positive momentum established in this area of our business means that we intend to target similar levels of expenditure on platform development in future years, and may even look to accelerate this over the next 18 months should market conditions stabilise.

Other costs of £6.2m decreased marginally for the second year in a row. These costs, which include the overhead costs of the operations acquired from Genpact from mid-December, were positively affected by the reduction of expenditure in some areas as a result of the Covid-19 pandemic (such as recruitment, travel and entertainment and marketing) and negatively affected in others (for example, materially higher FCA and FSCS levies), but otherwise were generally in line with our expectations.

Operating margin

Our operating margin (as reflected by the adjusted EBITDA margin) decreased from 17.5 per cent in 2019 to 12.4 per cent in 2020, primarily as a result of lower than expected revenue (as a result of the external environment's impact on markets, inflows and therefore AUA), whilst the cost base of the group remained largely in line with our expectations, except to the extent that individual cost lines were directly impacted by the pandemic.

We took the decision, at the start of the pandemic, to continue to execute on our strategy of investing in our platform and people should the external environment not deteriorate to such an extent that mitigating actions were deemed necessary. The lower operating margin (which was 9.6 per cent in H1 2020 and 15.1 per cent in H2 2020), demonstrates the increased operational leverage that is now present in the business, in particular subsequent to the OpenWealth transaction and the earlier restructuring of the contract with Genpact, and this operational leverage should translate into a higher operating margin when and to the extent that market levels recover and then increase.

Similarly, adjusted EBITDA decreased by 28 per cent from £7.9m to £5.7m, a result we consider to be resilient given the abnormal trading environment and the continued investment in the business, and we continue to anticipate an operating margin in excess of 20 per cent in 2022.

Profit before tax

Adjusted profit before tax decreased by 30 per cent over the previous year, reflecting a similar result to the operating margin above. Statutory profit before tax, meanwhile, decreased by 42 per cent to £4.0m, as a result of the incurrence of £0.3m exceptional items (relating to the OpenWealth acquisition transaction costs and the costs incurred in 2020 in relation to the process that led to the announcement in February by James Hay Holdings of its offer to acquire the company) and a higher charge for share-based payments of £0.8m.

Taxation

The group's effective tax rate of 21.1 per cent (2019: 15.0 per cent) incorporates the impact of expenses that are non-tax deductible of £0.2m (2019: £0.1m). These costs relate primarily to the OpenWealth acquisition and other costs incurred by the group in 2020 relating to the offer to acquire the company. The prior year's effective tax rate, which was lower than the standard 19 per cent rate, benefitted from the inclusion of qualifying research and development (R&D) expenditure under the SME R&D scheme, for which the group qualified at the time.

Chief financial officer's report

Dividend

At the time of release of our 2019 results and in light of the exceptional uncertainty caused by the Covid-19 pandemic, the directors decided, in the interests of prudence, not to recommend a final dividend for the year ended 31 December 2019. At the time of release of our 2020 interim results, we reported that the directors did not believe that the downside risk of Covid-19 had reduced sufficiently to declare a second interim dividend in respect of the 2019 financial year at that stage.

However, the directors did resolve to pay a 2020 interim dividend of £0.8m (or 1.0 pence per share) in October in line with our dividend policy.

This compares to dividends paid in the prior year of £3.8m, comprising a final dividend in respect of the 2018 financial year in June 2019 of £2.7m (or 3.6 pence per share) and an interim dividend in October 2019 of £1.1m (or 1.5 pence per share).

Given the proposed acquisition of the business, the board has resolved not to recommend a final dividend relating to the financial year ending 31 December 2020.

Dividend

	2020 financial year £'000	Pence	2019 financial year £'000	Pence
Interim dividend	760	1.0	1,139	1.5
Final dividend	-	-	-	-
Combined dividend	760	1.0	1,139	1.5
Pay-out ratio	18.2%		19.2%	

Financial position

Group financial position	31 December 2020 £'000	31 December 2019 £'000
Intangible assets	2,258	253
Right of use lease assets	3,026	3,476
Cash and cash equivalents	17,546	18,525
Lease liabilities	3,737	4,212
Net assets	22,731	19,706
Capital adequacy ratio	15.1%	19.7%
Excess capital - above 8% regulatory requirement	9,621	11,424

Cash flow

We continue to achieve a high conversion rate of operating profit to cash before payment of dividends and investing activities. Whereas the group did not pay a final 2019 dividend in the first half of the year, the timing, nature and scale of the OpenWealth acquisition, together with the improving Covid-19 impacted operating environment in the second half of the year, meant that the headline £1.5m OpenWealth acquisition was financed using internal resources in December, and a 2020 interim dividend of £0.8m was paid in October.

Chief financial officer's report

Financial position

Nucleus continues to be funded entirely by equity capital and has no borrowings, save for in respect of the lease of our Edinburgh headquarters, which is recognised as a lease liability under IFRS16 Leases.

Intangible assets increased over the course of 2020 and now comprise the costs incurred in the development and licencing of Nucleus IMX (recognised in accordance with IAS38) and goodwill arising from the OpenWealth acquisition.

All surplus capital not required for working capital purposes continues to be held in cash and is governed by an embedded capital management policy. At the end of the financial year, the group had £17.5m of cash and cash equivalents, representing 77.2 per cent (2019: 94.0 per cent) of the group's net assets. In addition, the group has retained access to a £5.0m uncommitted overdraft facility from RBS International that remains undrawn and has not been accessed for the last four years.

At the end of the financial year, the group had a pillar I statutory capital ratio of 15.1 per cent (2019: 19.7 per cent), amounting to £9.6m of capital in excess of the 8 per cent minimum regulatory capital requirement. The solvency position as at 31 December 2020 includes the audited profits for the year as well as the increased capital requirement pursuant to the OpenWealth acquisition, whilst goodwill arising from the acquisition does not qualify for solvency purposes.

The group's capital requirements are reviewed on a quarterly basis and are also subject to periodic stress testing to evidence that its regulatory capital requirements can continue to be met in a range of stressed scenarios (including macro-economic shocks, company-specific shocks and a combination of simultaneous internal and external shocks). The output of the stress testing is subject to a set of mitigating actions, applied as appropriate to each scenario. In all scenarios incorporating a significant shock to financial markets, the nature of Nucleus' revenue (ongoing annuity-type revenue derived from asset classes that are not equally correlated to equity markets) acts as an inherent mitigant.

The group's robust capital structure, solvency position, high conversion rate of profit to cash, no borrowings and available liquidity mean that it remains well-positioned to absorb the impact of a sustained collapse in equity markets. In consideration of the ongoing uncertainty in relation to Covid-19, the group will consider and implement identified mitigating actions should these be required (including in respect of expense management and dividend payments) but will seek to not take actions that might constrain the strategic development of the business unless conditions deteriorate to the extent that this is required.

Going concern

The directors consider that the group has adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the annual financial statements.

However, as set out in note 34. events after the reporting period below, the group is the subject of an all cash offer from James Hay Holdings that, if successful, is expected to complete in the next 12 months. Whereas the directors note the intentions of James Hay Holdings as set out in the Scheme circular and whereas they do not have any reason to believe that James Hay Holdings would not continue to support the group and company or would materially change their activities in the next 12 months, they are not party to the detailed intentions of the acquirer. Although this does not change the directors' conclusion as to the appropriateness of preparing the financial statements of the group and the company on a going concern basis, it is considered to create a material uncertainty which may cast significant doubt on the group and company's ability to continue as a going concern, and the financial statements contain disclosures to this effect.

Stuart Geard
Chief financial officer

Strategic report

Principal risks and uncertainties

The following principal risks relate to the group'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 manage and mitigate these risks by putting in place appropriate policies and controls. Our key risk categories as documented in our risk taxonomy are summarised on the following pages, and these are managed within the risk appetites set by the board on an annual basis. Additional information is available in our Pillar 3 disclosure which can be found on the company's website www.nucleusfinancial.com/investors

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 helps mitigate risk in our business and provides assurance to our stakeholders that we are focused on what matters most, our conduct and customer outcomes.

Principal risks and uncertainties

Business model risks

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

The group's revenue 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. This was evident during 2020 as the effects of Covid-19 influenced global economies.

Ownership structure

The platform market has been relatively active in the recent past as market providers seek scale through acquisition and consolidation. Nucleus is AIM listed and publicly traded, albeit with a majority shareholder. This alongside the buoyancy of the external market creates risk in relation to Nucleus future ownership, and potential merger and acquisition activity.

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 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:

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

Principal risks and uncertainties

Operational and regulatory risks

Operational

The nature of the activities performed by the group is such that a degree of operational risk is accepted. 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 and motivate people,
  - Failure to retain core skills and knowledge in the group (key person risk),
  - 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,
  - Failure to adapt processes and controls to the changing operating environment (e.g. Covid-19 operating environment).
- 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 risks relating to the introduction of new regulations, changes to existing regulations and non-compliance with existing regulatory requirements:

a) Impact of new regulation and changes to existing regulations

The risk of failing to identify forthcoming new regulations or changes could create a risk of non-compliance. The risk of late identification could impact the business' ability to embed new or changed regulations on time. These risks could result in regulatory scrutiny, enforcement action and remedial work.

b) Impact of a material breach of existing regulatory requirements

If Nucleus Financial Services Limited (NFS) or any other member of the group, and/or any of its outsourcers were to commit a serious breach of any applicable regulations, there could be regulatory and financial consequences including - without limitation - sanctions, fines, censures, loss of permissions or authorisation and/or the cost of being required to take remedial action.

Principal risks and uncertainties

New regulation in 2020

There were no material regulatory changes that took effect in 2020.

Forthcoming regulatory change

February 2021 – Changes to in-specie transfers: The FCA's investment platforms market study from 2017 introduced changes relating to in-specie transfers between platforms from February 2021. The changes include requiring the facilitation of unit class conversions to enable in-specie transfers.

March 2021 – Certification staff registration on the Directory: With the introduction of a new Directory for certification staff under SM&CR, all Nucleus' certification staff must be registered on the Directory by March 2021.

August 2021 – Enhanced SM&CR status: As Nucleus meets the criteria of a significant IFPRU firm occasionally for short periods of time, a consequence is it falls into the enhanced SM&CR firm category, which requires additional work to comply with the enhanced regime. By August 2021, Nucleus must be enhanced-compliant - which includes the need to get FCA approval as Senior Manager Functions (SMFs) for additional members of senior management and have the required governance in place.

January 2022 – The FCA's investment firm prudential regime (MIFIDPRU): MIFIDPRU comes into effect in January 2022. 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 impact of 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.

The strategic report was approved by the board of directors on 22 March 2021 and signed on its behalf by

David Ferguson
Director

Stuart Geard
Director

Governance

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 noted below. At 31 December 2020, there were zero open significant internal audit findings.

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.

Governance

Corporate governance statement

I am pleased to present our report on corporate governance. On behalf of the board, I acknowledge the importance of high standards of corporate governance and the board's role in overseeing the business. This has been the case in 2020 as we have continued to re-enforce our culture, conduct, policies and values throughout the year.

In 2018 we adopted and implemented the principles of the Quoted Companies Alliance (QCA) Corporate Governance Code (the "QCA Code"), welcoming a code which is proportionate to a company of our size and complexity. We last reviewed and updated our annual statement of compliance with the QCA Code in September 2020 and this is published on our website https://nucleusfinancial.com/investors.

At Nucleus we believe that our corporate governance arrangements should support and encourage effective risk management, diversity of thought and robust decision making. We believe there is huge value in delivering effective leadership and a corporate culture based on ethical values and behaviours. Our governance should support our strategy for growth, commitment to the creation of shareholder value in the long term and our desire to deliver good outcomes for our customers.

We will continue to review our governance arrangements in light of our move towards becoming an SM&CR enhanced firm in 2021 and in light of our enlarged group as a result of our acquisition of certain assets of OpenWealth.

Angus Samuels
Chair

22 March 2021

Governance

Board of directors

Our board

The board of Nucleus consists of a team of executive and non-executive directors working together and using their knowledge and experience of UK financial services and platform businesses to drive Nucleus forward and achieve good outcomes for its customers.

We believe our board possesses all the necessary attributes to effectively steer and challenge the executive team and assess the quality of management decision making. The board must also ensure the group's obligations to its shareholders and wider stakeholders are understood and met.

Our board is collectively responsible for setting out the strategy and vision of the group. It is also responsible for shaping and instilling company values, culture and standards, providing oversight of and challenge to management and for ensuring the maintenance of sound systems of internal control and risk management.

- Chair of the remuneration and HR committee
- Chair of the nomination committee
- Chair of the audit committee
- Chair of the risk committee

Angus Samuels

Independent non-executive chair

(appointed July 2006, chair since March 2017)

Angus started his career as a stockbroker and became a partner in Fergusson Bros, Hall Stewart and co. (a leading South African stockbrokers). He has previously held a number of chief executive officer roles and currently serves as the chairman of UK-based financial services group the Punter Southall Group and corporate finance business Craven Street Capital Limited. He also holds a number of other non-executive directorship positions, including Sanlam Investment Holdings UK Limited and Sanlam Life and Pensions UK Limited.

Tracy Dunley-Owen (appointed July 2018)

Independent non-executive director

Tracy has over 20 years' experience in global financial services and is currently an independent non-executive director and committee chair for a portfolio of companies. She has held senior executive finance roles in addition to board, audit and risk committee responsibilities at various companies within the Old Mutual plc group, Guardian Financial Services group and a division of Swiss Reinsurance Company Limited. Tracy's non-executive portfolio currently includes Sun Life Assurance Company of Canada (UK) Limited, Simplyhealth Group Limited and AIB Group (UK) plc.

Margaret Hassall (appointed July 2018)

Independent non-executive director

Margaret has experience and knowledge in various industry sectors including manufacturing, utilities and financial services. She has held a number of senior executive positions at Barclaycard plc, Bank of America Merrill Lynch Corporation and The Royal Bank of Scotland plc. In addition to her executive roles, she has also worked extensively as a consultant for Deloitte, Oracle Corporation and Wavestone Limited, and led the Financial Services consulting business for Charteris plc. Margaret is now an experienced non-executive director and in addition to Nucleus also currently sits on the boards of The Phoenix Life Companies, Tandem (also as remuneration committee chair) and Ascention Trust (Scotland).

John Levin (appointed April 2017)

Senior independent director

John co-founded and is chairman of Certua Group Limited which provides an Embedded Finance platform for SMEs and individuals supplying banking, credit and insurance solutions. John also co-founded Telecom Plus plc where he was a non-executive director from 1997 to 2006. John has held senior positions in several companies including chairman of Amtrust Europe Limited, Car Care Plan (Holdings) Limited and Motor Insurance Company Limited and was the CEO and non-executive director of IGI Group Limited. John is currently the chair of Rocketer Consulting Limited.

Board of directors

Jonathan Polin (appointed July 2016)

Non-independent non-executive director

Experience: Jonathan began his financial services career with Prudential plc before taking up the position of Managing Director UK, European and Middle Eastern sales at what was formerly known as Aberdeen Asset Management plc. Prior to this Jonathan was a director at Ignis Asset Management Limited. Jonathan has also held the position of chief executive officer of wealth management firm, Ashcourt Rowan plc, before becoming the group chief executive officer of Sanlam UK Limited. Furthermore, Jonathan holds the position of non-executive director at Avidus Scott Lang.

Alfio Tagliabue (appointed February 2020)

Non-independent non-executive director

Alfio's experience has spanned across the investment and wealth management sector, where he has held a number of CEO and CFO positions, as well as over 15 years' experience as a board level consultant and advisor in financial services, investment management and other sectors. Alfio spent five years in his early career with Mars & Co, a strategy consultancy. More recently he was Group CFO of Ashcourt Rowan plc, a wealth management company, and joined Sanlam UK in 2016, holding during his tenure a number of positions including Sanlam UK CFO and CEO of Sanlam Investments UK. Alfio is currently group head of strategy for Sanlam UK.

David Ferguson (co-founder and CEO since 2006)

Chief executive officer

Experience: David started his career as a trainee actuary in established and start-up ventures in the life insurance and asset management sectors before becoming a founding partner in a financial product design and strategy consultancy. He has led the Nucleus business from its founding in 2006 to the present day. He is one of HMT's Fintech Envoys for Scotland and was the founding chair of Fintech Scotland.

Stuart Geard (appointed October 2012)

Chief financial officer

Experience: Stuart started his career with what is today PwC South Africa before moving to Sanlam Limited as a senior manager in corporate finance. He was head of finance and investments for what is now Sanlam Life and Pensions UK Limited prior to becoming finance director of Sanlam UK Limited. He also served as director at Sanlam Private Investments UK Limited and Sanlam Life and Pensions UK Limited and audit and risk committee chair of most of the Sanlam Group's interests in the UK. Stuart joined Nucleus in an executive capacity as managing director in 2012, before being appointed as the chief financial officer in 2017.

Board of directors

Meeting attendance	Board[1]	Audit committee[2]	Risk committee[3]	Nomination committee[4]	Remuneration and HR committee[5]
Independent non-executive directors					
Angus Samuels (chair)	32	9	5	5	9
Tracy Dunley-Owen	29	9	5	n/a	n/a
Margaret Hassall	31	n/a	n/a	5	9
John Levin	29	9	5	5	9
Non-independent non-executive directors					
Jonathan Polin[6]	18	n/a	n/a	4	7
Alfio Tagliabue[7]	20	8	5	n/a	n/a
Jeremy Gibson[8]	0	0	0	n/a	n/a
Executive directors					
David Ferguson	32	n/a	n/a	n/a	n/a
Stuart Geard	31	n/a	n/a	n/a	n/a

1 The board met thirty-one times and held one board sub-committee meeting in 2020.

2 The audit committee met seven times and held two audit sub-committee meetings in 2020.

3 The risk committee met five times in 2020.

4 The nomination committee met five times in 2020.

5 The remuneration and HR committee met nine times in 2020.

6 As a Sanlam nominated director, Jonathan Polin was recused from all board meetings in relation to the approval of the acquisition of certain assets of OpenWealth and the potential offers for the Company due to a declared conflict of interest. As a result, Jonathan was invited to a total of twenty-two board, four nomination committee and seven remuneration and HR committee meetings.

7 As a Sanlam nominated director, Alfio Tagliabue was recused from all board meetings in relation to the approval of the acquisition of certain assets of OpenWealth and the potential offers for the Company due to a declared conflict of interest. As a result and given the timing of his appointment, Alfio was invited to a total of twenty board, eight audit committee and five risk committee meetings.

8 Jeremy Gibson resigned as a director of the Company on 25 February 2020. Apologies were noted for Jeremy in respect of 2020 board and board committee meetings prior to 25 February 2020.

Board of directors

Board constitution

Our schedule of board reserved matters was adopted on our admission to AIM in 2018 and is reviewed regularly. It covers topics such as strategy and management, governance, financial reporting and controls, internal controls and remuneration. The schedule of reserved matters can be found at https://nucleusfinancial.com/investors.

There is a relationship agreement in place between the company and its majority shareholder, Sanlam UK Limited (Sanlam), the details of which were disclosed in the company's Admission document which can be found at https://nucleusfinancial.com/investors. The relationship agreement contains a number of provisions designed to protect the interests of shareholders as a whole as well as to ensure that the company is able to carry on its business independently from Sanlam, and as a result supports independent, effective and transparent decision making by the board. The relationship agreement also specifies that at all times a majority of the board will be comprised of directors who are considered by the board to be unconnected and free from any business, employment or other relationship with the Sanlam Group. Pursuant to the relationship agreement, it has been agreed that Sanlam nominated directors do not qualify as independent directors and, as such, Jonathan Polin and Alfio Tagliabue are not considered independent non-executive directors of the company. Furthermore, in the context of the offer process for the Company, a disclosure protocol was put in place to manage information flows between the Company and our Sanlam nominated directors. As noted in the director attendance table above, Jonathan Polin and Alfio Tagliabue were also recused from all board and board committee meetings in relation to the potential offers for the Company.

The board commits to following the QCA Code which we believe will further support independent, effective and transparent decision making, enhance collective and individual performance and drive sustained performance. The board considers Angus Samuels, John Levin, Margaret Hassall and Tracy Dunley-Owen to be independent non-executive directors and, as such, free of any relationship which could materially interfere with the exercise of their independent judgement. Further commentary around the independence of our directors can be found within the company's statement of compliance with the QCA Code which can be found at https://nucleusfinancial.com/investors.

The board meets at least quarterly and holds additional meetings as required. The number of additional meetings during 2020 were reflective of the business underway in the group at that time and are shown in the table above alongside director attendance. In respect of the offer for the Company as announced to the market on 9 February 2021, the board sought external advice from Craven Street Capital Limited and Shore Capital and Corporate Limited as joint financial advisers for the purposes of Rule 3 of the Code and from Burges Salmon LLP as legal advisers. Due to the pandemic, save for meetings in the early part of the period, board and board committee meetings were held via a virtual meeting provider throughout 2020. I feel that the directors made the best use of the technology available during this time enabling respective chairs to manage meetings effectively and allowing directors to continue to contribute positively and to deliver robust and relevant challenge to management. As a result, all board committees effectively executed their duties and responsibilities, assisting the board in fulfilling its oversight responsibilities for the group during the reporting period.

John Levin is our senior independent director (SID). The SID acts as a sounding board and key support to the chairman, and acts as an intermediary for other directors as required.

The company secretary and the chief executive officer report directly to the chairman. The company secretary acts as an internal but impartial adviser to the board, specifically on governance matters, and provides support to the board by managing the agenda planning cycle and ensuring that the board receives quality information in a timely fashion. She also supports the chair in assessing training needs and arranging training for the board as required.

Board effectiveness

The Nucleus board and its committees are committed to periodic evaluation of their performance and effectiveness. This commitment is evidenced in our corporate governance framework as part of the board schedule of reserved matters and the terms of reference of each board committee. The board performance evaluation is led by the chair and supported by the company secretary. Individual performance reviews for each director are the responsibility of the chair and are carried out annually.

During 2020, the board undertook a review of its schedule of reserved matters and delegated authorities and each board committee reviewed its effectiveness. Building on the feedback from each board committee effectiveness review, the terms of reference for each committee were reviewed along with the business to be conducted at each meeting during the year and approved by the board.

Board of directors

The board recognises that well-informed and high-quality decision making is a critical requirement for a board to be effective. During 2020, the board continued to embed its procedures for decision making and information sharing and style of board reporting to reduce volume and improve quality and consistency. The changes formed part of the overall review of our governance arrangements aligned to the SM&CR for solo-regulated firms which came into effect in December 2019 and which is designed to bring greater individual accountability across the senior team. Our capability framework, which acts as a responsibilities map for every discipline in the organisation and aligns to our delegated authorities framework and board schedule of reserved matters, is another example of the tools in place to provide greater clarity and boundaries for our people and align to the ongoing work to create clear leadership outcomes. The board considers that these tools promote greater autonomy and agile working practices which, over the course of the pandemic, has been demonstrated in retained group performance and engagement of our people.

Director induction, training and re-election

Nucleus invites each new director to receive a tailored induction including typical elements such as briefings with members of the executive team and other people across the business. All our directors are also given the opportunity to meet with other stakeholders such as our platform users, our customers and key suppliers.

The group is committed to supporting individual director development needs. Director training needs are reviewed at board committee level and all directors can take independent advice in support of their duties at the group's expense and under the board policy for obtaining independent advice. Directors also have access to the advice and services of the company secretary. Regular training across a range of topics is offered to our board in addition to the learning and development that each director undertakes individually.

As referred to in James Hay Holdings' announcement dated 9 February 2021 in respect of the acquisition of the Company, should its offer complete, it is intended that the current non-executive directors will step down.

Culture and conduct

Culture and conduct remained a focus during 2020. The group's conduct and culture framework aims to ensure that our culture and values remain embedded across the group. The board intends to continue assessing and monitoring culture and conduct on an ongoing basis, and receives quarterly reporting to support this, built on qualitative and quantitative metrics.

In addition, work continued on the group wide policy framework to ensure alignment of our policies to our risk categories, bringing greater clarity and connection for our people between our values, our behaviours, our strategic objectives and our policies. We refined our policy approval process and the board risk committee and board have committed to a review of the effectiveness of the revised group wide policy framework in 2021.

Board oversight of Nucleus' risk management and control framework

The board has overall responsibility for risk management and internal controls and is supported by the board risk and audit committees. Details of our principal risks and uncertainties can be found on pages 20 to 23 and a summary of our risk management framework can be found on page 24. Further details can be found in our Pillar 3 disclosure and statement of compliance with the QCA Code, both of which can be found at https://nucleusfinancial.com/investors.

Communication with shareholders and stakeholders

The board is committed to maintaining an ongoing dialogue with the group's shareholders and stakeholders. During 2020 we announced any significant shareholder information to the market and communicated with our shareholders through results presentations and our AGM.

Our broader engagement with our stakeholders is set out in our s172 report, which can be found on pages 10 to 13, and is also detailed in our statement of compliance with the QCA Code, which can be found at https://nucleusfinancial.com/investors.

On behalf of the board

Angus Samuels
Chair

22 March 2021

Governance

Our board committees

The board has established four principal committees: audit, risk, nomination and remuneration and HR. Each committee operates under its own terms of reference to assist the board in its oversight and monitoring responsibilities for the group.

Governance

Audit committee and risk committee reports

I am pleased to present the audit committee and risk committee reports for the period ending 31 December 2020.

Tracy Dunley-Owen, chair of the audit committee and risk committee (appointed 19 July 2018)

Audit committee report

Committee responsibilities

The audit committee terms of reference are available on the company's website and can be found at https://nucleusfinancial.com/investors. The terms of reference were last reviewed on 1 December 2020 and in accordance with the terms of reference, the committee is responsible for:

- The integrity, quality and reliability of financial information used by the board, specifically regarding the annual reports and financial statements, as well as significant financial and regulatory returns, issued by the group.
- The suitability, appropriate adoption and any proposed changes to accounting policies and practices for the group.
- Reviewing the impact of any proposed dividends.
- The independence and effectiveness of the external audit including monitoring any non-audit work.
- The independence, efficiency and effectiveness of the group's internal audit arrangements.
- The adequacy and effectiveness of systems of internal control.
- Reviewing of quarterly reports such as the reports from the chief financial officer, chief technology officer, chief risk officer, the money laundering reporting officer, and Cass oversight function holder.
- The embedding of a supportive culture in relation to the management of financial risk across the group.

Composition and frequency of meetings

The audit committee comprises Tracy Dunley-Owen (chair), Angus Samuels, John Levin and Alfio Tagliabue. Details of the number of meetings held within the reporting period and attended by members can be found in the table on page 28, in the corporate governance report. The company secretary acts as secretary to this committee.

The board is satisfied that, as well as demonstrating recent and relevant financial experience, the committee members possess extensive business experience, knowledge of financial markets and the UK platform market, knowledge of the risks and management practices inherent in these markets and knowledge of the applicable legal and regulatory landscape.

The board is satisfied that the committee is independent.

Committee highlights

- Reviewing and approving new accounting policies and changes to existing policies adopted by the group.
- Reviewing and approving areas of significant judgement and estimation including accounting for the acquisition of certain assets of OpenWealth, revenue recognition, provisions, share-based payments and income taxes.
- Reviewing the group's final and interim results announcements and 2020 annual report and financial statements and Pillar 3 disclosures
- Monitoring the company's compliance profile and any identified concerns and actions through the review of quarterly reports from the chief risk officer as holder of the SMF16 compliance oversight function for Nucleus Financial Services Limited.
- Monitoring the company's financial crime risk profile through the review of quarterly reports from the chief risk officer as the holder of SMF17 money laundering reporting officer for Nucleus Financial Services Limited.
- Overseeing developments in board level reporting in the areas of cyber security and data oversight.

Audit committee and risk committee reports

- Overseeing the delivery of the external statutory and Cass regulatory audits by PwC.
- Overseeing assurance provided on the group Cass environment.
- Agreeing the external audit plan, agreeing the audit fees and reviewing the effectiveness of the external audit.
- Monitoring progress against the 2020 internal audit plan and approving the internal audit charter and 2021 plan.
- Providing challenge and oversight of the group's response to external and internal control findings.

External audit arrangements

Subject to the approval of shareholders, the audit committee is responsible for approving the appointment of the external auditor and setting its remuneration. As reported in our group financial statements to 31 December 2010, PwC was first appointed as our external auditor in 2010. Following the company's admission to AIM in July 2018, the audit partner rotation rules for listed companies apply which resulted in a change of engagement partner during 2018. The committee has reviewed the relationship with the auditor and, having considered its effectiveness and independence, intend to propose that PwC is re-appointed as external auditor at the company's forthcoming AGM. The company's existing engagement partner, Lindsay Gardiner, is expected to retire during 2021 and it is expected that he will be replaced by Gillian Alexander.

The committee monitors any non-audit work carried out by the auditors. The committee is satisfied that the nature and value of non-audit work performed has not affected the independence of PwC.

Internal audit arrangements

Deloitte was appointed as the group's internal audit provider during 2018. Deloitte provides the group with a fully independent assurance programme which is informed by the group's second line of defence assurance programmes and business requirements with reference to the committee approved internal audit charter. Deloitte's engagement includes independent assurance on cyber, technology and Cass.

The internal audit programme is reviewed, challenged and approved annually by the committee and is also reviewed quarterly by the committee to monitor progress and completeness.

On behalf of the audit committee

Tracy Dunley-Owen, Chair of the audit committee

22 March 2021

Audit committee and risk committee reports

Risk committee report

Committee responsibilities

The risk committee terms of reference are available on the company's website and can be found at https://nucleusfinancial.com/investors. The terms of reference were last reviewed on 1 December 2020 and, in accordance with these terms of reference, the committee is responsible for:

- Fostering sound risk governance by advising the board on the group's risk culture, current and future overall risk exposure, appetite and tolerance, and implementing and maintaining the group risk management framework and recommending any changes to the board.
- Maximising the efficiency and effectiveness of the group's three lines of defence.
- Reviewing and recommending to the board the annual Icaap approach and methodology, and the quarterly reassessment of regulatory capital requirements.
- Reviewing and approving corporate policies in accordance with the group policy framework.
- Promoting risk awareness culture across the Group.

Composition and frequency of meetings

The risk committee comprises Tracy Dunley-Owen (chair), Angus Samuels, John Levin and Alfio Tagliabue. Details of the number of meetings held within the reporting period and attended by members can be found in the table on page 28, in the corporate governance report. The company secretary acts as secretary to this committee.

The board is satisfied that the committee is independent.

Committee highlights

- Monitoring and providing assurance on the enhancement of the group risk management framework to meet the needs of the business and its stakeholders.
- Monitoring and providing assurance on the development of the group risk appetite framework, the separation of board approved and operational components and assessment of underlying metrics.
- Overseeing the enhancement of risk reporting at board and board committee level via a new chief risk officer report and development of the risk and compliance report.
- Reviewing and recommending board approval of the 2019 year-end Icaap review and 2019 year-end wind down report.
- Reviewing the quarterly 2020 Icaap programme updates and recommending board approval of the quarterly assessment of the consolidated group and solo regulatory capital requirement.
- Reviewing the group's existing and forecasted risk profile, including specific Covid-19 and Brexit risk analysis.
- Monitoring the position of Nucleus Financial Services Limited as a significant IFPRU firm and the firm's preparedness for a transition to enhanced SM&CR status.
- Reviewing and recommending a redesigned group policy framework, approving a number of group policies and recommending any material policy changes or new group policies to the board.

On behalf of the risk committee

Tracy Dunley-Owen, Chair of the risk committee

22 March 2021

Governance

Nomination committee and remuneration and HR committee reports

I am pleased to present the nomination and remuneration and HR committee reports for the period ending 31 December 2020.

Margaret Hassall, chair of the nomination committee and remuneration and HR committee (appointed 19 July 2018)

Nomination committee report

Committee responsibilities

The nomination committee terms of reference are available on the company's website and can be found at https://nucleusfinancial.com/investors. The terms of reference were last reviewed on 1 December 2020 and, in accordance with these terms of reference, the committee has a responsibility:

- To review the structure, size and composition of the board and considering succession planning for directors and other senior executives, making recommendations to the board as appropriate.
- To identify and nominate new director appointments in line with board procedures, making recommendations on re-election of directors where they are retiring by rotation and re-appointment of non-executive directors where they have completed their term of office.
- To recommend suitable candidates for the role of senior independent director (as and when required).
- To evaluate director and management training needs.
- To evaluate the target operating model and organisational design and making recommendations concerning any changes to the responsibilities or other associated changes to the organisational structure.
- To review performance appraisals and fitness and proprietary assessments for non-executive directors and senior managers annually.
- To support the company's role as a champion of diversity and inclusion and monitoring progress against the company's diversity targets as well as recommending any changes to the diversity and inclusion policy to the board.

Composition and frequency of meetings

The nomination committee comprises Margaret Hassall (chair), Angus Samuels, John Levin and Jonathan Polin. Details of the number of meetings held within the reporting period and attended by members can be found in the table on page 28, in the corporate governance report. The company secretary acts as secretary to this committee.

The board is satisfied that the committee is independent.

Committee highlights

- Encouragement of management in nurturing an inclusive, diverse and inspiring workplace. The group's inclusion and diversity statement can be found on the company's website at www.nucleusfinancial.com/about-us/inclusion-and-diversity.
- Evaluation and challenge of the structure, size and composition of the board and matters relating to director independence.
- Engagement in the appointment process for and recommendation of the appointment of a new non-executive director, Alfio Tagliabue, to the board (effective from 25 February 2020)
- Challenge of the executive team structure, particularly in light of the acquisition of certain assets of OpenWealth.
- Engagement with and challenge of management on the target operating model and workforce plan.
- Review of board succession planning and challenge of management on executive and senior manager succession planning.
- Guidance to management on the development of executive development plans.
- Challenge of statements of responsibility and the management responsibilities map in respect of SM&CR and approved person and SMF "fit and proper" assessments.
- Evaluation of committee effectiveness and recommendation of its terms of reference for board approval.

On behalf of the nomination committee

Margaret Hassall, Chair of the nomination committee

22 March 2021

Nomination committee and remuneration and HR committee reports

Remuneration and HR committee report

Margaret Hassall, chair of the remuneration and HR committee

(appointed 19 July 2018)

Committee responsibilities

The remuneration and HR committee's terms of reference are available on the company's website and can be found at https://nucleusfinancial.com/investors. The terms of reference were last reviewed on 1 December 2020 and, in accordance with these terms of reference, the committee has a responsibility:

- To set the overall remuneration policy for the executive directors and other senior employees, having due regard to any relevant legal, regulatory and governance requirements.
- Within the terms of that policy, to determine the terms and conditions of employment of those individuals and the level and structure of their remuneration (including short-term and long-term incentives).
- To approve the design of, and to determine targets for, any performance related pay schemes and to approve the total annual payments made under such schemes.
- To review the design of all share incentive plans and to determine each year whether awards will be made and if so, the overall amount of such awards and the performance targets to be used.
- To review the delivery of our people strategy and supporting policies.

Composition and frequency of meetings

The committee comprises Margaret Hassall (chair), Angus Samuels, John Levin and Jonathan Polin. Details of the number of meetings held within the reporting period and attended by members can be found in the table on page 28, in the corporate governance report. The company secretary acts as secretary to this committee.

The board is satisfied that the committee is independent. No individual was involved in any committee discussion relating to his or her own remuneration.

During the year, the committee sought internal support from the chief people officer, who attended committee meetings by invitation from the chair, to advise on specific questions raised by the committee and on matters relating to the performance and remuneration of senior managers. The chief people officer was not present for any discussions that related directly to her own remuneration.

In addition, and within the context of the process followed in respect of the potential acquisition of the Company by James Hay Holdings, the committee sought external advice from Shepherd and Wedderburn LLP, its joint Rule 3 advisers under the Code and Burges Salmon LLP on the implementation of its long-term incentive plan.

Committee highlights

- Assessment and challenge of any proposed changes to the directors' remuneration policy and recommendation of the directors' remuneration policy to the board.
- Review of and challenge to performance against annual bonus measures and approval of 2020 bonus awards.
- Review of and challenge to achievement against performance conditions applicable to outstanding performance share plan awards.
- Approval of the grant of performance share plan awards for 2020 and associated performance conditions and targets.
- Engagement with management and the Company's legal advisers in respect of the Company's LTIP arrangements in the context of the possible offer process for the Company and, in particular, on the assessment of performance conditions and the determination of the vesting of LTIP awards as part of that transaction.
- Consideration of and guidance on the group's people strategy and reward strategy.
- Evaluation and challenge of, and engagement with management on, its benefits harmonisation proposal and cultural integration plan as part of the Company's acquisition of certain assets of OpenWealth.
- Review of and engagement with management on the group's gender pay gap reporting and its preparedness to publish its gender pay gap data in 2022.
- Evaluation of committee effectiveness and recommendation of its terms of reference for board approval.

Nomination committee and remuneration and HR committee reports

Remuneration policy

Margaret Hassall, chair of the remuneration and HR committee

(appointed 19 July 2018)

Shareholder engagement

The group is committed to engaging with its shareholders and wider stakeholders and the purpose of the information presented is to provide an indication of how remuneration is approached at Nucleus and of director remuneration from 1 January 2020 to the end of the reporting period. The majority of the information below on remuneration policy is presented on a voluntary basis. The committee wishes to oversee, assess and challenge where appropriate how our remuneration policy embeds and to review the extent of engagement with shareholders on our policy throughout the course of 2020. As an AIM-listed company, Nucleus is not required to seek shareholders' approval of this report at the forthcoming AGM. However, the committee will keep this under review and may include such a resolution in future years.

Remuneration at Nucleus

Our remuneration policy has been chosen to attract, motivate and retain high-performing people who can deliver our strategy and contribute fully to the future success of Nucleus. With the support of the board, the committee intends to deliver a market-relevant reward proposition that creates alignment between our people and our shareholders and is driven by our appetite to: a) align the interests of our people and our shareholders, b) reward the right behaviours, reinforce the importance of good conduct and penalise misconduct or other misbehaviour and, c) promote confidence and trust by keeping our remuneration policy simple, clear and transparent.

The group's executive directors' remuneration policy was developed during the course of 2018 in preparation for the Company's admission to AIM and was formally adopted by the committee on 14 November 2018. It is reviewed annually by the committee and was last reviewed and approved by the committee on 1 December 2020 for the forthcoming reporting period 1 January 2021 – 31 December 2021. No material changes to the executive directors' remuneration policy were proposed.

While the policy below refers explicitly to executive directors only, it is also applicable to all other executive committee members and senior leaders.

Nomination committee and remuneration and HR committee reports

Executive director remuneration policy for the period ending 31 December 2020

The various elements and strategic objectives associated with executive remuneration are:

Base salary

Element (purpose and link to strategy)

To reflect the market value and value of the role to Nucleus along with the individual's performance and contribution.

Operation

The committee reviews base salaries with reference to:

- the individual's role, performance and experience
- group performance and the external economic environment
- salary levels for similar roles at relevant comparators; and
- salary increases across the company

Base salary is reviewed on an annual basis, with any increases taking effect from 1 January.

The committee will seek to limit pay increases for executive directors, where there is no change in role, to those applied generally to our people across the company.

However, where an executive director is relatively new in role the committee reserves flexibility to provide increases that are greater than those applied across the company to bring the individual's salary into line with the market and reflect the gaining of experience.

Performance metrics

Group and individual performance are considerations in setting base salaries.

Annual bonus

Element (purpose and link to strategy)

To reinforce and reward delivery of annual strategic business priorities thus delivering value to shareholders and being consistent with the delivery of the strategic plan.

Operation

Performance measured on an annual basis for each financial year.

Performance measures reviewed prior to the start of the year to ensure they remain appropriate and align with the business strategy. Stretching targets are set.

At the end of the year the committee determines the extent to which these were achieved.

On-target bonuses are a maximum of 75 per cent of base salary. The maximum bonus opportunity is 200 per cent of on-target. There is no minimum or guaranteed level of bonus.

Awards are paid in cash, are discretionary and do not form part of the terms and conditions of employment.

Deferral may be applied where the committee deems it necessary to do so.

Performance metrics

Performance measures are selected, and their respective weightings may vary from year to year, depending on the group priorities.

Measures include a blend of equally-weighted personal and group objectives.

In 2020 the group performance measures were: profit, net inflows, project delivery, systems and controls and service.

In 2020 the personal element was measured by assessing delivery against the business plan, conduct, leadership and progress towards diversity and inclusion objectives.

Nomination committee and remuneration and HR committee reports

Long term incentive plan (LTIP)

Element (purpose and link to strategy)

To drive sustained long-term performance that supports the creation of shareholder value.

Operation

Annual awards of performance shares may be made to participants. The LTIP rules provide for annual awards of up to 150 per cent of base salary, save that this limit can be exceeded if the committee determines that exceptional circumstances exist in relation to one or more participants.

Award levels and performance conditions are reviewed before each reward cycle to ensure they remain appropriate.

Awards made under the LTIP will have a performance period of three years and a minimum vesting period of three years.

Dividend equivalents may accrue on LTIP awards and are paid on those shares which vest.

Malus (of any unvested LTIP award) and clawback (of any vested LTIP award) may be applied where the committee deems it necessary to do so, including in the event of gross misconduct or a material mis-statement.

Performance metrics

Vesting of LTIP awards is subject to group performance and continued employment.

The current LTIP performance measures and weightings are:

33 per cent EPS

33 per cent Net inflows

33 per cent Total shareholder return

The committee may vary the terms of the performance conditions attaching to an outstanding award in exceptional circumstances, provided that the amended conditions are, in their opinion, neither materially easier nor more difficult to achieve than the original performance conditions as envisaged by the committee at the date of grant of that award.

Share incentive plan

Element (purpose and link to strategy)

To align shareholder interests with those of our people and allow them to benefit from the long-term success of the group.

Operation

Executive directors are invited to participate in this all-employee share plan on the same basis as all of our people.

The Share Incentive Plan (SIP) provides for the purchase of shares, in line with Her Majesty's Revenue and Customs (HMRC) participation level rules, on a monthly basis from gross pay and is also the vehicle used to allow for awards of free or matching shares.

Performance metrics

Not performance related.

Nomination committee and remuneration and HR committee reports

Pension

Element (purpose and link to strategy)

To provide a market competitive pension.

Operation

Executive directors may participate in the company pension scheme or may receive a cash allowance in lieu of pension contribution.

Salary is the only element of remuneration that is pensionable.

A maximum of 10 per cent of base salary contribution paid into the company's group pension scheme or, as an alternative, a maximum of 8.5 per cent of base salary cash allowance may be provided upon request. This is the same opportunity that is offered to all other employees.

Performance metrics

Not performance related.

Benefits

Element (purpose and link to strategy)

To provide market competitive benefits.

Operation

Benefits include private medical cover, life assurance and employee assistance programmes.

28 days standard annual holiday allowance plus 9 public holidays.

Fully underwritten private medical insurance to executive directors and their dependents is provided.

Death in service at four x base salary.

Performance metrics

Not performance related.

Nomination committee and remuneration and HR committee reports

Further detail behind our policy

Performance measures

The committee selects the short, medium and long-term performance measures to ensure an appropriate balance between short, medium and long-term strategic goals and aligning the interests of executive directors with shareholders as far as practicable. Measures and targets for both the bonus plan and LTIP are aligned to the strategic plan based on internal and external reference points and are set to be stretching but achievable with regard to the group's strategic priorities and economic environment in a given year. These are approved by the board.

The committee may apply discretion, in exceptional circumstances (for example, if there is a major corporate event), to amend or vary targets or the weighting of performance metrics or to substitute the metrics if these are no longer appropriate to ensure alignment with strategy and any risks within the business. The committee will consult with the group's risk management and control functions to ensure changes are appropriate and do not inadvertently encourage irresponsible or inappropriate behaviour.

Consideration of risk factors and risk appetite

Malus and/or clawback may be applied where: there is evidence of colleague misbehaviour, misconduct, material error, where a colleague participated in conduct which resulted in losses for the group or they failed to meet appropriate standards; there is any material failure of risk management; if the financial results are restated; if the financial results for a given year do not support the level of variable remuneration awarded; or in any other circumstances where the committee consider adjustments should be made. The committee is supported in this by the board risk and audit committees and the Nucleus risk function.

When determining the outcome of the performance measures, the committee will seek the advice of the board risk committee to ensure all relevant risk factors are identified and the bonus pool and/or individual awards may be adjusted accordingly.

Balance between fixed and variable pay

Total variable remuneration (bonus and LTIP) is limited by the rules of the LTIP, which limit the annual allocation of awards (unless in exceptional circumstances) to a maximum of 150 per cent of base salary for executive directors under the LTIP, and the rules of the management group bonus scheme, which define the target and maximum bonus rates. All of these parameters are within the authority of the committee, which is therefore able to ensure that an appropriate balance between fixed and variable pay is maintained. The existing LTIP award allocations and current and historic on-target bonus payments result in approximately a 2:1 ratio of variable pay to fixed pay (subject to the achievement of performance conditions), with the on-target LTIP award being at least half of the total variable pay award.

Service contracts for executive directors

The service agreements govern the performance of the executive directors' duties for the company and other members of the group. The principal terms of the service agreements are summarised below.

- The service agreements provide for 28 holidays per annum (plus public and bank holidays), and up to three months sick pay.
- Executive directors are eligible to receive bonus and/or other discretionary incentive awards. These are at the committee's discretion and the executive directors do not have a contractual right to receive such awards.
- An executive director's employment may be terminated by either party giving to the other not less than six months' written notice. Under the terms of each service agreement, the company may elect to terminate an executive director's employment by making a payment in lieu of notice equal to the base salary and benefits (but excluding bonus) for any unexpired portion of the notice period.
- The company also has the discretion to place an executive director on garden leave during the notice period. It is entitled to dismiss an executive director without notice or compensation in specified circumstances, for example if the executive director commits a serious or persistent breach of any term of the service agreement.
- The executive directors' service agreements also contain six-month post-termination non-compete restrictions and 12 months' post-termination non-solicitation and non-deal restrictions.

Nomination committee and remuneration and HR committee reports

Directors' remuneration in 2020

Audited single total figure of remuneration

The table below sets out a single figure for the total remuneration received by each director for the year ended 31 December 2020 and the prior year:

	Basic salary/fees		Taxable benefits		Pension		Annual bonus		LTIP/SIP		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Executive directors												
David Ferguson [1,2]	306	297	2	2	5	9	154	138	-	-	467	446
Stuart Geard [1,2]	257	249	1	1	5	10	117	108	-	-	380	368
Non-executive directors												
Tracy Dunley-Owen	51	39	-	-	-	-	-	-	-	-	51	39
Jeremy Gibson [3,5]	3	35	-	-	-	-	-	-	-	-	3	35
Margaret Hassall	44	39	-	-	-	-	-	-	-	-	44	39
John Levin	37	35	-	-	-	-	-	-	-	-	37	35
Jonathan Polin [5]	37	35	-	-	-	-	-	-	-	-	37	35
Angus Samuels [5]	100	83	-	-	-	-	-	-	-	-	100	83
Alfio Tagliabue [4,5]	34	-									34	-

[1] basic salary includes 8.5 per cent pension cash allowance

[2] Pension restricted for annual taper allowance

[3] 2020 non-executive director fee pro-rated to resignation from the board

[4] 2020 non-executive director fee pro-rated from appointment to the board

[5] Remuneration paid to third parties

Non-executive director remuneration is determined by the board as a whole within the limits set out in the articles of association. Non-executive directors do not participate in performance-related bonus or share-based payment arrangements.

Nomination committee and remuneration and HR committee reports

Summary of share incentive plan awards

The table below summarises individual executive director share scheme awards as at 31 December 2020.

Scheme	Grant date	David Ferguson	Stuart Geard
LTIP 2018	26 July 2018	243,441	164,180
LTIP 2019	3 April 2019	199,786	134,738
LTIP 2020	6 October 2020	311,715	233,000
SIP		2,448	-
Total shares awarded		757,390	531,918

The performance conditions, valuation assumptions and other relevant award information are set out in note 26 share-based payments below.

Directors' interest in shares

The number of shares held by the directors as at 31 December 2020 is as follows:

Director	Shares beneficially owned[1]	Unvested LTIP options	Non-entitled SIP shares	Total
David Ferguson	1,812,636	754,942	2,448	2,570,026
Stuart Geard	954,625	531,918	-	1,486,543
Angus Samuels	53,409	-	-	53,409

[1] Includes shares held by connected parties

Margaret Hassall

Chair of the remuneration and HR committee

22 March 2021

Governance

Directors' report

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2020. Nucleus Financial Group plc is the parent company of a group of companies comprising Nucleus Financial Group plc and its subsidiaries, Nucleus Financial Services Limited (NFS) and Nucleus IFA Services Limited (NIFAS) (group).

Introduction

The company's principal activity is that of a holding company. It also contracts services on behalf of the group, is the main employer of Nucleus staff and provides and charges management services to its subsidiaries.

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

The Nucleus wrap allows customers 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.

NFS is authorised and regulated by the FCA as an IFPRU 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 Cass rules.

From April 2020, NFS and the group temporarily met the definition of a significant IFPRU firm and are therefore required to comply with the rules and requirements applicable to a significant IFPRU firm. The group last met the definition of a significant IFPRU firm in November 2020, and is therefore required to continue to meet the requirements for a further period of twelve months. Having met the definition of a significant IFPRU firm, the group also falls into the enhanced SM&CR firm category and is required to be enhanced-compliant by August 2021.

NIFAS is not regulated by the FCA and has ceased trading.

The audited financial statements of the group, company and NFS, along with the group's Pillar 3 disclosure, can be found on the company's website https://nucleusfinancial.com/investors and they are also available on request from the company secretary.

Directors' report

Business review and strategic report

The strategic report includes a detailed business review that is set out in the chairman's statement, chief executive's report and chief financial officer's report on pages 3 to 19. Within these parts of 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 group 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 relating to financial instruments are set out in note 24 financial instruments and in the risk management framework on pages 24.

Results and dividends

The group's profit for the year was £3.2m (2019: £6.0m). Revenue increased 0.6 per cent to £51.8m (2019: 4.3 per cent to £51.5m) with operating profit decreasing by 41.5 per cent to £4.2m (2019: up 25.8 per cent to £7.1m). The full results are set out in the accompanying financial statements and notes.

As Nucleus Financial Group plc is the subject of a recommended cash offer, the board has decided not to recommend a final dividend in respect of the financial year ended 31 December 2020.

Qualifying indemnity provisions

As permitted by the company's articles of association directors' professional indemnity insurance has been provided to all directors and this arrangement was in place throughout the year. As part of the company's admission to AIM, customary indemnities were provided to certain directors during the year and remain in force.

Greenhouse gas emissions, energy consumption and energy efficiency action

We recognise the threat posed by climate change and our responsibility to help the UK transition to a low-carbon economy and also believe that action in this area is an important consideration for our people and our attractiveness as an employer.

We have one office, which is a modern leased building and we ensure that it continues to meet required health, safety and environmental standards that are legally compliant and suitable for our employees. We do not own or lease any company vehicles and have no manufacturing operations.

The annual quantity of energy consumed in the year from activities for which the group was responsible was 262,726 kWh which resulted in emissions of 61 tonnes of carbon dioxide equivalent. We calculated this information from energy bills relating to this period for our head office premises, and used 2020 government conversion factors for greenhouse gas reporting.

We consider our most relevant emissions intensity ratio to be tonnes of CO2 per employee. For the financial year ended 31 December 2020 this intensity factor amounted to 0.25.

The Covid-19 pandemic required most of our employees to work remotely from their homes for most of the financial year. In adopting these practices, extensive and enhanced use of online and virtual workplace tools were adopted, and we will continue to use these in future to reduce travel and our resultant carbon footprint.

Directors

The directors who served 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 Hassall
- J Levin
- J C Polin
- J A A Samuels (chair)
- 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 05522098.

Political donations

No political donations were made by the group or the company during the year under review.

Share capital structure

There were no changes to the share capital structure during the year.

Directors' report

Authority to purchase own shares

The company's articles of association grant the authority to make market purchases of its own shares. The directors confirm that, with the exception of matching shares relating to employee share schemes, the company has not purchased any of its own shares during the year.

Post balance sheet events

On 9 February 2021, the boards of Nucleus and James Hay Holdings announced that they had agreed the terms of a recommended all cash offer to be made by James Hay Holdings, pursuant to which James Hay Holdings is to acquire the entire issued and to be issued share capital of Nucleus (the "Acquisition"). The Acquisition is intended to be effected by way of a court-sanctioned scheme of arrangement between Nucleus and the Nucleus shareholders under Part 26 of the Companies Act (the "Scheme").

Features and potential implications of the recommended offer if approved are:

The price offered by James Hay Holdings for the Acquisition of 188 pence per Nucleus share equates to total consideration for the Acquisition of approximately £144.621 million.

The Scheme requires the approval of a majority in number of those Scheme shareholders who are present and vote, either in person or by proxy, and who represent not less than 75 per cent, in nominal value of the Scheme shares voted by such Scheme shareholders at the Nucleus court meeting (expected to be held on 30 March 2021).

Implementation of the Scheme will also require the passing of a special resolution, which requires the approval of Nucleus shareholders representing at least 75 per cent of the votes cast, either in person or by proxy, at the Nucleus general meeting, which will be held immediately after the Nucleus court meeting.

In total, James Hay Holdings has received irrevocable undertakings to vote, or procure the voting, in favour of the Scheme at the Nucleus court meeting and the special resolution at the Nucleus general meeting (or in the event that the Scheme is implemented by way of a takeover offer as defined in Chapter 3 of Part 28 of the Companies Act (the "Offer"), to accept or procure acceptance of the Offer) from Nucleus shareholders holding in aggregate 42,732,982 Nucleus shares (representing approximately 55.88 per cent of the existing issued share capital of Nucleus as at 4 March 2021).

The Acquisition is subject to receipt of consent from the FCA.

The current non-executive directors of Nucleus will resign from Nucleus on or after the effective date of the Scheme.

The admission of Nucleus shares to trading on AIM will be cancelled as of or shortly following the effective date of the Scheme.

Outstanding unvested awards granted under the LTIP will vest and become exercisable to the extent determined by the Nucleus Remuneration and HR Committee.

The aggregate fees and expenses expected to be incurred by Nucleus in connection with the Acquisition are estimated to amount to £2,816,392, excluding applicable VAT and other taxes.

This aggregate number consists of the following categories:

	£
Financial and corporate broking advice	2,386,242[1]
Legal advice	370,000[2]
Accounting advice	Nil
Public relations advice	15,000
Other professional services	Nil
Other costs and expenses	45,150
Total (excluding VAT)	2,816,392
Total[3] estimated cost to company	3,379,670

[1] The total amount payable in respect of the aggregate fees and expenses for these services depends on whether the Acquisition becomes effective.

[2] This total is based on estimates and does not include disbursements.

[3] Nucleus is subject to a partial VAT exemption, as such limited VAT is expected to be reclaimed by the group for these costs

The Acquisition is considered to be a non adjusting post balance sheet event.

There were no other subsequent events that required adjustment to or disclosure in the financial statements for the period from 31 December 2020 to the date upon which the financial statements were available to be issued.

Directors' report

Going concern

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

- The latest business plan projections, stressed for significant events that would have a material impact on the group and company's profitability, liquidity, solvency and regulatory capital position.
- Actual performance to date.
- The current operating and trading environment.
- The current financial position, adequacy of liquidity and capital to meet operational and regulatory requirements (further details of which are set out on page 18 of the strategic report).
- Known risks and uncertainties (including in respect of Covid-19) with consideration of the impact of these on the group and 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 group and the company's ability to continue as a going concern with reference to guidance from the Financial Reporting Council (FRC) 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 have a reasonable expectation that the group and the company have adequate resources to continue in operational existence for at least 12 months from the date of this report. The group and the company therefore continue to adopt the going concern basis in preparing their financial statements.

Material uncertainty in relation to going concern

As set out in the post balance sheet events disclosure above, the group is the subject of an all cash offer from James Hay Holdings that, if successful, is expected to complete in the next 12 months. Whereas the directors note the intentions of James Hay Holdings as set out in the Scheme circular and whereas they do not have any reason to believe that James Hay Holdings would not continue to support the group and company or would materially change their activities in the next 12 months, they are not party to the detailed intentions of the acquirer. Although this does not change the directors' conclusion as to the appropriateness of preparing the financial statements of the group and the company on a going concern basis, it is considered to create a material uncertainty which may cast significant doubt on the group and company's ability to continue as a going concern. Accordingly, the financial statements do not include the adjustments that would result if the group or company were unable to continue as a going concern.

Disclosure statement to the external auditors

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.

Auditor

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to be re-appointed and a resolution for their reappointment will be proposed at the Annual General Meeting.

This report was approved by the board on 22 March 2021 and signed on its behalf.

David Ferguson
Director

Governance

Directors' responsibility statement

The directors are responsible for preparing the group strategic report, the directors' report and the consolidated and company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the company and group for that period.

In preparing these financial statements, the directors are required to:

- Select suitable accounting policies for the group's financial statements and then apply them consistently.
- Make judgments and accounting estimates that are reasonable and prudent.
- State whether applicable IFRSs as adopted by the UK have been followed, subject to any material departures disclosed and explained in the financial statements.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

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

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

David Ferguson
Director

Financials

Independent auditors' report to the members of Nucleus Financial Group plc

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2020 and of the group's profit and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; 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 Consolidated statement of comprehensive income, the Consolidated and Company statements of financial position as at 31 December 2020; the Consolidated and Company statements of changes in equity and the Consolidated and Company statements of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in note 1 to the group financial statements, the group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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 group 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, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the group's and the company's ability to continue as a going concern. On 9 February 2021, the company's board announced they had agreed terms of a recommended all cash offer to be made by James Hay Holdings Limited for the entire issued and to be issued share capital of the company. Subject to shareholder and regulatory approval this transaction is expected to complete in the next 12 months and the company will therefore be under new ownership. While the directors do not have any reason to believe that the acquirer will not continue to support the company or materially change its activities in the next 12 months, they do not have visibility over the future intentions of the acquirer. These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group's and the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and the company were unable to continue as a going concern.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Report on the audit of the financial statements

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Obtained and evaluated the Directors going concern assessment which reflects conditions up to the point of the approval of the annual report and financial statements. We obtained evidence to support key assumptions driving the directors' assessment. This included understanding and challenging management's scenarios and cash flow models which consider the potential impact on financial markets of COVID-19, assessing management's key assumptions for reasonableness and checking the mathematical accuracy of the models;
- Performed look-back procedures on management's previous assessments to determine the reasonableness and accuracy of the forecasts and assumptions used;
- Assessed the reasonableness and achievability of any mitigating actions that management have identified in their scenarios;
- Considered the output of management's models and concluded that sufficient liquidity and compliance with regulatory capital requirements are forecast to be maintained over the immediate 12 month period following the date of the approval of the financial statements;
- Evaluated the Directors' assessment of the group and company's operational resilience in the wake of COVID-19, considering their consistency with other available information and our understanding of the business and assessing potential impact on the financial statements; and
- Assessed the adequacy of management's disclosures in the financial statements and relevant "other information" and checked consistency with the financial statements and our knowledge based on our audit.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Our audit approach

Overview

Audit scope

- The group financial statements comprise the consolidation of three individual components, each of which represents an individual legal entity within the group.
- We performed a full scope audit of the complete financial information of these three components, which together represent 100% of the group's profit before tax.
- Specific audit procedures were also performed over consolidation adjustments required to aggregate the three individual components together to form the group financial statements.

Key audit matters

- Revenue Recognition
- Impact of COVID-19

Materiality

- Overall group materiality: £201,000 (2019: £350,100) based on 5% of profit before tax.
- Overall company materiality: £196,980 (2019: £200,003) based on 1% of total expenses.
- Performance materiality: £150,000 (group) and £147,735 (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to but were not limited to; any breaches of UK regulatory principles, such as those governed by the Financial Conduct Authority or AIM listing rules, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct

Report on the audit of the financial statements

impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to manual elements of the control environment, such as journal entries, intercompany accounts and accrual balances and areas of significant judgement such as provisions and other critical accounting estimates. Audit procedures performed by the engagement team included:

- Obtained an understanding of the legal and regulatory framework applicable to Nucleus and how the entity is complying with that framework;
- Held discussions with management and those charged with governance including making specific inquiries about any consideration of known or suspected instances of non-compliance with laws and regulation and fraud.
- Reviewed minutes of meetings of those charged with governance;
- Audited the risk of management override of controls, including through testing journal entries and other adjustments for appropriateness, auditing material intercompany and accrual balances, testing accounting estimates (because of the risk of management bias), and evaluating the business rationale of significant transactions outside the normal course of business; and.
- Incorporated unpredictability into the nature, timing and/or extent of our audit procedures.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to going concern, described in the Material uncertainty related to going concern section above, we determined the matters described below to be the key audit matters to be communicated in our report. This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

Key audit matter – Revenue Recognition

Revenue is material to the group and is an important determinant of the group's profitability. The sole revenue stream of the group is fees charged to customers for the provision of platform services. This revenue stream is calculated based on fixed rates, applicable to each respective product, and the value of assets held on the platform each day.

Revenue may be misstated due to errors in system calculations or manual processes, for example, arising from incorrect securities prices or values of assets under administration, or application of incorrect product fee rates used in these calculations and processes.

Further, there are incentive schemes in place for directors and staff which are in part a function of the group's revenue performance. Where there are incentives based on performance, there is an inherent risk of fraud in revenue recognition as there is an inherent incentive to misstate revenue.

Unauthorised changes to, or errors in, these inputs and calculations could lead to a misstatement of revenue.

How our audit addressed the key audit matter

We obtained an understanding of the revenue recognition policy applied by management and ensured it complied with the stated accounting policy.

For the aggregate revenue balance, we performed substantive testing procedures taking the core assets under management information and the fee rates applied to customers and calculated an expectation of the revenue balance, inclusive of any discounts applicable to each customer, on a daily basis.

In order to rely on the assets under administration data we;

- Selected a sample of the underlying customer holdings of individual securities at various dates throughout the period and obtained independent confirmation of their holdings. The results of this testing provided sufficient evidence for us to determine that the assets under administration data was reliable for the purposes of performing our substantive testing.

In order to rely on the fee rates applied to client assets we;

- Tested the fee rates applied to the value of customers' assets to the underlying offer documents of Nucleus products; and
- Validated the accuracy of the products assigned to client assets through inspection of original application documents.

Report on the audit of the financial statements

We compared our independent calculation to the amount reported and noted immaterial differences.

In addition, we have performed testing over manual journal entries which impact revenue. We specifically target tested larger manual journal balances, and those with unusual account combinations. Through our procedures performed no instances of fraud in revenue recognition were identified.

Key audit matter – Impact of COVID-19

The group operates a wrap platform that administers financial products such as pensions, ISAs and investments on behalf of customers. The group primarily generates Revenue from contractual basis point rate cards applied to the daily valuation of assets under administration.

The COVID-19 outbreak has been declared a pandemic by the World Health Organisation. Since the first quarter of 2020, it has caused significant economic uncertainty globally and disruption to supply chains and travel, slowed global growth and caused volatility in global markets and in exchange rates.

In response to the continued uncertainty across financial markets and the potential impacts on the group as a result of the ongoing COVID-19 pandemic, management have modelled both market stress and other downside scenarios as part of their going concern assessment. These scenarios consider the impacts on the value of assets under administration from a prolonged downturn in financial markets, as well as impacts of changes to regulatory capital requirements, underperformance of key revenue streams and the impacts of any regulator-imposed fines or sanctions. As part of their consideration, management have identified a number of possible mitigating actions, across the range of scenarios, for example, the suspension of dividend payments, their ability to utilise overdraft facilities and reduction of areas of discretionary spend.

Following the consideration of these scenarios, management has prepared the financial statements of the group and company on a going concern basis, and believe this assumption remains appropriate. This conclusion is based on the assessment that, notwithstanding the significant market uncertainties, they are satisfied that the group and company have adequate resources to continue in operational existence for the foreseeable future and that they will be able to continue to successfully provide platform services throughout the COVID-19 pandemic.

How our audit addressed the key audit matter

Our procedures and conclusions in respect of the Directors' going concern assessment are included in the "material uncertainty related to going concern" section above.

We reviewed the disclosures in the financial statements in respect of the impact of COVID-19 and concluded that these are appropriate. Based on the work performed, we found that management's conclusions in respect of the impact of COVID-19 on the group and company is appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The group is structured as one segment, comprising the consolidation of three individual components, each of which represents an individual legal entity within the group. All of these components were considered financially significant and we performed a full scope audit of their complete financial information. Together these components represent 100 per cent of the group's profit before tax. Specific audit procedures were also performed over consolidation adjustments required to aggregate the three individual components together to form the group financial statements. All of the audit work was performed by the group engagement team based in Edinburgh. The company is a holding company, as well as contracting services on behalf of the group and being the main employer. It does not trade outside of the group. The only material income it received during the year was income received from its subsidiaries.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - group	Financial statements - company
Overall materiality	£201,000 (2019: £350,100).	£196,980 (2019: £200,003).
How we determined it	5% of profit before tax	1% of total expenses
Rationale for benchmark applied	The consolidated Nucleus Financial Group plc group is a profit oriented group and therefore we are satisfied that the use of profit before tax is an appropriate benchmark.	As the company is not profit orientated, with its primary purpose being a holding and service company for the group, we have calculated materiality with reference total expenses, with this being a generally accepted auditing benchmark.

Report on the audit of the financial statements

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £39 and £196,980. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £150,000 for the group financial statements and £147,735 for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £10,000 (group audit) (2019: £17,505) and £9,849 (company audit) (2019: £10,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2020 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 group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Directors' remuneration

The company voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The directors requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 to be audited as if the company were a quoted company.

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

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, 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 group's and 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 group or 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.

Report on the audit of the financial statements

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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 obtained 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 company 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
22 March 2021

Consolidated statement of comprehensive income

	Note	2020 £'000	2019 £'000
Continuing operations			
Revenue	3	51,809	51,517
Cost of sales		(23,280)	(22,817)
Gross profit		28,529	28,700
Other operating income	4	89	122
Administrative expenses		(24,460)	(21,718)
Operating profit		4,158	7,104
Comprising			
Adjusted EBITDA		5,711	7,923
Right of use liability interest included in adjusted EBITDA		168	180
Right of use depreciation included in adjusted EBITDA		437	438
Amortisation		(22)	-
Depreciation		(1,021)	(1,102)
Loss on disposal of fixed asset		-	(3)
Other income		14	17
Exceptional items - OpenWealth acquisition fees		(217)	-
Exceptional items - James Hay Holdings offer fees		(113)	-
Share based payments		(799)	(349)
Finance income	8	40	80
Finance costs	8	(168)	(182)
Profit before income tax	5	4,030	7,002
Income tax	10	(852)	(1,049)
Profit for the year		3,178	5,953
Items that may be subsequently reclassified to profit and loss		-	-
Total comprehensive income attributable to equity holders		3,178	5,953
Earnings per share (pence)			
Basic	12	4.2	7.8
Diluted	12	4.1	7.8

The notes on pages 59 to 87 form part of these financial statements.

Consolidated statement of financial position

	Note	2020 £'000	2019 £'000
Assets			
Non-current assets			
Intangible assets	14	2,258	253
Right of use lease assets	15	3,026	3,476
Property, plant and equipment	16	1,944	1,698
Deferred tax	25	229	107
		7,457	5,534
Current assets			
Trade and other receivables	17	11,157	10,530
Investments in securities	18	201	107
Cash and cash equivalents	19	17,546	18,525
		28,904	29,162
Total assets		36,361	34,696
Equity			
Shareholders' equity			
Called up share capital	22	76	76
Capital redemption reserve	23	53	53
Share-based payment reserve	23	1,174	465
Treasury shares	23	(223)	(121)
Retained earnings	23	21,651	19,233
Total equity		22,731	19,706
Liabilities			
Non-current liabilities			
Lease liabilities	21	3,243	3,737
Provisions	27	223	99
Deferred tax	25	126	22
		3,592	3,858
Current liabilities			
Lease liabilities	21	494	475
Trade and other payables	20	8,343	9,606
Tax payable		465	357
Provisions	27	736	694
		10,038	11,132
Total liabilities		13,630	14,990
Total equity and liabilities		36,361	34,696

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 22 March 2021.

Stuart Geard
Director

The notes on pages 59 to 87 form part of these financial statements.

Consolidated statement of changes in equity

	Note	Called up share capital £'000	Retained earnings £'000	Treasury shares £'000	Capital redemption reserve £'000	Share-based payment reserve £'000	Total equity £'000
Balance at 1 January 2020		76	19,233	(121)	53	465	19,706
Changes in equity							
Profit for the year		-	3,178	-	-	-	3,178
Dividends paid	11	-	(760)	-	-	-	(760)
Purchase of own shares		-	-	(102)	-	-	(102)
Share-based payments charge (excl NIC)	26	-	-	-	-	709	709
Balance at 31 December 2020		76	21,651	(223)	53	1,174	22,731

	Note	Called up share capital £'000	Retained earnings £'000	Treasury shares £'000	Capital redemption reserve £'000	Share-based payment reserve £'000	Total equity £'000
Balance at 1 January 2019		76	17,224	(30)	53	150	17,473
IFRS 16 conversion		-	(71)	-	-	-	(71)
Changes in equity							
Profit for the year		-	5,953	-	-	-	5,953
Dividends paid	11	-	(3,873)	-	-	-	(3,873)
Purchase of own shares		-	-	(91)	-	-	(91)
Share-based payments charge (excl NIC)	26	-	-	-	-	315	315
Balance at 31 December 2019		76	19,233	(121)	53	465	19,706

The notes on pages 59 to 87 form part of these financial statements.

Consolidated statement of cash flows

	Note	2020 £'000	2019 £'000
Cash flows from operating activities			
Cash inflows from operations	28	3,741	6,790
Interest received	8	40	80
Income tax paid		(762)	(855)
Net cash inflow from operating activities		3,019	6,015
Cash flows from investing activities			
Business combination payment	13	(1,500)	-
Purchase of intangible fixed assets	14	(72)	(253)
Purchase of tangible fixed assets	16	(817)	(348)
Purchase of investments	18	(94)	(16)
Net cash outflow from investing activities		(2,483)	(617)
Cash flows from financing activities			
Interest paid	8	(168)	(182)
Dividends paid	11	(760)	(3,873)
Purchase of Treasury shares		(102)	(91)
Lease payments - principal	21	(475)	(393)
Net cash outflows from financing activities		(1,505)	(4,539)
(Decrease)/increase in cash and cash equivalents		(969)	859
Cash and cash equivalents at beginning of year		18,525	17,672
Effects of exchange rate changes	5	(10)	(6)
Cash and cash equivalents at end of year	19	17,546	18,525

The notes on pages 59 to 87 form part of these financial statements.

Notes to the consolidated financial statements

1. Accounting policies

Basis of preparation

These financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ('IFRS') and the applicable legal requirements of the Companies Act 2006. In addition to complying with international accounting standards in conformity with the requirements of the Companies Act 2006, the consolidated financial statements also comply with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The financial statements have been prepared on a going concern basis, under the historical cost convention as modified by the recognition of certain financial assets measured at fair value. Unless otherwise stated, the accounting policies set out below have been applied consistently in both years presented in these financial statements.

The preparation of the financial statements in compliance with international accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the group and company's accounting policies. The areas where significant judgements and estimates have been made in the preparation of the financial statements are detailed in note 2.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the company and all its subsidiary undertakings.

Subsidiaries are entities controlled by the company. Control is achieved where the group has existing rights that give it the current ability to direct the relevant activities that affect the returns and exposure or rights to variable returns from the entity. Subsidiaries are included in the consolidated financial statements of the group from the date control of the subsidiary commences until the date that control ceases. Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Uniform accounting policies have been applied across the group.

Going concern

After reviewing the group and the company's forecasts and projections, together with the results of modelled severe but plausible stress tests on both the liquidity and regulatory capital adequacy, and the current operating and trading environment, the directors have a reasonable expectation that the group and the company have adequate resources to continue in operational existence for at least 12 months from the date of signing of the financial statements. The group and the company therefore continues to adopt the going concern basis in preparing their financial statements. Further information relevant to the directors' assessment of going concern is set out in the directors' report on page 47.

Material uncertainty in relation to going concern

As set out in note 34. events after the reporting period below, the group is the subject of an all cash offer from James Hay Holdings that, if successful, is expected to complete in the next 12 months. Whereas the directors note the intentions of James Hay Holdings as set out in the Scheme circular and whereas they do not have any reason to believe that James Hay Holdings would not continue to support the group and company or would materially change their activities in the next 12 months, they are not party to the detailed intentions of the acquirer. Although this does not change the directors' conclusion as to the appropriateness of preparing the financial statements of the group and the company on a going concern basis, it is considered to create a material uncertainty which may cast significant doubt on the group and company's ability to continue as a going concern. Accordingly, the financial statements do not include the adjustments that would result if the group or company were unable to continue as a going concern.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the executive committee (the chief operating decision maker). The board tasks responsibility to the executive committee to assess the financial performance and the position of the group and make strategic decisions and allocate resources.

Nucleus' principal activities are the provision of wrap administration services and there is only one reporting and operating segment as defined under IFRS 8 Operating Segments. This is reviewed on a regular basis. It is considered appropriate that management review the performance of the group by reference to total results against budget.

The main financial performance measures are assets under administration on the platform, gross and net inflows onto the platform, revenue, adjusted EBITDA, profit for the year, dividend paid, adjusted EBITDA margin, consolidated operating profit, consolidated profit after tax and consolidated net assets. These are disclosed in the chief financial officer's report, where non-Gaap financial performance measures are also identified. The operating profit to adjusted EBITDA reconciliation is presented within the Consolidated statement of comprehensive income. Non-Gaap measures are also defined in the definitions and glossary section of the financial statements.

Revenue

Revenue comprises fees earned by the group 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 over time. Accrued income represents fees that are collected in the following month.

Notes to the consolidated financial statements

Interest income

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

Finance costs

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

Expense recognition

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

Foreign currency

The group and company's functional and presentation currency is the Pound Sterling. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. At each year end, foreign currency monetary items are translated using the closing rate. Foreign exchange gains and losses resulting from the settlement of transactions at year end exchange rates of monetary assets denominated in foreign currencies are recognised in the statement of comprehensive income.

Dividends

Dividends are recorded in the financial statements in the year in which they are approved by the shareholders. Interim dividends are recognised when paid.

Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a business combination comprises the:

- fair values of the assets transferred,
- liabilities incurred to the former owners of the acquired business, and
- fair value of any asset or liability resulting from a contingent consideration arrangement,

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

The excess of the:

- consideration, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified as a financial liability. Amounts are subsequently remeasured to fair value, with changes in fair value recognised in profit or loss.

Goodwill

Goodwill arises on consolidation and represents the excess of the purchase consideration for a business over the fair value of any identifiable assets and liabilities acquired. Goodwill is not amortised but is tested annually for impairment or more frequently where impairment indicators exist. Impairment losses are recorded in the consolidated statement of comprehensive income, and any recorded losses are not subsequently reversed.

Externally acquired intangible assets

Intangible assets that are acquired from third parties are recognised on the balance sheet at cost and amortised over the expected useful life. The costs of externally acquired intangibles includes the purchase consideration and directly attributable costs of preparing the asset for its intended use. Impairment reviews are carried out where there are indicators of impairment.

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.

Notes to the consolidated financial statements

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

Property, plant and equipment

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 carried out where there are indicators of impairment.

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
Short term leasehold property	10 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.

Impairment of assets

The group tests Goodwill and intangible assets that have an indefinite useful life at least annually for impairment, or more frequently where impairment indicators are identified. For other assets these are tested for impairment where impairment indicators are identified. Impairment tests assess whether the carrying amount of the asset is greater than the estimated recoverable amount through use or disposal. For the purposes of impairment testing, assets are grouped at the lowest level where separate cash flows can be identified (cash-generating unit). Where the carrying amount of the cash generating unit exceeds the recoverable amount, an impairment loss is recognised. With the exception of impairments relating to goodwill, for impaired assets, to the extent that the recoverable amount exceeds the carrying amount, then the previously recognised impairment is reversed.

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 15, and liabilities in note 21.

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.

Defined contribution pension scheme

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

Share-based payments

The company operates a number of equity settled share-based payment compensation plans, under which the group receives services from directors and senior managers as consideration for equity instruments (options or shares) of the company. These are accounted for in accordance with IFRS 2 Share-based payments. The fair value of services received by the group in exchange for the grant of equity instruments is recognised as an expense over their vesting period.

The total amount to be expensed or recognised as an increase in the cost of investments is determined by reference to the fair value of the equity instrument at the grant date and the number of options or shares expected to vest. Service conditions are included in the assumptions about the number of equity instruments expected to vest. The relevant charge to the consolidated statement of comprehensive income or increase to the company's investments is recognised over the vesting period on a straight-line basis.

At the end of each reporting period, the company revises its estimate of the number of equity instruments that are expected to vest to reflect latest expectations on the employee's ability to achieve the specified performance criteria and actual or anticipated leavers from the scheme. The company recognises the impact of any revision to the prior year's estimates in the consolidated statement of comprehensive income or company statement of financial position, with a corresponding adjustment to equity.

Notes to the consolidated financial statements

National insurance contribution (NIC) obligations arising from HMRC unapproved equity-settled schemes are treated as if they are cash-settled, regardless of the equity determination of the scheme itself. The company LTIP scheme is a HMRC unapproved equity-settled scheme. The NIC cost is recognised over the vesting period of the options and is measured with reference to the employers' NIC rate applied to the number of options expected to vest, valued at the share price at the reporting date. Until the NIC obligation is settled it is remeasured at the end of each reporting period and at the date of settlement, with any changes in value being recognised in the statement of comprehensive income.

Employee benefits trusts

The company has established an Employee Share Ownership Trust (ESOT) and a Share Incentive Plan (SIP) trust for the purposes of satisfying awards under share-based incentive and all employees share ownership plans. Shares held by the trusts are recorded as treasury shares and deducted from equity until the shares are cancelled, reissued or disposed. The employee benefits trusts are included within the consolidated financial statements of the group.

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 as the impact of any discounting would be immaterial.

Provisions for liabilities

Provisions are made where an event has taken place that gives the group or 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 group or 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.

Financial instruments

Financial assets and financial liabilities are initially classified as measured at amortised cost, fair value through other comprehensive income, or fair value through profit and loss when the group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights to the cash flows expire, or the group no longer retains the significant risks or rewards of ownership of the financial asset. Financial liabilities are derecognised when the obligation is discharged, cancelled or expires.

Financial assets are classified dependent on the group's business model for managing the financial and the cash flow characteristics of the asset. Financial liabilities are classified and measured at amortised cost except for trading liabilities, or where designated at original recognition to achieve more relevant presentation. The group classifies its financial assets and liabilities into the following categories:

Financial assets at amortised cost

The group's financial assets at amortised cost comprise trade and other receivables. These represent debt instruments with fixed or determinable payments that represent principal or interest and where the intention is to hold to collect these contractual cash flows.

They are initially recognised at fair value, included in current and non-current assets, depending on the nature of the transaction, and are subsequently measured at amortised cost using the effective interest method less any provision for impairment.

Impairment of trade and other receivables

In accordance with IFRS 9 an expected loss provisioning model is used to calculate an impairment provision. We have implemented the IFRS 9 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.

Financial liabilities at amortised cost

Financial liabilities at amortised cost comprise finance lease obligations and trade and other payables. They are classified as current and non-current liabilities depending on the nature of the transaction, are subsequently measured at amortised cost using the effective interest method.

Notes to the consolidated financial statements

Financial assets at fair value through profit and loss

The group has investments held 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 profit and loss.

The fair value measurement of the group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy').

Level 1 – Quoted prices in active markets

Level 2 – Observable direct or indirect inputs other than Level 1 inputs

Level 3 – Inputs that are not based on observable market data

The group measures financial instruments relating to platform holdings at fair value using Level 1.

New standards effective for the first time in the 2020 financial statements

Standard	Effective from
Conceptual Framework – amendments to references to the conceptual framework in IFRS standards	1 January 2020
Amendments to IFRS 3: Business Combinations – definition of a business	1 January 2020
Definition of materiality – amendments to IAS 1 and IAS 8	1 January 2020
Interest rate benchmark reform – amendment to IFRS 9, IAS 39 and IFRS 7	1 January 2020

Future standards, amendments to standards and interpretations not early-adopted in the 2020 financial statements

New accounting standards and interpretations have been published that are not mandatory for adoption in the 2020 financial statements.

Standard	Effective from
Covid-19-Related Rent Concessions – amendment to IFRS 16	1 June 2020
Reference to the Conceptual Framework – amendments to IFRS 3	1 January 2022
IFRS 17: Insurance Contracts	1 January 2023
Classification of Liabilities as Current or Non-current – amendments to IAS 1	1 January 2023

The adoption of these standards is not expected to have a material impact on the group.

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:

Income taxes

The group is subject to income taxes. Judgement is required in determining the extent to which it is probable that taxable profits and the exercise of share options under the LTIP scheme will result in the utilisation of deferred tax assets in future. The group expects to materially recover its deferred tax assets through the exercise of share options within the timeframe of the vesting periods of the LTIP scheme.

Share-based payments

The group assesses the fair value of shares under the LTIP scheme at the grant date using appropriate valuation models, depending upon the nature of the performance criteria. At the end of each reporting period, the company revises its estimate of the number of options and shares under the LTIP scheme that are expected to vest to reflect latest expectations on the group's ability to achieve the specified performance criteria and actual or anticipated leavers from the schemes. For non-market related performance criteria, the company recognises the impact of any revision to the prior year's estimates in the statement of comprehensive income, with a corresponding adjustment to equity.

Provisions

The group has recognised provisions in respect of client compensation, outsourced service, dilapidations and share incentive plans. Further detail on these provisions, the rationale behind their recognition and the timing of future cash flow is included in note 27.

Business combinations

As part of the business combination recognition, estimates and judgements are required to establish the fair value of assets and liabilities, contingent considerations and goodwill at acquisition date. Judgement is also required in determining which parts of the agreement relate to the resolution of historical contractual arrangements and are therefore outside the scope of IFRS 3 business combinations.

Notes to the consolidated financial statements

3. Revenue

Revenue comprises fees earned by the group from the provision of a wrap platform service to UK financial advisers and their clients. All revenue arose within the United Kingdom (2019: all United Kingdom).

4. Other operating income

	2020	2019
	£'000	£'000
Other operating income	89	122

Other operating income includes a £75k R&D tax credit in respect of 2019 that has been recognised in 2020 under the RDEC scheme (2019– £100k in respect of 2018 recognised in 2019).

5. Profit before income tax

The profit before income tax is stated after charging/(crediting):

	2020	2019
	£'000	£'000
Depreciation of tangible fixed assets	584	664
Depreciation of right of use assets	437	438
Interest on right of use assets	168	180
Loss on disposal of fixed assets	-	3
Amortisation	22	-
Unrealised gain on investments	-	(7)
Foreign exchange differences	10	6
Movement in expected loss provision	(42)	59
Share based payment charge	799	349

6. Employees

	2020	2019
	£'000	£'000
Wages and salaries	13,908	12,191
Social security costs	1,602	1,402
Other pension costs	1,083	997
Cost of employee share schemes	799	349
	17,392	14,939

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

	2020	2019
Employees	245	223

Notes to the consolidated financial statements

7. Directors' remuneration

Details of directors' remuneration are set out in the remuneration and HR committee report on pages 42 to 43.

8. Net finance income/(costs)

	2020 £'000	2019 £'000
Finance income:		
Bank interest receivable	38	70
Other interest income	2	10
	40	80

	2020 £'000	2019 £'000
Finance costs		
Lease interest	(168)	(180)
Other interest paid	-	(2)
	(168)	(182)
Net finance cost	(128)	(102)

9. Auditors' remuneration

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

	2020 £'000	2019* £'000
Audit of the financial statements	159	182
Client asset audit services	126	175
All other services	45	30
	330	387

* VAT inclusive

Notes to the consolidated financial statements

10. Income tax

Analysis of tax expense

	2020 £'000	2019 £'000
Current tax:		
Tax on profits for the year	866	1,271
Adjustments in respect of prior periods	5	(260)
Deferred tax:		
Origination and reversal of timing differences	(9)	24
Effect of tax rate on opening balances	(10)	14
Total expense in statement of comprehensive income	852	1,049

Factors affecting the tax expense

The tax assessed for the year is higher (2019: lower) than the standard rate of corporation tax in the UK of 19.00 per cent (2019: 19.00 per cent).

The differences are reconciled below:

	2020 £'000	2019 £'000
Profit before taxation	4,030	7,002

Profit before taxation multiplied by the standard rate of corporation tax in the UK of 19.00 per cent (2019: 19.00 per cent)	766	1,330
Effects of:		
Expenses not deductible for tax purposes	204	84
Fixed asset differences	19	18
Adjustments to tax charge in respect of prior period R&D claims	14	(258)
Deferred tax not recognised	428	(218)
Adjustments to tax charge in respect of prior period	(73)	-
Short-term timing differences	(470)	-
Other differences	(36)	93
	852	1,049

Notes to the consolidated financial statements

11. Dividends

	2020 £'000	2019 £'000
£0.001 ordinary share dividends* 1p (2019: 5.1p per share)	760	3,873

*The Esot waived its right to receive dividends during the year.

12. Earnings per share

Earnings per share has been calculated by dividing the total profit for the year by the weighted average number of ordinary shares in issue during the year.

	2020 £'000	2019 £'000
Profit for the year	3,178	5,953

	2020	2019
Weighted average number of ordinary shares (basic)	75,798,656	75,862,105
SIP scheme	134,704	71,255
LTIP scheme	1,281,962	345,932
Weighted average number of ordinary shares (diluted)	77,215,322	76,279,292

	2020	2019
Basic earnings per ordinary share (pence)	4.2	7.8
Diluted earnings per ordinary share (pence)	4.1	7.8

The weighted average number of ordinary shares reflect the number of shares in issue following the listing of the Company on 26 July 2018. The share capital transactions that happened during the year are detailed in note 22.

Notes to the consolidated financial statements

13. Business combination

On 11 December 2020 Nucleus Financial Group plc acquired the UK business and assets of Genpact Wealth Management UK Limited (which operates under the trading name OpenWealth) as they pertain to Nucleus. In November 2018 Nucleus unbundled its technology arrangements from OpenWealth, contracting directly with Bravura Solutions (UK) Ltd.

The board of Nucleus believes that the acquisition of the assets that pertain to Nucleus will allow the group to:

- further accelerate its product development and automation programme,
- provide scope to enhance the level and efficiency of its offline service,
- create new growth opportunities for its people, and
- accelerate the expansion of its operating margin as it grows AUA.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

Purchase consideration	£'000
Cash paid	1,500
Deferred consideration	88
Contingent consideration	382
Total purchase consideration	1,970

Nucleus is required to pay OpenWealth additional consideration in relation to certain contracts throughout 2021. The final amount due will be determined on actual costs incurred by OpenWealth. The fair value of the consideration as at 31 December 2020 has been based on the value of the costs expected to be incurred.

The assets and liabilities recognised as a result of the acquisition are as follow:

	£'000
Property, plant and equipment	15
Goodwill	1,955
Net assets acquired	1,970

The goodwill is attributable to the skilled workforce and acquired wrap administration back offices processes, and the expected synergies from combining the operations of Nucleus and OpenWealth. None of the goodwill recognised is expected to be deductible for tax purposes.

Notes to the consolidated financial statements

14. Intangible assets

	Goodwill	Licences	Total
Cost	£'000	£'000	£'000
At 1 January 2020	-	253	253
Additions	1,955	72	2,027
Write-offs	-	-	-
At 31 December 2020	1,955	325	2,280
Amortisation			
At 1 January 2020	-	-	-
Charge for the year	-	22	22
Impairments	-	-	-
At 31 December 2020	-	22	22
Net book value			
At 31 December 2020	1,955	303	2,258
At 31 December 2019	-	253	253

	Goodwill	Licences	Total
Cost	£'000	£'000	£'000
At 1 January 2019	-	-	-
Additions	-	253	253
Write-offs	-	-	-
At 31 December 2019	-	253	253
Amortisation			
At 1 January 2019	-	-	-
Charge for the year	-	-	-
Impairments	-	-	-
At 31 December 2019	-	-	-
Net book value			
At 31 December 2019	-	253	253
At 31 December 2018	-	-	-

The licences costs capitalised represents development expenditure in relation to ancillary platform services. The remaining contractual commitment in respect of the development expenditure amounts to £nil (2019 - £72,222). No impairment indicators were identified during year.

Goodwill represents the excess of the purchase consideration for a business over the fair value of any identifiable assets and liabilities acquired. Further details of the business combination are set out in note 13 above. The carrying amount of goodwill was tested for impairment and no impairment is recognised.

Notes to the consolidated financial statements

15. Right of use lease assets

	Right of use asset Greenside Edinburgh £'000	Finance lease Office equipment £'000	Total £'000
Cost			
At 1 January 2020	3,901	361	4,262
Additions	-	-	-
Disposals	-	-	-
At 31 December 2020	3,901	361	4,262
Depreciation			
At 1 January 2020	438	348	786
Charge for the year	437	13	450
Eliminated on disposals	-	-	-
At 31 December 2020	875	361	1,236
Net book value			
At 31 December 2020	3,026	-	3,026
At 31 December 2019	3,463	13	3,476

	Right of use asset Greenside Edinburgh £'000	Finance lease Office equipment £'000	Total £'000
Cost			
At 1 January 2019	-	-	-
Transition to IFRS 16	3,901	360	4,261
Additions	-	1	1
Disposals	-	-	-
At 31 December 2019	3,901	361	4,262
Depreciation			
At 1 January 2019	-	-	-
Transition to IFRS 16	-	248	248
Charge for the year	438	100	538
Eliminated on disposals	-	-	-
At 31 December 2019	438	348	786
Net book value			
At 31 December 2019	3,463	13	3,476
At 31 December 2018	-	-	-

No impairment indicators were identified during year.

Notes to the consolidated financial statements

16. Property, plant and equipment

	Short-term leasehold property £'000	Fixtures and fittings £'000	Office equipment £'000	Total £'000
Cost				
At 1 January 2020	1,147	551	1,458	3,156
Additions	-	11	806	817
Disposals	-	-	-	-
At 31 December 2020	1,147	562	2,264	3,973
Depreciation				
At 1 January 2020	213	257	988	1,458
Charge for the year	115	131	325	571
Eliminated on disposals	-	-	-	-
At 31 December 2020	328	388	1,313	2,029
Net book value				
At 31 December 2020	819	174	951	1,944
At 31 December 2019	934	294	470	1,698

	Short-term leasehold property £'000	Fixtures and fittings £'000	Office equipment £'000	Total £'000
Cost				
At 1 January 2019	1,137	527	1,508	3,172
Transition to IFRS 16	-	-	(360)	(360)
Additions	10	28	310	348
Disposals	-	(4)	-	(4)
At 31 December 2019	1,147	551	1,458	3,156
Depreciation				
At 1 January 2019	99	127	917	1,143
Transition to IFRS 16	-	-	(248)	(248)
Charge for the year	114	131	319	564
Eliminated on disposals	-	(1)	-	(1)
At 31 December 2019	213	257	988	1,458
Net book value				
At 31 December 2019	934	294	470	1,698
At 31 December 2018	1,038	400	591	2,029

No impairment indicators were identified during year.

Notes to the consolidated financial statements

17. Trade and other receivables

	2020 £'000	2019 £'000
Current:		
Other debtors	1,108	1,201
Amounts owed by HMRC	2,192	1,929
Trade debtors	172	444
Accrued income	5,603	5,243
Prepayments	2,082	1,713
	11,157	10,530

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 was £188,768 (2019: £230,410).

18. Investments in securities

	2020 £'000	2019 £'000
Valuation		
At 1 January	107	84
Additions in year	94	39
Disposals in year	-	(23)
Unrealised gain	-	7
At 31 December	201	107

19. Cash and cash equivalents

	2020 £'000	2019 £'000
Cash at bank and in hand	17,546	18,525

The company has a £5,000,000 uncommitted overdraft facility with The Royal Bank of Scotland International Limited. 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. The overdraft was undrawn as at 31 December 2020.

Notes to the consolidated financial statements

20. Trade and other payables

	2020 £'000	2019 £'000
Current:		
Trade creditors	1,912	1,423
Social security and other taxes	488	372
Other creditors	1,499	2,206
Amounts owed to HMRC	628	118
Accruals	3,816	5,487
	8,343	9,606

21. Lease liabilities

	2020 £'000	2019 £'000
Non-current:		
Lease liabilities	3,243	3,737
Current:		
Lease liabilities	494	475

	1 year or less £'000	1 - 2 years £'000	2-5 years £'000	> 5 years £'000	Total £'000
2020					
Lease liabilities	494	513	1,666	1,064	3,737
2019					
Lease liabilities	475	494	1,602	1,641	4,212

Lease liabilities, which includes items previously classified as finance lease liabilities, increased by £4,513k as a result of adopting IFRS 16 Leases effective 1 January 2019.

Notes to the consolidated financial statements

22. Called up share capital

	2020 £'000	2019 £'000
Fully paid ordinary shares of £0.001 each: 76,473,360 (2019: 76,473,360)	76	76

Employee Benefit trusts hold a total of 674,704 shares (2019: 611,255).

23. Reserves

Capital redemption reserve

This is a non-distributable reserve into which amounts are transferred following the redemption or purchase of the company's own shares.

Share-based payment reserve

The fair value of services received in exchange for the grant of options and other share awards is recognised over their vesting period. Upon conversion the fair value of services received is transferred to retained earnings.

Treasury shares

Shares of Nucleus Financial Group plc that are held in the Employee benefits trust and SIP trust for the purposes of satisfying awards under share-based incentive and all employee share ownership plans.

Retained earnings

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

External capital requirements

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 complied with these requirements throughout the reporting period.

Notes to the consolidated financial statements

24. Financial instruments

The principal financial instruments, from which financial instrument risk arises, are as follows:

- Trade and other receivables
- Cash and cash equivalents
- Investments in securities
- Trade and other payables

As explained in note 1, financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognised in the statement of comprehensive income. In adopting IFRS 9 all previously classified loans and receivables were re-classified as financial assets at amortised cost, with no change to measurement, and all financial assets previously classified at fair value through other comprehensive income were reclassified as financial assets at fair value through profit and loss, as this is the residual category under IFRS 9. The following tables show the carrying values of assets and liabilities for each of these categories.

	Financial assets at fair value through profit and loss £'000	Financial liabilities at amortised cost £'000	Financial assets at amortised cost £'000	Total £'000
2020				
Financial assets				
Investments in securities	201	-	-	201
Cash and cash equivalents	-	-	17,546	17,546
Trade and other receivables	-	-	9,075	9,075
Total financial assets	201	-	26,621	26,822
Non-financial assets				9,539
Total assets				36,361
Financial liabilities				
Lease liabilities	-	3,737	-	3,737
Trade and other payables	-	7,855	-	7,855
Total financial liabilities	-	11,592	-	11,592
Non-financial liabilities				2,038
Total liabilities				13,630

Notes to the consolidated financial statements

24. Financial instruments continued

	Financial assets at fair value through profit and loss £'000	Financial liabilities at amortised cost £'000	Financial assets at amortised cost £'000	Total* £'000
2019				
Financial assets				
Investments in securities	107	-	-	107
Cash and cash equivalents	-	-	18,525	18,525
Trade and other receivables*	-	-	8,817	8,817
Total financial assets	107	-	27,342	27,449
Non-financial assets				7,247
Total assets				34,696
Financial liabilities				
Lease liabilities	-	4,212	-	4,212
Trade and other payables*	-	9,234	-	9,234
Total financial liabilities	-	13,446	-	13,446
Non-financial liabilities				1,544
Total liabilities				14,990

*Prepayments of £1,713k and social security and other taxes of £372k are not considered to be financial assets and liabilities per IAS 32 but were previously disclosed as such, and have been re-presented as non-financial assets and non-financial liabilities.

Notes to the consolidated financial statements

24. Financial instruments continued

Financial instruments measured at fair value – fair value hierarchy

The table below classifies financial assets that are categorised on the statement of financial position at fair value in a hierarchy that is based on significance of the inputs used in making the measurements. The levels of hierarchy are disclosed in note 1.

Investments in securities are held for the benefit of platform functionality and are reported on a separate line in the statement of financial position. The assets are held at fair value with any gains or losses being taken to the statement of comprehensive income.

The following tables show the group's financial assets measured at fair value through profit and loss, classed according to the level of the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
2020				
Investments in securities	201	-	-	201

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
2019				
Investments in securities	107	-	-	107

Credit risk

The group holds the surplus of corporate cash balances over and above its working capital requirements on deposit with its corporate banking services providers, The Royal Bank of Scotland plc, Bank of Scotland plc, Investec Bank plc and Santander Financial Services plc. The group is therefore exposed to counterparty credit risk and a failure of any of these banks would impact the group's resources and its ability to meet its solvency and liquidity requirements. Credit risk is managed within the risk appetites set by the board on an annual basis.

The supply of wrap platform services to clients results in trade receivables which management considers to be of low risk. Other receivables are likewise considered to be low risk. Management do not consider that there is any concentration of risk within either trade or other receivables.

Included in other receivables is a balance of cash prefunded on the wrap platform. Where these amounts are not received within normal operational timeframes, our experience is that the risk of non-recovery increases, and we provide to our expectation of most likely outcome. The provision as at 31 December 2020 was £188,768 (2019: £230,410).

Liquidity risk

The group's liquidity position is subject to a range of factors that may generate liquidity strain in the short or medium term. The group manages its liquidity risk through an ongoing evaluation of its working capital requirements against available cash balances and credit facilities. The group maintains actual liquid resources above the minimum cash buffers prescribed in the liquidity management policy for foreseeable funding requirements (including under stressed conditions) and reserve liquidity for unforeseen events, unless a different amount is agreed by the board. Detailed risk appetite limits are prescribed in the liquidity management framework and reviewed annually by the board.

Solvency risk

The group's solvency position is subject to a range of factors that may influence it in the short or medium term. The group maintains risk appetite limits for solvency risk and capital and has in place a capital management policy to manage against those. This is managed through an ongoing capital evaluation programme and is reported regularly to the board.

Exposure to securities markets

The group's income is derived from a tiered basis point fee that is applied to client assets under administration. This income is exposed to the value of the underlying investment assets which can be affected by market movements. Although some of this risk is mitigated within components of the cost base, the group is ultimately exposed to volatility in its financial results because of market movements beyond its control.

Notes to the consolidated financial statements

24. Financial instruments continued

Operational risk

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

Particular operational risks for the group are considered to be:

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

During 2020, the business was proven to be operationally resilient with very limited impact to service as a result of the move to working arrangements in response to Covid-19. The significant majority of our staff were able to work from home whilst maintaining business operations and delivering the group's change programme. However, as noted across the industry, the group has monitored and mitigated increased potential risks from unsophisticated cyber-attack attempts, attempted financial crime and failure to manage core business processes.

The following tables show an analysis of the financial assets and financial liabilities by remaining expected maturities.

2020

Financial assets	< 3 months	3-12 months	1-5 years	>5 years	Total
	£'000	£'000	£'000	£'000	£'000
Cash and cash equivalents	17,546	-	-	-	17,546
Investments	-	201	-	-	201
Trade and other receivables	8,630	279	166	-	9,075
	26,176	480	166	-	26,822

2019

Financial assets	< 3 months	3-12 months	1-5 years	>5 years	Total*
	£'000	£'000	£'000	£'000	£'000
Cash and cash equivalents	18,525	-	-	-	18,525
Investments	-	107	-	-	107
Trade and other receivables*	8,372	445	-	-	8,817
	26,897	552	-	-	27,449

Notes to the consolidated financial statements

24. Financial instruments continued

2020

Financial liabilities	< 3 months £'000	3-12 months £'000	1-5 years £'000	>5 years £'000	Total £'000
Trade and other payables	7,658	197	-	-	7,855
Lease liabilities	123	369	2,179	1,064	3,735
	7,781	566	2,179	1,064	11,590

2019

Financial liabilities	< 3 months £'000	3-12 months £'000	1-5 years £'000	>5 years £'000	Total* £'000
Trade and other payables*	9,234	-	-	-	9,234
Lease liabilities	119	356	2,096	1,641	4,212
	9,353	356	2,096	1,641	13,446

*Prepayments of £1,713k and social security and other taxes of £372k are not considered to be financial assets and liabilities per IAS 32 but were previously disclosed as such, with maturities of < 3 months, and have been re-presented as non-financial assets and non-financial liabilities.

25. Deferred tax

The deferred tax asset is made up of the following balances:

	Accelerated capital allowances £'000	Short term timing differences £'000	Losses and other deductions £'000	Total* £'000
At 1 January 2019	8	17	138	163
(Charge)/credit to statement of comprehensive income	(1)	81	(136)	(56)
At 31 December 2019	7	98	2	107
(Charge)/credit to statement of comprehensive income	(1)	125	(2)	122
At 31 December 2020	6	223	-	229

Notes to the consolidated financial statements

25. Deferred tax continued

The deferred tax liability is made up of the following balances:

	Accelerated capital allowances £'000	Short term timing differences £'000	Losses and other deductions £'000	Total £'000
At 1 January 2019	(41)	-	-	(41)
Credit to statement of comprehensive income	19	-	-	19
At 31 December 2019	(22)	-	-	(22)
Charge to statement of comprehensive income	(104)	-	-	(104)
At 31 December 2020	(126)	-	-	(126)

26. Share-based payments

Total cost of share-based payments:

	2020 £'000	2019 £'000
Long term incentive plan	654	290
Employers NIC on long term incentive plan	90	34
Share incentive plan	55	25
	799	349

National insurance contribution (NIC) obligations arising from HMRC unapproved equity-settled schemes are treated as if they are cash-settled, regardless of the equity determination of the scheme itself.

Notes to the consolidated financial statements

26. Share-based payments continued

Long Term Incentive Plan (LTIP)

The LTIP comprises conditional awards of nil cost options over ordinary shares to selected members of the senior management team (including the executive directors) and certain other employees, which vest on the achievement of specified performance targets and continuous employment over a certain period of time (the vesting period), or discontinuance of the plan. The performance conditions and details of movement in the LTIP are set out in the remuneration and HR committee report.

The company granted long-term incentive awards in the form of nil-cost options over its ordinary shares to the executive directors and other persons discharging managerial responsibility under its long-term incentive plan. The vesting of each of the awards is subject to the satisfaction of performance conditions that have been set by the remuneration and HR committee. These conditions, which will be assessed over prescribed three-year periods, relate to the achievement of specific targets in relation to earnings per share, net inflow of assets under administration and total shareholder return. Vesting will also normally be dependent on the continued employment of the participant within the group.

LTIP	LTIP 2020	LTIP 2019	LTIP 2018
At 1 January 2019	-	-	944,747
Shares awarded during the year	-	827,090	-
Lapsed during the year	-	(23,674)	(30,211)
At 31 December 2019	-	803,416	914,536
Shares awarded during the year	1,530,147	-	-
Lapsed during the year	(14,248)	(54,564)	(56,481)
At 31 December 2020	1,515,899	748,852	858,055

	LTIP 2020 TSR condition	LTIP 2020 EPS conditions	LTIP 2019 TSR condition	LTIP 2019 EPS conditions	LTIP 2018 TSR condition	LTIP 2018 EPS conditions
Option pricing model	Monte Carlo	Black Scholes	Monte Carlo	Black Scholes	Monte Carlo	Black Scholes
Date granted	6/10/2020	6/10/2020	03/04/2019	03/04/2019	26/07/2018	26/07/2018
Share price on grant date (p)*	128p	128p	176p	176p	183p	183p
Vesting period (years)	2.6	2.6	3	3	3	3
Exercise price	0p	0p	0p	0p	0p	0p
Expected volatility	44%	44%	40%	40%	34%	34%
Risk-free rate	0.10%	0.10%	0.72%	0.72%	0.84%	0.84%
Dividend yield	nil	nil	nil	nil	nil	nil
Fair value per option at grant date	70p	128p	89p	176p	85p	183p
Remaining vesting period (years)	2.4	2.4	1.3	1.3	0.6	0.6

* Note that LTIP 2020 options were granted on a 30 day moving average share price. The share price on 6/10/2020 (target setting date) was 127.50p.

Notes to the consolidated financial statements

26. Share-based payments continued

Expected volatility was determined by comparing Nucleus to other companies that provide software services to the financial services sector as these were deemed to be the closest comparative with a long enough share history to give an indicative relative valuation and volatility measure. In estimating a volatility range for the company we have excluded companies that have an enterprise value greater than £500m, as we consider that they would not typically be reflective of the risks, size and growth profile of a company such as Nucleus. Expected volatility of the companies was determined by reference to their historical volatility over a period consistent with the vesting period of the options.

Share incentive plan (SIP)

The SIP is an all-employee share ownership plan which has been designed to meet the requirements of Schedule 2 to the Income Tax (Earnings and Pensions) Act 2003 so that Ordinary Shares can be provided to UK employees under its terms in a tax-efficient manner. During the year employees were offered the opportunity to buy Ordinary Shares with a value of up to the lower of £1,800 and 10 per cent of the employee's pre-tax salary, and the company agreed to match the number of shares so purchased. These matching shares are held on the employees' behalf in the SIP trust, subject to a holding period of three years, and may be forfeited if the participant ceases employment within that period.

SIP	2020	2019
Brought forward at the beginning of the year	74,267	21,444
Matching shares awarded	71,503	53,911
Matching shares forfeited	(3,734)	(1,088)
Matching shares released	(7,332)	-
Outstanding matching shares at the end of the year	134,704	74,267

27. Provisions

	2020 £'000	2019 £'000
Client compensation	266	536
Outsourced service	-	158
Dilapidations	99	65
Share incentive plans	124	34
Business combination	470	-
	959	793
Analysed as follows:		
Current	736	694
Non-current	223	99
	959	793

Notes to the consolidated financial statements

27. Provisions continued

	Share incentive plans £'000	Client compensation £'000	Outsourced service £'000	Dilapidations £'000	Business combination £'000	Total £'000
At 1 January 2019	-	429	158	32	-	619
Provided during year	34	389	-	33	-	456
Utilised during year	-	(122)	-	-	-	(122)
Unused amounts reversed during year	-	(160)	-	-	-	(160)
At 31 December 2019	34	536	158	65	-	793
Provided during year	90	155	-	34	-	279
Provided upon acquisition	-	-	-	-	470	470
Utilised during year	-	(257)	-	-	-	(257)
Unused amounts reversed during year	-	(168)	-	-	-	(168)
Credit to statement of comprehensive income	-	-	(158)	-	-	(158)
At 31 December 2020	124	266	-	99	470	959

Client compensation

The group remediates customers 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 customer loss, distress and inconvenience for which customers should be compensated. Where actual trading losses are suffered by customers, these are calculated in accordance with Mifid II best execution rules to ensure customers 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 resolved in the first half of 2021.

Outsourced service

The commercial agreement with its outsourced BPO service provider terminated on 11 December 2020, Under that agreement should any key performance criteria not have been met, then the group was entitled to receive a discount on the wrap administration fees charged. Where these were agreed, they were deducted from the invoiced fee and the net expense was charged through the statement of comprehensive income. Where these were uncertain or in dispute with the service provider, a provision was booked in recognition of the uncertainty regarding the outcome. Now that the outsourcing service has been brought in-house and there are no related outstanding claims or disputes the outsourced service provision has been fully reversed.

Dilapidations

The dilapidations provision relates to the group's office premises at Greenside, Edinburgh. This is calculated using the Building Cost Information Service survey (part of the Royal Institution of Chartered Surveyors) of average settlement figures for offices, adjusted for inflation, and the square footage of the company's leasehold premises. The provision has been classified as non-current due to the likelihood of its utilisation at the end of the lease in 2027.

Notes to the consolidated financial statements

27. Provisions continued

Share incentive plans

Provisions for share incentive plans relate to the LTIP which is a HMRC unapproved equity-settled scheme. The company is liable to pay employers' NIC upon exercise of the options. The provision is calculated using the applicable employers' NIC rate applied to the number of share awards expected to vest, valued at the share price at the reporting date. The provision is recognised over the vesting period of the shares awarded.

Business combination

As part of the agreement to acquire OpenWealth, Nucleus is required to pay additional consideration in relation to certain contracts. The final amount due will be determined on actual costs incurred by OpenWealth. The fair value of the consideration as at 31 December 2020 has been based on the value of the costs expected to be incurred.

28. Reconciliation of profit before income tax to cash generated from operations

	2020 £'000	2019 £'000
Profit before income tax	4,030	7,002
Depreciation	1,021	1,102
Loss on disposal of fixed assets	-	3
Unrealised gain on investments	-	(7)
Amortisation	22	-
Share based payments charge	709	315
(Decrease)/increase in bad debt provision	(42)	59
Increase in trade and other receivables	(548)	(1,166)
(Increase)/decrease in operational platform funding	(37)	1,187
Decrease in trade and other payables	(1,263)	(1,987)
(Decrease)/increase in other provisions	(289)	174
Interest paid	168	182
Interest received	(40)	(80)
Net exchange differences	10	6
Cash inflows from operations	3,741	6,790

Share-based payment charge exclude charge for employers NIC included in other provisions.

Operational platform prefunding includes prefunding of client pension tax relief and temporary funding required under the client money and client assets rules.

Notes to the consolidated financial statements

29. Reconciliation of liabilities arising from financing activities

	At 1 January 2019	Non-cash changes	Cash flows	At 31 December 2019
	£'000	£'000	£'000	£'000
Lease liabilities	4,606	-	(394)	4,212

	At 1 January 2020	Non-cash changes	Cash flows	At 31 December 2020
	£'000	£'000	£'000	£'000
Lease liabilities	4,212	-	(475)	3,737

30. Employee share ownership trust

The two share ownership trusts that operate on behalf of the company and the employees are the NFG Limited Employee Benefit Trust 2010 which incurred a loss for the year of £3,601 (2019 - £3,385) and the Nucleus Financial Group plc Share Incentive Plan whose costs are borne by the group.

31. Pension commitments

The group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The pension cost charge represents contributions payable by the group to the fund and amounted to £1,082,533 (2019: £997,401). Contributions totalling £107,317 (2019: £90,009) were payable to the fund at the balance sheet date.

32. Ultimate controlling party

In the opinion of the directors there is no ultimate controlling party.

Sanlam UK Limited (Sanlam), a company incorporated in England and Wales, is a majority shareholder of the company. The company has entered into a Relationship Agreement with Sanlam and Shore Capital and Corporate Limited which governs the relationship between Sanlam and the company, to ensure that the company is able to carry on its business independently from Sanlam and in compliance with all applicable laws and regulations (including, the AIM Rules). Sanlam has agreed that all transactions and relationships between the Sanlam Group and the company shall be on an arms' length basis and on normal commercial terms.

33. Related party transactions

Entities with significant influence over the company

Transactions with Sanlam were as follows:

	2020	2019
Sanlam	£'000	£'000
Amounts owed to Sanlam in respect of board fees by NFG	44	84
Amounts owed to Sanlam in respect of fees for the Onshore Bond by NFS	40	79
Amounts charged by Sanlam to NFG in respect of board fees	89	-
Amounts charged by Sanlam to NFS in respect of the Onshore Bond	485	459
Amounts owed to Sanlam by NFS in respect of tax collected from the Onshore Bond	14	23

Notes to the consolidated financial statements

33. Related party transactions continued

Subsidiaries

NFG owns 100 per cent of the share capital of NFS, NIFAS and IMX. There were no transactions with IMX and NIFAS. The transactions with NFS are as follows:

	2020	2019
NFS	£'000	£'000
Amounts owed to NFG by NFS	1,828	1,760

Other related parties

There were no transactions during the period or outstanding balances due to other related parties at the period end. (2019 £nil)

Key management personnel

Key management personnel are considered to be members of the executive committee and remuneration for the year is as follows:

	2020	2019
	£'000	£'000
Short-term employee benefits	1,859	1,736
Post-employment benefits	51	61
Share-based payments	465	229
	2,375	2,026

Post-employment benefits relate to defined contribution pension scheme charges.

Notes to the consolidated financial statements

34. Events after the reporting period

On 9 February 2021, the boards of Nucleus and James Hay Holdings announced that they had agreed the terms of a recommended all cash offer to be made by James Hay Holdings, pursuant to which James Hay Holdings is to acquire the entire issued and to be issued share capital of Nucleus (the "Acquisition"). The Acquisition is intended to be effected by way of a court-sanctioned scheme of arrangement between Nucleus and the Nucleus shareholders under Part 26 of the Companies Act (the "Scheme").

Features and potential implications of the recommended offer if approved are:

The price offered by James Hay Holdings for the Acquisition of 188 pence per Nucleus share equates to total consideration for the Acquisition of approximately £144.621 million.

The Scheme requires the approval of a majority in number of those Scheme shareholders who are present and vote, either in person or by proxy, and who represent not less than 75 per cent, in nominal value of the Scheme shares voted by such Scheme shareholders at the Nucleus court meeting (expected to be held on 30 March 2021).

Implementation of the Scheme will also require the passing of a special resolution, which requires the approval of Nucleus shareholders representing at least 75 per cent of the votes cast, either in person or by proxy, at the Nucleus general meeting, which will be held immediately after the Nucleus court meeting.

In total, James Hay Holdings has received irrevocable undertakings to vote, or procure the voting, in favour of the Scheme at the Nucleus court meeting and the special resolution at the Nucleus general meeting (or in the event that the Scheme is implemented by way of a takeover offer as defined in Chapter 3 of Part 28 of the Companies Act (the "Offer"), to accept or procure acceptance of the Offer) from Nucleus shareholders holding in aggregate 42,732,982 Nucleus shares (representing approximately 55.88 per cent of the existing issued share capital of Nucleus as at 4 March 2021).

The Acquisition is subject to receipt of consent from the FCA.

The current non-executive directors of Nucleus will resign from Nucleus on or after the effective date of the Scheme.

The admission of Nucleus shares to trading on AIM will be cancelled as of or shortly following the effective date of the Scheme.

Outstanding unvested awards granted under the LTIP will vest and become exercisable to the extent determined by the Nucleus Remuneration and HR Committee.

The aggregate fees and expenses expected to be incurred by Nucleus in connection with the Acquisition are estimated to amount to £2,816,392, excluding applicable VAT and other taxes.

This aggregate number consists of the following categories:

	£
Financial and corporate broking advice	2,386,242[1]
Legal advice	370,000[2]
Accounting advice	Nil
Public relations advice	15,000
Other professional services	Nil
Other costs and expenses	45,150
Total (excluding VAT)	2,816,392
Total[3] estimated cost to company	3,379,670

[1] The total amount payable in respect of the aggregate fees and expenses for these services depends on whether the Acquisition becomes effective.

[2] This total is based on estimates and does not include disbursements.

[3] Nucleus is subject to a partial VAT exemption, as such limited VAT is expected to be reclaimed by the group for these costs

The Acquisition is considered to be a non adjusting post balance sheet event.

There were no other subsequent events that required adjustment to or disclosure in the financial statements for the period from 31 December 2020 to the date upon which the financial statements were available to be issued.

Company statement of financial position

	Note	31 December 2020 £'000	31 December 2019 £'000
Assets			
Non-current assets			
Intangible assets	5	1,955	-
Right of use lease assets	6	3,026	3,463
Property, plant and equipment	7	834	934
Investments in subsidiary companies	8	7,645	7,645
Deferred tax	14	229	107
		13,689	12,149
Current assets			
Trade and other receivables	9	3,179	3,174
Cash and cash equivalents	10	2,025	1,007
		5,204	4,181
Total assets		18,893	16,330
Equity			
Shareholders' equity			
Called up share capital	18	76	76
Capital redemption reserve	18	53	53
Share-based payment reserve	18	1,174	465
Treasury shares	18	(223)	(120)
Retained earnings	18	9,585	8,632
Total equity		10,665	9,106
Liabilities			
Non-current liabilities			
Lease liabilities	12	3,243	3,737
Provisions	13	223	99
		3,466	3,836
Current liabilities			
Lease liabilities	12	494	475
Trade and other payables	11	3,581	2,883
Tax payable		217	30
Provisions	13	470	-
		4,762	3,388
Total liabilities		8,228	7,224
Total equity and liabilities		18,893	16,330

In accordance with section 408 of the Companies Act 2006, the company is exempt from the requirement to present its own income statement and a statement of comprehensive income. The company's profit for the year was £1,713,440 (2019: £5,094,729). Included in this amount is dividends received of £1,000,000 (2019: £4,718,988), which are recognised when the right to receive payment is established. The company recognised no other income or expenses in either the current or prior year, other than the profit for each year.

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 22 March 2021.

S J Geard
Director

The notes on pages 91 to 103 form part of these financial statements.

Company statement of changes in equity

	Note	Called up share capital £'000	Retained earnings £'000	Treasury shares £'000	Capital redemption reserve £'000	Share-based payment reserve £'000	Total equity £'000
Balance at 1 January 2020		76	8,632	(120)	53	465	9,106
Changes in equity							
Other movements		-	-	-	-	-	-
Profit for the year		-	1,713	-	-	-	1,713
Dividend paid		-	(760)	-	-	-	(760)
Purchase of own shares		-	-	(103)	-	-	(103)
Share based payments charge (excl NIC)		-	-	-	-	709	709
Balance at 31 December 2020		76	9,585	(223)	53	1,174	10,665

	Note	Called up share capital £'000	Retained earnings £'000	Treasury shares £'000	Capital redemption reserve £'000	Share-based payment reserve £'000	Total equity £'000
Balance at 1 January 2019		76	7,481	(29)	53	150	7,731
IFRS 16 conversion		-	(71)	-	-	-	(71)
Changes in equity							
Profit for the year		-	5,095	-	-	-	5,095
Dividend paid		-	(3,873)	-	-	-	(3,873)
Purchase of own shares		-	-	(91)	-	-	(91)
Share based payments charge (excl NIC)		-	-	-	-	315	315
Balance at 31 December 2019		76	8,632	(120)	53	465	9,106

The notes on pages 91 to 103 form part of these financial statements.

Company statement of cash flows

	Note	2020 £'000	2019 £'000
Cash flows from operating activities			
Cash inflows/(outflows) from operations	16	2,342	(1,014)
Income tax paid		(30)	(1)
Net cash inflows/(outflows) from operations		2,312	(1,015)
Cash flows from investing activities			
Business combination payment	4	(1,500)	-
Purchase of tangible fixed assets	7	(15)	(10)
Dividend received		1,729	4,719
Net cash inflow from investing activities		214	4,709
Cash flows from financing activities			
Interest paid		(168)	(180)
Dividend paid		(760)	(3,873)
Purchase of Treasury shares		(103)	(91)
Lease payments - principal	12	(475)	(301)
Net cash outflows from financing activities		(1,506)	(4,445)
Increase/(decrease) in cash and cash equivalents		1,020	(751)
Cash and cash equivalents at beginning of year		1,007	1,758
Effects of exchange rate changes		(2)	-
Cash and cash equivalents at end of year		2,025	1,007

The notes on pages 91 to 103 form part of these financial statements.

Notes to the company financial statements

1. Accounting policies

Nucleus Financial Group plc (the company) is a public limited company incorporated in the United Kingdom and registered in England and Wales.

In accordance with Section 408 of the Companies Act 2006, the company is exempt from the requirement to produce its own income statement and statement of comprehensive income.

The significant accounting policies applied in the preparation of these company financial statements are the same as those set out in note 1 to the consolidated financial statements with the addition of the following:

Investments in subsidiaries

Investments in subsidiaries are valued at cost less any provision for impairment. At each reporting date, the directors assess whether there is any indication that an asset may be impaired. If any such indication exists, the directors will estimate the recoverable amount of the asset. There was no impairment during the year.

2. Critical accounting judgements and key sources of estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and judgements applied in the preparation of these company financial statements are the same as those set out in note 2 to the consolidated financial statements.

3. Staff costs

Staff costs paid by the company and the number of employees are detailed in note 6 to the consolidated financial statements. The company recharges an element of this cost to NFS.

The company's pension commitments are disclosed in note 31 to the consolidated financial statements.

Directors' remuneration and compensation of key management personnel is disclosed in notes 7 and 33 to the consolidated financial statements.

Notes to the company financial statements

4. Business combination

On 11 December 2020 Nucleus Financial Group plc acquired the UK business and assets of Genpact Wealth Management UK Limited (which operates under the trading name OpenWealth) as they pertain to Nucleus. In November 2018 Nucleus unbundled its technology arrangements from OpenWealth, contracting directly with Bravura Solutions (UK) Ltd.

The board of Nucleus believes that the acquisition of the assets that pertain to Nucleus will allow the group to:

- further accelerate its product development and automation programme,
- provide scope to enhance the level and efficiency of its offline service,
- create new growth opportunities for its people, and
- accelerate the expansion of its operating margin as it grows AUA.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

Purchase consideration	£'000
Cash paid	1,500
Deferred consideration	88
Contingent consideration	382
Total purchase consideration	1,970

Nucleus is required to pay OpenWealth additional consideration in relation to certain contracts throughout 2021. The final amount due will be determined on actual costs incurred by OpenWealth. The fair value of the consideration as at 31 December 2020 has been based on the value of the costs expected to be incurred.

The assets and liabilities recognised as a result of the acquisition are as follow:

	£'000
Property, plant and equipment	15
Goodwill	1,955
Net assets acquired	1,970

The goodwill is attributable to the skilled workforce and acquired wrap administration back offices processes, and the expected synergies from combining the operations of Nucleus and OpenWealth. None of the goodwill recognised is expected to be deductible for tax purposes.

Notes to the company financial statements

5. Intangible Assets

	Goodwill	Total
Cost	£'000	£'000
At 1 January 2020	-	-
Additions	1,955	1,955
Write-offs	-	-
At 31 December 2020	1,955	1,955
Amortisation		
At 1 January 2020	-	-
Charge for the year	-	-
Impairments	-	-
At 31 December 2020	-	-
Net book value		
At 31 December 2020	1,955	1,955
At 31 December 2019	-	-

Notes to the company financial statements

6. Right of use lease assets

	Right of use asset Greenside Edinburgh £'000	Total £'000
Cost		
At 1 January 2020	3,901	3,901
Additions	-	-
Disposals	-	-
At 31 December 2020	3,901	3,901
Depreciation		
At 1 January 2020	438	438
Charge for the year	437	437
Eliminated on disposals	-	-
At 31 December 2020	875	875
Net book value		
At 31 December 2020	3,026	3,026
At 31 December 2019	3,463	3,463

	Right of use asset Greenside Edinburgh £'000	Total £'000
Cost		
At 1 January 2019	-	-
Transition to IFRS 16	3,901	3,901
Additions	-	-
Disposals	-	-
At 31 December 2019	3,901	3,901
Depreciation		
At 1 January 2019	-	-
Transition to IFRS 16	-	-
Charge for the year	438	438
Eliminated on disposals	-	-
At 31 December 2019	438	438
Net book value		
At 31 December 2019	3,463	3,463
At 31 December 2018	-	-

Notes to the company financial statements

7. Property, plant and equipment

	Short-term leasehold property £'000	Fixtures and fittings £'000	Office equipment £'000	Total £'000
Cost				
At 1 January 2020	1,147	-	-	1,147
Additions	-	8	7	15
Disposals	-	-	-	-
At 31 December 2020	1,147	8	7	1,162
Depreciation				
At 1 January 2020	213	-	-	213
Charge for the year	115	-	-	115
Eliminated on disposals	-	-	-	-
At 31 December 2020	328	-	-	328
Net book value				
At 31 December 2020	819	8	7	834
At 31 December 2019	934	-	-	934

	Short-term leasehold property £'000	Fixtures and fittings £'000	Office equipment £'000	Total £'000
Cost				
At 1 January 2019	1,137	-	-	1,137
Transition to IFRS 16	-	-	-	-
Additions	10	-	-	10
Disposals	-	-	-	-
At 31 December 2019	1,147	-	-	1,147
Depreciation				
At 1 January 2019	99	-	-	99
Transition to IFRS 16	-	-	-	-
Charge for the year	114	-	-	114
Eliminated on disposals	-	-	-	-
At 31 December 2019	213	-	-	213
Net book value				
At 31 December 2019	934	-	-	934
At 31 December 2018	1,038	-	-	1,038

Notes to the company financial statements

8. Investments in subsidiary companies

	2020	2019
Cost	£'000	£'000
At 1 January and 31 December	7,645	7,645

Subsidiary undertakings

The following are subsidiary undertakings of the company:

Nucleus Financial Services Limited

Registered office: Elder House, St Georges Business Park, 207 Brooklands Road, Weybridge, Surry, England, KT13 0TS

Class of shares: Ordinary

Holding: 100%

Principal activity: Provision of wrap administration services to selected financial advisers in the United Kingdom.

	2020	2019
	£'000	£'000
Aggregate capital and reserves	19,587	17,391
Profit for the financial year	3,196	5,502

Nucleus IFA services Limited

Registered office: Greenside, 12 Blenheim Place, Edinburgh, Scotland, EH7 5JH

Class of shares: Ordinary

Holding: 100%

Principal activity: Provision of platform technology, sales, marketing and platform development services to NFS. Trade was transferred to NFS on 1 April 2017

	2020	2019
	£'000	£'000
Aggregate capital and reserves	99	726
Profit for the financial year	1	78

Nucleus IMX Limited

Registered office: Elder House, St Georges Business Park, 207 Brooklands Road, Weybridge, Surry, England, KT13 0TS

Class of shares: Ordinary

Holding: 100%

Principal activity: Non-trading subsidiary

	2020	2019
	£	£
Aggregate capital and reserves	1	1
Profit for the financial year	-	-

Notes to the company financial statements

9. Trade and other receivables

	2020	2019
	£'000	£'000
Amounts owed by group undertakings	1,828	2,231
Other debtors	105	57
Prepayments	1,246	886
	3,179	3,174

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

10. Cash and cash equivalents

	2020	2019
	£'000	£'000
Cash at bank and in hand	2,025	1,007

11. Trade and other payables

	2020	2019
	£'000	£'000
Trade creditors	441	407
Social security and other taxes	496	371
Other creditors	258	9
Accruals	2,386	2,096
	3,581	2,883

Notes to the company financial statements

12. Lease liabilities

	2020 £'000	2019 £'000
Non-current:		
Lease liabilities	3,243	3,737
Current:		
Lease liabilities	494	475

	1 year or less £'000	1 - 2 years £'000	2-5 years £'000	> 5 years £'000	Total £'000
2020					
Lease liabilities	494	513	1,666	1,064	3,737
2019					
Lease liabilities	475	494	1,602	1,641	4,212

13. Provisions

	2020 £'000	2019 £'000
Dilapidations	99	65
Share incentive plans	124	34
Business combination	470	-
	693	99
Analysed as follows:		
Current	470	-
Non-current	223	99
	693	99

Notes to the company financial statements

13. Provisions continued

	Business combination £'000	Share incentive plans £'000	Dilapidations £'000	Total £'000
At 1 January 2019	-	-	32	32
Provided during year	-	34	33	67
Utilised during year	-	-	-	-
At 31 December 2019	-	34	65	99
Provided during year	-	90	34	124
Provided during year - business combination	470	-	-	470
Utilised during year	-	-	-	-
At 31 December 2020	470	124	99	693

Share incentive plans

Provisions for share incentive plans relate to the LTIP which is a HMRC unapproved equity-settled scheme. The company is liable to pay employers' NIC upon exercise of the options. The provision is calculated using the applicable employers' NIC rate applied to the number of share awards expected to vest, valued at the share price at the reporting date. The provision is recognised over the vesting period of the shares awarded.

Dilapidations

During the year, the company utilised the remainder of the dilapidations provision relating to the previous leasehold premises following completion of contractual restoration obligations. The current balance provides for dilapidations relating to the company's new leasehold office premises at Greenside, Edinburgh. This is calculated using the Building Cost Information Service survey (part of the Royal Institution of Chartered Surveyors) of average settlement figures for offices, adjusted for inflation, and the square footage of the company's leasehold premises. The provision has been classified as non-current due to the likelihood of its utilisation at the end of the lease in 2027.

Business combination

As part of the agreement to acquire OpenWealth, Nucleus is required to pay additional consideration in relation to certain contracts. The final amount due will be determined on actual costs incurred by OpenWealth. The fair value of the consideration as at 31 December 2020 has been based on the value of the costs expected to be incurred.

Notes to the company financial statements

14. Deferred tax

	Accelerated capital allowances £'000	Short term timing differences £'000	Losses and other deductions £'000	Total £'000
At 1 January 2019	8	17	138	163
(Charge)/credit to statement of comprehensive income	(1)	81	(136)	(56)
At 31 December 2019	7	98	2	107
(Charge)/credit to statement of comprehensive income	(1)	125	(2)	122
At 31 December 2020	6	223	-	229

The total potential deferred tax asset arising in respect of unutilised tax losses and timing differences at 31 December 2020 is £nil (2019 £562,305).

15. Financial instruments

	Financial liabilities at amortised cost £'000	Financial assets at amortised cost £'000	Total £'000
2020			
Financial assets			
Cash and cash equivalents	-	2,025	2,025
Trade and other receivables	-	1,933	1,933
Total financial assets	-	3,958	3,958
Non-financial assets			14,935
Total assets			18,893
Financial liabilities			
Finance lease obligations	3,737	-	3,737
Trade and other payables	3,085	-	3,085
Total financial liabilities	6,822	-	6,822
Non-financial liabilities			1,406
Total liabilities			8,228

Notes to the company financial statements

15. Financial instruments continued

	Financial liabilities at amortised cost £'000	Financial assets at amortised cost £'000	Total* £'000
2019			
Financial assets			
Cash and cash equivalents	-	1,007	1,007
Trade and other receivables*	-	2,288	2,288
Total financial assets	-	3,295	3,295
Non-financial assets			12,149
Total assets			15,444
Financial liabilities			
Finance lease obligations	4,212	-	4,212
Trade and other payables*	2,512	-	2,512
Total financial liabilities	6,724	-	6,724
Non-financial liabilities			500
Total liabilities			7,224

*Prepayments of £886k and social security and other taxes of £371k are not considered to be financial assets and liabilities per IAS 32 but were previously disclosed as such, and have been re-presented as non-financial assets and non-financial liabilities.

Notes to the company financial statements

15. Financial instruments continued

2020

Financial assets	< 3 months £'000	3-12 months £'000	1-5 years £'000	>5 years £'000	Total £'000
Cash and cash equivalents	2,025	-	-	-	2,025
Trade and other receivables	1,852	81	-	-	1,933
	3,877	81	-	-	3,958

2019

Financial assets	< 3 months £'000	3-12 months £'000	1-5 years £'000	>5 years £'000	Total* £'000
Cash and cash equivalents	1,007	-	-	-	1,007
Trade and other receivables*	2,287	1	-	-	2,288
	3,294	1	-	-	3,295

2020

Financial liabilities	< 3 months £'000	3-12 months £'000	1-5 years £'000	>5 years £'000	Total £'000
Trade and other payables	2,888	197	-	-	3,085
Lease liabilities	123	369	2,179	1,064	3,735
	3,011	566	2,179	1,064	6,820

2019

Financial liabilities	< 3 months £'000	3-12 months £'000	1-5 years £'000	>5 years £'000	Total* £'000
Trade and other payables*	2,512	-	-	-	2,512
Finance lease obligations	119	356	2,096	1,641	4,212
	2,631	356	2,096	1,641	6,724

*Prepayments of £886k and social security and other taxes of £371k are not considered to be financial assets and liabilities per IAS 32 but were previously disclosed as such, as maturities of < 3 months, and have been re-presented as non-financial assets and non-financial liabilities.

Notes to the company financial statements

16. Reconciliation of profit before tax to cash generated from operations

	2020	2019
	£'000	£'000
Profit before income tax	1,808	5,182
Depreciation	552	552
Share based payments charge (excl NIC)	709	315
Increase in trade and other receivables	(5)	(1,792)
Increase/(decrease) in trade and other payables	698	(799)
Increase in other provisions	139	67
Net exchange differences	2	-
Interest paid	168	180
Dividend received	(1,729)	(4,719)
Cash inflows/(outflows) from operations	2,342	(1,014)

17. Dividends

Details of dividends paid are disclosed in note 11 to the consolidated financial statements.

18. Called up share capital

Details of the share capital of the company are disclosed in note 22 to the consolidated financial statements.

19. Share-based payments

For details of the company's share schemes, including the valuation models used, refer to note 26 in the consolidated financial statements.

20. Reserves

Details of the company's reserves are disclosed in note 23 to the consolidated financial statements.

21. Related party transactions

Details of related party transactions are disclosed in note 33 to the consolidated financial statements.

22. Controlling party

Details of the ultimate controlling party are disclosed in note 32 to the consolidated financial statements.

Company information

Directors

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D R Ferguson
S J Geard
M G Hassall
J A Levin
J C Polin
J A A Samuels
A Tagliabue

Company secretary

M Bruce

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Definitions and glossary of technical terms

Definitions and glossary of technical terms

The following definitions apply throughout this document:

Industry-specific financial performance measures	Included within this results announcement are alternative measures that the directors believe help to inform the results and financial position of the group
Adjusted	Denotes that a standard or defined financial performance measure is adjusted for non-recurring items, transactions that do not reflect the normal operating activities of the group and share-based payments
Adjusted EBITDA	Adjusted EBITDA excludes non-operating income, AIM admission costs, exceptional items, share-based payments, loss on disposal of fixed assets and includes ROU asset depreciation and ROU lease liability interest
Adjusted EBITDA margin	Adjusted EBITDA expressed as a percentage of revenue
Adjusted earnings per share (EPS)	Value of adjusted profit after tax divided by weighted average number of shares
Adjusted profit after tax	The adjusted profit before tax less the adjusted profit before tax multiplied by the standard rate of corporation tax in the UK
AUA	Assets under administration
Average AUA	The average AUA balance for the period is calculated as the average of the end of day AUA balances during the period
Blended revenue yield (bps)	Net revenue is divided by the average assets under administration. For interim periods the net revenue is annualised using the number of days in the period
Capital adequacy ratio	A capital adequacy measure calculated by dividing regulatory capital over risk weighted exposures
Compound asset growth rate	Average growth rate over a period of time expressed as an annualised percentage
EBITDA	Earnings Before Interest Tax Depreciation and Amortisation
Gross inflows	Value of cash and assets received onto the platform
Industry-specific financial-performance measures	Alternative performance measures that the directors believe help to inform the results and financial position of the group
Net inflows	Value of Gross inflows less Outflows
Net Revenue	Net revenue comprises revenue earned on the platform less the direct fees that are payable to product providers of the platform
Outflows	Value of cash and assets leaving the platform
ROU asset/liability	Right of use asset/liability

Definitions and glossary of technical terms

Glossary

AIM Rules	The rules published by London Stock Exchange entitled AIM Rules for Companies
BPO	Business process outsourcing. The contracting of the operations and responsibilities of a specific business process to a third-party service provider.
Customers	The customers of Nucleus, whose assets are managed by financial advisers through the platform
FCA	The Financial Conduct Authority
Icaap	The internal capital adequacy assessment process
IFPRU	The Prudential sourcebook for Investment Firms
IFRS	International Financial Reporting Standards as adopted by the United Kingdom and European Union
IMX	IMX is a discretionary investment management solution
MiFID II	The EU Markets in Financial Instruments Directive (2014/65/EU)
NFS	Nucleus Financial Services Limited
Nucleus or the Group	The Company and its subsidiaries
Sanlam	Sanlam UK Limited
SM&CR	Senior Managers and Certification Regime

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3-2021