

Creating value through greater alignment of adviser and customer interests

Nucleus Financial Group plc

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

Company registration number 05522098

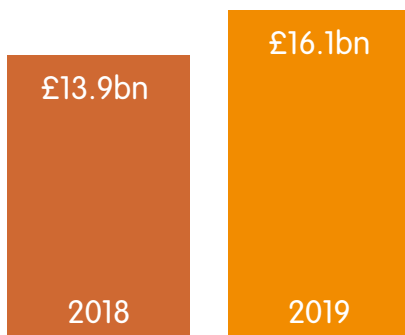
2019 highlights



3.3% increase in the number of active advisers from 1,396 to 1,442

Assets under administration ¹

16.3% increase



3.4% increase in customer numbers from 93,715 to 96,857

Average AUA ¹

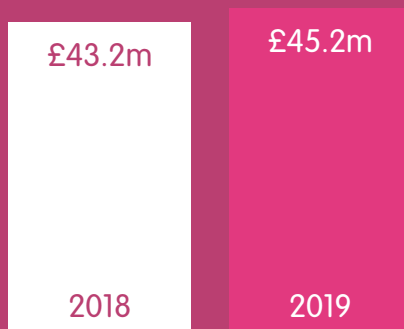
Growth 7.5%



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. These are defined in the definitions and glossary of technical terms section.

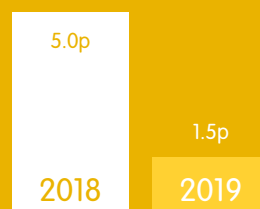
Net revenue ¹

4.8% increase



Adjusted EBITDA¹
£7.9m
(2018 £8.3m)

Full year dividend per share (p)*



*2019 final dividend suspended

Covid-19

In light of the rapidly evolving situation regarding Covid-19 at the time of writing, we've highlighted key areas in this report where this is referenced.

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Profit for the year

25.2% increase



Earnings per share
up 23.8% to 7.8p,
from 6.3p in 2018

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nucleus

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Chairman's statement

Weathering the storm

2019 is likely to be remembered as one where many industries, not least our own, were temporarily stymied as geopolitical events ran their course during the prolonged political malaise ahead of the election. Our sector has, however, weathered many of these storms over the years and has once again proven itself to be resilient. 2020 has started with an altogether different challenge with the devastation currently being wrought across the globe by the Covid-19 pandemic. David considers the impact of the rapidly evolving situation on our business, our people and our users, in his CEO report. The need to save and invest for our future never goes away, it is only ever put to the side for a while.



Angus Samuels
Chairman

“... it is pleasing to see continued growth across many of our key performance indicators including growth in assets, revenue and profit, as well as the number of customers and advisers using the platform.”

All of which makes our financial performance for last year the more gratifying, recording a 25.2 per cent increase in profit after tax of £6.0m on revenue of £51.5m, noting that 2018 included £1.7m of AIM admission costs. David and Stuart provide full detail of the key financial results in the reports that follow but it is pleasing to see continued growth across many of our key performance indicators (KPIs) including growth in assets, revenue and profit, as well as the number of customers and advisers using the platform.

As anticipated in last year's report, the completion of the restructuring of our outsourced operations at the end of 2018 allowed us to significantly accelerate our delivery of operating efficiencies and our product development over the year.

This included material investment in enhancing the core platform proposition for advisers, a further platform upgrade, improvements in our customer service infrastructure and the successful completion of a further round of regulatory change.

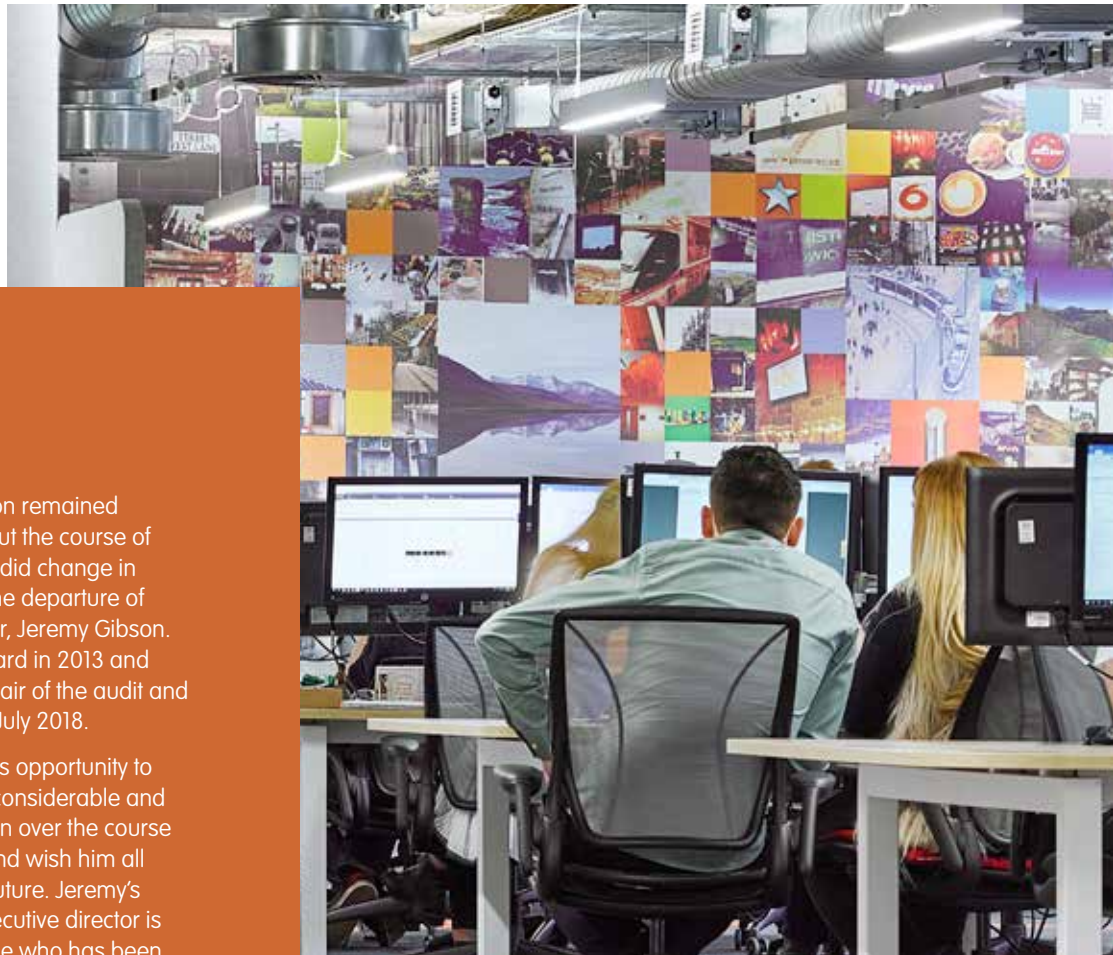
The business also entered into a number of strategic distribution relationships in the year, including a partnership with one major IFA consolidator, and is in active discussions with others. We expect these new relationships to enhance the resilience of net inflows and to present future growth opportunities.

The board

The board composition remained unchanged throughout the course of the financial year but did change in February 2020 with the departure of non-executive director, Jeremy Gibson. Jeremy joined the board in 2013 and was previously the chair of the audit and risk committees until July 2018.

I would like to take this opportunity to thank Jeremy for his considerable and invaluable contribution over the course of the last six years and wish him all the very best for the future. Jeremy's position as a non-executive director is filled by Alfio Tagliabue who has been the CEO of Sanlam Investments UK since 2016. Alfio's previous roles include CFO at Sanlam UK and Ashcourt Rowan, and he has many years as a board level consultant to the asset and wealth management industries. I would like to extend a warm welcome to Alfio.

“Culture and values lie at the heart of any good business and our engagement with our people is key to this.”



Governance

The business is subject to the Quoted Companies Alliance (QCA) corporate governance code and the board is committed to ensuring the highest level of compliance with this. With the recent change in board composition, I'm 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 strategic direction of the company.

The long-term success of the business is reliant on the strength of its corporate culture and the board continues to recognise the importance of good governance, and effective and resilient systems and controls in supporting the executive management in their development and delivery of the company's strategy.

Full details of the work of the board and its committees can be found in the corporate governance statement on page 40.



Culture and people

Culture and values lie at the heart of any good business and our engagement with our people is key to this. We've made positive strides in our people strategy this year with a strong focus on individual accountability ahead of the introduction of the Senior Managers and Certification Regime (SM&CR) on 9 December 2019.

Given the challenging market conditions, I would like to thank the entire team at Nucleus for their commitment, focus and resilience throughout the year.

Dividend

In light of the exceptional and open-ended uncertainty caused by the Covid-19 pandemic and the rapidly changing environment, the board has decided, in the interests of prudence, not to recommend a dividend until there is more certainty around the term and impact on markets, investor confidence and revenue.

Outlook

Politics aside, the decisiveness of the general election and resolution of the Brexit withdrawal agreement have seeded encouraging signs of recovery in investor confidence, with Nucleus recording a 37.8 per cent increase in net inflows in the last quarter of the year compared to the previous quarter.

The positive inflow momentum from Q4 continued into the first quarter of 2020 and there was limited impact on inflows as a result of the Covid-19 pandemic until the latter part of March when the typical step up in tax year end contributions eased off. However, the value of most asset classes fell considerably in March, and, as the significant uncertainty continues, it is too early to estimate the impact of the pandemic on Nucleus' performance.

Notwithstanding this uncertainty, the group has a robust capital structure and solvency position, high conversion rate of profit to cash, no borrowings and available liquidity.

Against a backdrop of extraordinary political division and uncertainty in the UK for much of 2019, I'm pleased with the company's financial performance over the past year. Underpinned by anticipated continuing sector growth, Nucleus' broader and deeper skills set including technology capabilities, enhanced infrastructure, and recurring fee model, give the board confidence in the company's ability to deliver its plans and to manage the competitive challenges that lie ahead.

Angus Samuels
Chairman

Chief executive's report

Building on our purpose

It's impossible to begin this report without making reference to the Covid-19 pandemic currently wreaking havoc across our planet. The extremely 'live' nature of this situation means that the non-historic aspects of this report are exposed to external events more than ever before.

£16.1bn

Assets under administration

£1.9bn

Gross inflows



David Ferguson
Founder and chief executive

I hope you will read the words that follow in that context but also in the knowledge that prior to the outbreak, we were feeling very positive about our prospects and what might be achievable in the coming years. I expect us to navigate this period successfully and for us to continue to deliver on those matters within our control. This should mean that as and when some sort of normality returns, we can return to the financial trajectory we had previously been working toward.

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

For now (and returning to the traditional format of this report) I would like to remind you that Nucleus was founded to create value through greater alignment of adviser and customers interests, and we set out to achieve this by building the most technology-led platform in the UK. Despite the challenging sector headwinds, we made good progress during the course of 2019 and closed the year with a stronger than ever combination of online product capability and offline service. We continue to invest in the team that made this possible. Their efforts have positioned us well as the financial planning and wealth management markets continue to evolve. Commercial and regulatory pressures require all market participants to deliver value for money and we are excited about what we can achieve in the coming years. We were also pleased to win CoreData's 'best medium platform' award for the eighth year in succession and to achieve five-star status in the Financial Adviser service awards.

Operational performance

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

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

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

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

Financial performance and dividend

Net revenue was up 4.8 per cent to £45.2m and we recorded an adjusted EBITDA of £7.9m (2018: £8.3m). Consistent with our expectations, this represents a slight short-term deterioration in operating margin over 2018 and reflects our continued investment to accelerate future growth. On a reported basis, we increased profit after tax and earnings per share by 25.2 per cent and 23.8 per cent respectively, noting that 2018 included £1.7m of AIM admission costs.

Further details are contained in Stuart's report but in light of the Covid-19 situation, the board has taken the prudent decision not to recommend a dividend until there is more certainty around the term and impact on markets, investor confidence and revenue. While this would typically be considered an unusual decision, we are in uncharted waters and I believe it to be the correct course of action at this stage. The decision to suspend payment of the 2019 final dividend will allow the group to preserve capital until there is greater clarity on the effect of Covid-19 and the board will continue to assess the situation and the appropriateness of paying a second interim dividend relating to the financial year ended 31 December 2019.

Our people

We've reshaped the organisation over the last two years, and this will continue as we direct more of our people costs toward our technology functions. Overall, we welcomed 64 new colleagues in 2019 and grew full-time equivalent headcount to 236 at the year-end, with over 70 per cent of these roles involved in product management, platform operations, or servicing our audience.

Our strategy of balancing the agility, scalability and resilience of our product with high touch offline service requires us to continue to invest in these areas over time. People engagement has been strong throughout the year and the team feels well set to achieve our objectives for 2020 and beyond. We made positive progress in narrowing our gender pay gap, reducing this by 1.7 per cent while women in senior positions remained at 32 per cent.

Kirsty Lynagh
Chief people officer



“I’m very pleased to announce we plan to launch Nucleus IMX, a discretionary investment management proposition in 2020.”

Strategic development

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

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

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

Outlook and Covid-19

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

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

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

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

We face a new challenge this year with the rapid change in the development of Covid-19, and it is entirely uncertain what impact this might have on businesses and the economy. The outlook is impossible to predict, but I can say that we remain open for business, and cash generative each day. Our highest priorities are the health and wellbeing of our people, users and customers and we are taking every possible action to adapt to the situation and ensure we continue to deliver our online product as normal, backed up by top quality offline support. Our platform is fully operational and all of our people are successfully working remotely with no impact on service. We are in continual dialogue with our users and our material service providers and I consider our operations to be resilient, recognising that our user experience remains reliant (as ever) on the performance of many of the interconnected parties that comprise the overall financial system.

David Ferguson
Founder and chief executive

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 over 1,440 active financial advisers from more than 880 financial advice firms as at 31 December 2019. We are responsible for AUA of £16.1bn on behalf of more than 96,000 customers.

The platform offers a range of custody, trading, payment, reporting, fee-handling, research and integration services across a variety of tax wrappers and around 5,000 asset choices including cash, OEICs, unit trusts, offshore funds, structured products and listed securities, including ETFs and investment trusts, and currently facilitates over 1.4 million customer account transactions on average per month.

We create value through greater alignment of adviser and customer interests.



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.



Section 172 report

Strategic decisions

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

Case study one

Propositional enhancements and core technology upgrade

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

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

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

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

Case study two

Culture and governance

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

The board took a decision to invest in building a capability and accountability framework, (details of which can be found on page 45) to strengthen our existing systems and controls and align with our delivery of a key regulatory change to comply with the new SM&CR for solo-regulated firms.

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

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

Factors all directors must take into account:

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



Customers

What matters most

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

How do we engage

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

How did we respond

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

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

We acknowledge that this involves both judgment and process.

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

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



Platform users

What matters most

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

How do we engage

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

How did we respond

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



Shareholders

What matters most

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

How do we engage

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

How did we respond

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



Our people

What matters most

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

How do we engage

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

How did we respond

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

Our purpose

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



Regulators

What matters most

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

How do we engage

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

How did we respond

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



Suppliers

What matters most

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

How do we engage

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

How did we respond

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



Community and wider society

What matters most

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

How do we engage

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

How did we respond

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

Chief financial officer's report

Positive Momentum

2019 was a year that was characterised by political and economic uncertainty and market volatility, but which ended on a more solid footing as the political environment stabilised. The removal of these key issues in the last quarter of the year led quickly to a return in investor confidence allowing us to post a fourth consecutive quarter of gross inflow growth.



Stuart Geard
Chief financial officer

“...restructuring of our primary outsourcing relationships towards the end of the previous year, increased investment in online functionality and offline service...”

This positive momentum continued into the start of 2020 and while it will undoubtedly be impacted by the uncertainty and disruption brought about by Covid-19, gives us increased confidence for when there is a return to stability.

Returning to 2019, the difficult environment did have a negative impact on overall gross and net inflows in 2019, and by implication AUA and revenue and required us to carefully balance the need to respond to the challenging environmental conditions and our desire to continue investing in our business.

As a result, Nucleus delivered a satisfactory financial performance in 2019, with its key financial metrics reflecting the impact of lower than expected net inflows and AUA, the restructuring of our primary outsourcing relationships towards the end of the previous year, increased investment in online functionality and offline service, and effective management of costs.

We remain confident that our investment in new initiatives and the ongoing development of our service and proposition leave us well-placed to benefit from a recovery in markets and investor sentiment, and to take advantage of the longer-term sectoral opportunity.

Financial key performance indicators



	Year ended December 2019	Year ended December 2018	Year ended December 2017	Year ended December 2016	Year ended December 2015
Group	£'000	£'000	£'000	£'000	£'000
AUA ¹	16,141,279	13,883,713	13,576,703	11,143,757	9,068,789
Gross inflows ¹	1,941,712	2,290,236	2,607,759	1,854,830	1,977,783
Net inflows ¹	509,444	1,193,502	1,668,237	970,263	1,229,625
Revenue	51,517	49,405	45,462	37,483	33,091
Net revenue ¹	45,234	43,154	39,361	32,407	28,166
Adjusted EBITDA ¹	7,923	8,304	6,248	5,141	4,637
Profit for the year after tax	5,953	4,756	4,111	3,387	4,300
Dividend paid	3,873	3,933	4,813	nil	nil
Adjusted EBITDA margin ¹	17.5%	19.2%	15.9%	15.8%	16.5%

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

	Year ended December 2019	Year ended December 2018
	£m	£m
Group		
Opening AUA	13,884	13,577
Inflows	1,941	2,290
Outflows	(1,432)	(1,097)
Net inflows	509	1,193
Market movements	1,748	(886)
Closing AUA	16,141	13,884
Average AUA	15,180	14,124
	Year ended December 2019	Year ended December 2018
	£'000	Restated ¹ £'000
Group		
Revenue	51,517	49,405
AUA related fees paid	(6,283)	(6,251)
Net revenue	45,234	43,154
Other income	105	-
Total operating income	45,339	43,154
Staff costs	(14,590)	(14,142)
AUA related costs	(10,197)	(11,131)
Other direct platform costs ¹	(3,389)	(1,522)
Platform development costs	(2,948)	(1,682)
Other costs ¹	(6,292)	(6,373)
Adjusted EBITDA*	7,923	8,304
Depreciation*	(667)	(585)
Adjusted EBIT	7,256	7,719
Interest income	80	11
Interest expense*	(2)	(7)
Adjusted profit before tax	7,334	7,723
Other non-operating income	17	22
AIM admission costs	-	(1,688)
Share-based payments	(349)	(404)
Statutory profit before tax	7,002	5,653
Taxation	(1,049)	(897)
Statutory profit after tax	5,953	4,756
Adjusted profit after tax	5,941	6,255
Basic and diluted EPS	7.8p	6.3p
Adjusted EPS	7.8p	8.2p
Blended revenue yield (bps)** ¹	29.8	30.6
Adjusted EBITDA margin	17.5%	19.2%

¹ Platform-related mailing, bank charges, and errors and losses have been reclassified and restated from "other costs" to "other direct platform costs".

* Adjusted EBITDA excludes non-operating income, AIM admission costs 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.

Revenue

AUA increased by 16.3 per cent over the year, from £13.9bn at 31 December 2018 to £16.1bn at 31 December 2019, compared to a 14.2 per cent increase in the FTSE All-Share index over the same period. The £2.2bn increase in AUA comprised the impact of market movements of £1.7bn as markets recovered from their sharp decline in Q4 2018, as well as net inflows of £509m, which were lower than in the previous year. This reflected not only the impact of the difficult external environment on gross inflows, but also the impact of increased outflows attributable to the larger asset base and the withdrawal of assets by firms acquired by consolidators. Lower levels of net inflows was a sector-wide issue throughout the period as illustrated by Fundscape, who reported net sales across the platform market in Q3 2019 as being the lowest since Q4 2012, immediately before the Retail Distribution Review (Fundscape Platform Report Q319 Issue, November 2019). Net sales across the sector for the first three quarters of the year were down 39.0 per cent (on the same period in 2018).

Average AUA, which increased by 7.5 per cent over the year from £14.1bn to £15.2bn, captures the impact of market volatility throughout the year, including the strong recovery in the first quarter of 2019 and the post-general election rise in December. 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 4.8 per cent (from £43.2m in 2018 to £45.2m in 2019). The lower rate of growth in net revenue resulted in a blended revenue yield in 2019 of 29.8 basis points (2018: 30.6 basis points), reflecting a number of factors, including the revision of Nucleus' distribution agreement with Paradigm, improved terms for Paradigm customers from July 2019 and the introduction of improved terms for a small number of large adviser groups.

Costs

Staff costs increased by 3.2 per cent from £14.1m in 2018 to £14.6m in 2019, a slightly lower than anticipated increase. Notwithstanding this, full-time equivalent headcount increased from 218 to 236 over the year, with a particular focus on recruitment in technology and customer servicing roles. The group has continued to deliver on its strategy of becoming the most technology enabled platform in the UK and this is evidenced by the increase in technology and change-related roles, increasing to 70 as at 31 December 2019 and representing 29.7 per cent of our total staff.

As stated in previous communications, we expect the rate of increase in staff numbers to slow, with most additional recruitment continuing to be in technology-related roles.

AUA related costs, comprising principally the fees paid to Genpact (for administration services) and Bravura (for the licence of Sonata) decreased from £11.1m in 2018 to £10.2m in 2019, at an average cost of 6.72 bps (2018 – 7.88 bps). As stated in our half-year results, this reflects the contractual provisions within the restructured agreements as well as, to a lesser extent, the impact of service credits and the tiering benefits within a significant component of these costs. Looking forward, but subject to AUA recovering to the level prior to the market fall in Q1 2020, the group is set to benefit from the significantly lower basis points-related charges relating to incremental AUA, albeit with a reducing level of 'fixed discounts' that formed part of the Genpact contract renegotiation.

“We are encouraged by what we have achieved in 2019 and the positive working relationship we have established with Bravura...”

Third party platform development expenditure for the year was £2.9m, in line with our stated objective of spending approximately £3m per year in this area. This comprised the costs of a further upgrade to the latest version of Sonata (which was completed in February 2019), development of considerable new functionality (made available to customers and advisers through two additional releases during the year or in the development pipeline for release in 2020) and investment in testing software and other tools. We are encouraged by what we have achieved in 2019 and the positive working relationship we have established with Bravura and will seek to allocate similar amounts of capital to platform development expenditure in future years.

Other direct platform costs increased from £1.5m to £3.4m, primarily as a result of Nucleus becoming responsible for the cost of platform hosting from August 2019 and assuming the cost of platform-related printing and posting from May 2019 (following the restructure of our relationship with Genpact). This increase in costs is consistent with guidance given previously and represents an increase in the fixed cost base of the group (in exchange for a decrease in variable AUA related costs payable to Genpact). The balance of other direct platform costs relates to surround platform licence fees, bank charges and compensation costs. These costs, together with the platform-related printing and postage costs increased from £1.5m in 2018 to £2.3m in 2019, reflecting in part the responsibilities taken on from Genpact but also the larger size of the business and higher than expected compensation costs.

Since taking over the service, printing and posting costs have largely been optimised through automation, and we will seek similar efficiencies concerning the hosting of the platform. In this respect, we completed a proof of concept in H2 2019 for moving all aspects of the hosting of the platform to the cloud and will determine the optimal timing of such a move (and consequently the realisation of related cost savings) in conjunction with other development priorities.

Other costs decreased by £0.1m (or 1.3 per cent) from £6.4m in 2018. These costs, which include the costs of our larger Edinburgh head office premises (on an 'all-in' basis as opposed to an IFRS 16 Leases basis that is used for statutory reporting purposes), the incremental costs associated with being a quoted business, higher FSCS levies from April 2019 and the increased overhead costs attributable to the increased size of the business, benefited from the £0.4m settlement received from a previous service provider as well as positive variances on a number of overhead cost lines.

IFRS 16 impact

With effect from 1 January 2019 the group implemented IFRS 16 Leases, the details and impact of which are set out in the changes in accounting policies note in the financial statements. To provide a consistent and comparable indication of financial performance, adjusted EBITDA has been determined on a basis consistent with that applied in the 2018 annual report and financial statements. The required adjustment relates to IFRS 16-derived right of use (ROU) asset depreciation and ROU liability interest, which are included within other costs in the financial review.

Operating margin

Our operating margin (as reflected by the adjusted EBITDA margin) decreased from 19.2 per cent in 2018 to 17.5 per cent in 2019, mainly as a result of the contractual changes referred to above and the significant increase in platform development expenditure over the prior year. Similarly, adjusted EBITDA decreased by 4.6 per cent from £8.3m to £7.9m, a result that we are satisfied with given the difficult trading environment and the considerable investment in the business.

Profit before tax

Statutory profit before tax increased by 23.9 per cent over the previous year, with the prior year results including £1.7m of costs relating to the company's admission to the AIM market.

Share-based payment expenses decreased by 13.6 per cent to £0.3m, despite the introduction of a new LTIP tranche in 2019, reflecting the impact of the challenging environment on the stretching performance criteria within the long term incentive schemes.

Taxation

The group's effective tax rate of 15.0 per cent (2018: 15.9 per cent) incorporates the impact of expenses that are non-tax deductible of £0.1m (2018: £0.4m), more than offset by the impact of tax credit amounts of £0.3m (2018: £0.5m) in respect of qualifying research and development (R&D) expenditure relating to the prior 2 years. With the group no longer qualifying for the SME R&D scheme with effect from the beginning of 2018, an R&D tax credit in respect of 2018 has been recognised in 2019 under the RDEC scheme and accounted for as other income of £0.1m, which has then been subject to corporation tax at 19 per cent.

Dividend

During the year, and consistent with our dividend policy, we paid a final dividend in respect of the 2018 financial year of £2.7m (or 3.6 pence per share) and an interim dividend in October of £1.1m (or 1.5 pence per share). This compares to dividends paid in the prior year of £4.0m, comprising pre-admission dividends in June and July 2018 totalling £2.9m, as well as an interim dividend in October 2018 of £1.1m (or 1.4 pence per share).

As detailed in the following section on financial position, the directors are confident that the group's capital structure, solvency position, high conversion rate of profit to cash, no borrowings and available liquidity can support the group through a period of material uncertainty. However, in light of the exceptional and open-ended uncertainty caused by the Covid-19 pandemic, the recent collapse in equity markets and the still rapidly changing environment, the board has decided, in the interests of prudence, not to recommend a final dividend for the year ended 31 December 2019.

The decision to suspend payment of the 2019 final dividend will allow the group to preserve capital until there is greater clarity on the effect of Covid-19 on Nucleus, its users, its customers and the broader economy. The board will continue to assess the situation and the appropriateness of paying a second interim dividend relating to the financial year ended 31 December 2019.

The dividend suspension thus affords Nucleus increased flexibility and protection at a time of unprecedented uncertainty.

	2019 financial year		2018 financial year	
	£'000	Pence	£'000	Pence
Pre-admission dividend	-		2,870	
Interim dividend	1,139	1.5	1,063	1.4
Final dividend*	-	-	2,734	3.6
Combined dividend (post admission)*	1,139	1.5	3,797	5.0
Pay-out ratio*	19.2%		60.7%	

Cash flow

We continue to achieve a high conversion rate of operating profit to cash before payment of dividends.

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 IFRS 16 Leases.

The group has historically not recognised any intangible assets as the relevant expenditure did not meet the IFRS asset recognition criteria. This includes expenditure incurred internally or payable to third parties for the development of the platform. However, with the implementation of IFRS 16 we have recognised a right of use asset in respect of our head office premises lease, and we have also recognised, in accordance with IAS 38, an intangible asset relating to the development and licensing of Nucleus IMX which we plan to launch in H1 2020.

All surplus capital not required for working capital purposes is held in cash and is governed by an embedded capital management policy. At the end of the financial year, the group had £18.5m of cash and cash equivalents, representing 94.0 per cent (2018 – 101.1 per cent) of the group's net assets. The group also has access to a £5.0m uncommitted overdraft facility from RBS International that is undrawn and has not been accessed for the last three years.

The group's liquidity management is governed by an embedded liquidity management policy and framework. This requires the group's liquidity requirements to be projected over the five-year planning period to ensure the group has sufficient cash (including predetermined buffer levels) to run the business at all times and it is able to withstand a number of defined severe but plausible shocks.

As an IFPRU-regulated firm, Nucleus is required to maintain, at all times, financial resources and internal capital, including own funds and liquidity resources, that are adequate both as to amount and quality to ensure there is no significant risk that its liabilities cannot be met as they fall due.

* 2019 suspended

	Year ended December 2019	Year ended December 2018
	£'000	£'000
Group financial position		
Intangible assets	253	-
Right of use lease assets	3,476	-
Cash and cash equivalents	18,525	17,672
Lease liabilities	4,212	-
Net assets	19,706	17,473
Capital adequacy ratio	19.7%	20.6%
Excess capital – above 8% regulatory requirement	11,424	10,537

In practice, Nucleus determines its minimum regulatory capital requirement as the highest of the formulaic pillar I fixed overhead requirement, its internal pillar II assessment of the amount of capital required to be held against a number of identified severe but plausible risks and the net cost of performing an orderly and responsible wind-down. In addition to its regulatory minimum capital requirement, Nucleus applies a buffer of 25 per cent in setting its internal minimum capital requirement and then aims to manage its capital within a target capital range above that.

At the end of the financial year, the group had a pillar I statutory capital ratio of 19.7 per cent (amounting to £11.4m of capital in excess of the 8 per cent minimum regulatory capital requirement).

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, including in respect of staff recruitment and remuneration, platform development expenditure, discretionary expenditure, dividend payments and interim profit verification, 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.

Finally, the group's capital position is subject to a number of approved 'reverse stress tests'. These tests (which in 2019 included the collapse of financial markets as a result of a second global financial crisis but with central banks unwilling or unable to provide adequate support and stimulus) have a number of benefits, including identifying key vulnerabilities in the business that could cause it to fail, identifying external drivers that could result in a wind-down and the identification of early risk indicators and management actions.

While it is too early to estimate the impact of the Covid-19 pandemic on the group, the reaction to the uncertainty has reduced the value of most asset classes, which in turn has reduced the group's AUA and could materially impact inflows, with the consequence of both being a negative effect on revenue. Advisers, customers and suppliers will also be affected by the pandemic, although the extent of such disruption is yet to be determined. Notwithstanding this considerable uncertainty, the group has a robust capital structure and solvency position, high conversion rate of profit to cash, no borrowings and available liquidity. We 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.

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 these financial statements.

Stuart Geard
Chief financial officer

Principal risks and uncertainties

Controlling our risks

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 put in place appropriate policies and controls as safeguards.

Our key risk categories as set out 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 can be found in our Pillar 3 disclosure which can be found on the company's website <https://nucleusfinancial.com/investors>.



Andrew Smith
Chief technology officer

Culture risk

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

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.

"The group operates a risk management framework through which it systematically identifies actual and potential risk events and seeks to put in place appropriate policies and controls as safeguards."

Competition

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

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

Relationship with financial advisers

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

Reliance on key suppliers

Nucleus, like many other participants in the wrap platform market, operates a business model that outsources selected components of its operations and technology services, and enters into agreements with selected product providers to distribute and administer their products as part of the Nucleus wrap platform. As a result, the group has a reliance on its key suppliers and performance issues affecting these products and services may have an adverse impact on Nucleus' strategy and business performance.

The group's key suppliers are:

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

“We believe good governance provides assurance to our stakeholders that we are focused on what matters most, our conduct and customer outcomes.”

Operational and regulatory risks

Operational

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

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



Nicola Megaw
Chief legal officer



People

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



Operational process and controls

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



Operational resilience and technology

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

Regulatory

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

a. 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 key suppliers, were to commit a serious breach of any of the regulations that apply to it (not least the applicable regulatory regime relating to the group's FCA authorisations and its FCA regulated activities), there could be both regulatory and financial consequences (including, without limitation, sanctions, fines, censures, loss of permissions and/or the cost of being required to take remedial action).

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

New regulation in 2019

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

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

Forthcoming regulatory change

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

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

The new prudential regime for investment firms, the Investment Firm Regime (IFR), comes into effect on 26 June 2021. This will replace the capital requirements directive and regulation (CRD IV and CRR) for small and medium-sized investment firms. We do not anticipate that the 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 6 April 2020 and signed on its behalf by

David Ferguson
Director

Stuart Geard
Director

Barry Neilson
Chief customer officer



Governance

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Risk management framework

Robust and scalable

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

Our framework is concerned with:

- Demonstrating it is proportionate and effective in the governance and performance of risk management for an authorised and regulated investment firm.
- Evidencing our business strategy and business planning process are aligned with the risk management framework.
- Demonstrating we manage our risk appetite tolerances and limits across agreed risk categories.
- Demonstrating we meet all applicable regulatory principles and requirements on an ongoing basis and do so based on strong and effective risk management culture and structures.

- Embedding a risk aware culture with risk management recognised as a management competence, critical to the delivery of our business strategy and performance targets.

We use a clearly defined risk framework to effectively identify, assess, manage and report the group's risks. The framework is set out in our risk management policy and is subject to annual review and challenge by the risk committee.

In assigning risk management responsibilities, the group operates an approach to risk management that is commonly referred to as the “three lines of defence” model. The activities within each of the three lines are:



First line of defence

Business lines have responsibility for identifying, assessing and managing their risks through a sound set of policies, processes and controls. Business lines are also responsible for the development and deployment of appropriate mitigating actions and embedding of systems and controls.



Second line of defence

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



Third line of defence

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

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

Corporate governance statement

Support and encourage

I am pleased to present our report on corporate governance. On behalf of the board, I acknowledge the importance of corporate governance and the board's role in overseeing the business. This has certainly been the case again in 2019 as we have continued to embed our culture, conduct, policies and values throughout the year.

“At Nucleus we believe that our corporate governance arrangements should support and encourage effective risk management, diversity of thought and robust decision making.”

In 2018 we adopted and implemented the Quoted Companies Alliance (QCA) Corporate Governance Code (the “QCA Code”) and we comply with all its principles, welcoming a code which is proportionate to a company of our size and complexity. We publish our annual statement of compliance with the QCA Code on our website (which was last updated in September 2019) and this can be found at <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.

During 2019 we tested and enhanced our governance arrangements with the introduction of the SM&CR, which promotes individual accountability across our business.

Angus Samuels
Chair

6 April 2020

Board of directors



Angus Samuels
(appointed July 2006, chair since March 2017)

Independent non-executive chair

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 UK Limited and Sanlam Life and Pensions UK Limited.



Margaret Hassall
(appointed July 2018)

Independent non-executive director

Margaret has experience of and has developed 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. and in addition to her executive roles, has also worked extensively as a consultant for Deloitte, Oracle Corporation and Wavestone Limited, and led the Financial Services consulting business for Charteris plc. Since 2016 Margaret has been an independent non-executive director at One Savings Bank plc, where she was a member of the risk and audit committees. She is also a non-executive director at Ascension Trust (Scotland) and ReAssure UK services limited.



Jonathan Polin
(appointed July 2016)

Non-independent non-executive director



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 Blackett Walker and 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, before moving to Man Group plc, Ashcourt Rowan plc, Sanlam UK and latterly Sanlam Investments Limited, where he has held the position of CEO since 2016.

-  Chair of the remuneration and HR committee
-  Remuneration and HR committee member

-  Chair of the nomination committee
-  Nomination committee member



Tracy Dunley-Owen
(appointed July 2018)

Independent non-executive director

Tracy possesses wide-ranging experience in financial services at senior level, specifically within the fields of audit and risk. 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, a division of Swiss Reinsurance Company Limited and Celestial Financial Services Limited. Tracy is currently a non-executive director and chair of the Audit Committee for Sun Life Assurance Company of Canada (UK) Limited and non-executive director of Simplyhealth Group Limited, Lifecheq (Pty) Limited and Women's Investment Portfolio Holdings (Pty) Limited.



John Levin
(appointed April 2017)

Senior independent director

John co-founded and is chair of the technology platform Certua and the Quanis Group of companies which provides business technology solutions for the insurance industry. 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 chair of Amtrust Europe Limited and chief executive officer and non-executive director of IGI Group Limited. John is currently the chair of Rocketeer Consulting Limited. John has also held the positions of non-executive director at Pedigree Livestock Insurance Limited, Car Care Plan (Holdings) Limited, Motor Insurance Company Limited and chair of Q-Cloud Services Limited.



David Ferguson
(co-founder and CEO since 2006)

Chief executive officer

David was a trainee actuary prior to working at asset management firm Ivory & Sime Limited and what was then known as Scottish Life International Limited. David is currently a director of Abacus Financial Marketing Limited, chair of FinTech Scotland and a member of Her Majesty's Treasury Fintech Envoy for Scotland.



Stuart Geard
(appointed October 2012)

Chief financial officer

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.

 Chair of the audit committee

 Audit committee member

 Chair of the risk committee

 Risk committee member

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.

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)	12	7	4	4	5
John Levin	11	5	3	3	3
Margaret Hassall	12	n/a	n/a	4	5
Tracy Dunley-Owen	11	7	4	n/a	n/a
Non-independent non-executive directors					
Jeremy Gibson	12	7	4	n/a	n/a
Jonathan Polin	10	n/a	n/a	3	4
Executive directors					
David Ferguson	12	n/a	n/a	n/a	n/a
Stuart Geard	12	n/a	n/a	n/a	n/a

¹ The board met twelve times and held three board sub-committee meetings in 2019

² The audit committee met seven times in 2019.

³ The risk committee met four times in 2019.

⁴ The nomination committee met four times in 2019.

⁵ The remuneration and HR committee met five times in 2019.

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.

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, along with executive management, holds an annual strategy day to review potential strategic initiatives and alignment with our business and strategic planning activities. Regular training across a range of topics is offered to our board in addition to the learning and development that each director undertakes individually.

John Levin was appointed as the senior independent director (SID) in May 2019. This followed a decision to create the role taking into account the size and scale of the company, its listed status and the implementation of SM&CR. 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 2019, the board and each board executive management committee reviewed their effectiveness as part of a co-ordinated programme throughout the year. Building on the feedback from each review, the terms of reference for each committee were reviewed along with the business to be conducted at each meeting during the year.

The board recognises that well-informed and high-quality decision making is a critical requirement for a board to be effective. During 2019, with the support of the company secretary, the board continued to build on the design and implementation of its procedures for decision making and information sharing. A new template was introduced for all reports to board and management committees which reduced volume and improved 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. A capability framework was also created, which acts as a responsibilities map for every discipline in the organisation, and aligns to our authorities framework and board reserved matters. These tools provide greater clarity and boundaries for our people and align to the ongoing work to create clear leadership outcomes, and in particular, to promote greater autonomy and agile working practices.

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 and has most recently arranged training on SM&CR, the conduct rules, cyber-crime, Icaap and the prudential regime as well as offering regular Cass training. Furthermore, 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.

During the year, the non-executive directors sought independent advice on the implementation of SM&CR.

The directors will each retire at the company's AGM and put themselves forward for re-election for approval by shareholders.

Culture and conduct

Culture and conduct remained a focus during 2019. The group's conduct and culture framework was re-stated, and work focused on ensuring that our culture and values remain embedded across the group, including inviting all of our people to go through our re-designed induction. 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, the group wide policy framework was restated, to align to our policies to our risk categories, bringing greater connection for our people between our values, our behaviours, our strategic objectives and our policies. We refined our conduct and customer suite of policies, and provided training and awareness sessions to all our people on conduct, customer outcomes and the relevant regulatory rules that apply. In Q4, we recorded an increase in our overall people engagement to 74 per cent.

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 risk and audit committees. Details of our principal risks and uncertainties can be found on pages 30 to 35 and a summary of our risk management framework can be found on pages 38 to 39. 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.

It is intended that all directors will attend our AGM to be held on 20 May 2020 and that shareholders will be given the opportunity to ask questions. Dialogue with shareholders and wider stakeholders is welcome.

Our broader engagement with our stakeholders is set out in our s172 report which can be found on pages 18 to 21, 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

6 April 2020

Our board committees

To assist and monitor

The board has established four principal committees:

Audit

Risk

Nomination

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.

Audit committee and risk committee reports



I am pleased to present the audit committee and risk committee reports for the period ending 31 December 2019.

Alfio Tagliabue was appointed on 25 February 2020 replacing Jeremy Gibson and I would like to take this opportunity to thank Jeremy for his work as a member of the committee during 2019. I look forward to welcoming Alfio as a member of both the audit and risk committees.

Tracy Dunley-Owen
Chair of the audit committee and risk committee

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>. In accordance with these terms of reference, the committee is responsible for:

- Providing assurance regarding 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.
- Reviewing and challenging the suitability, appropriate adoption and any proposed changes to accounting policies and practices for the group.
- Reviewing the impact of any proposed dividends.
- Maximising the efficiency and effectiveness of the group's internal and external audit arrangements and three lines of defence.
- Providing assurance regarding group financial reporting, compliance, internal controls and ethical conduct.
- The engagement of and monitoring of all work carried out by the auditors including any non-audit work.
- Reviewing of quarterly reports such as the reports from the chief financial officer, chief technology officer, head of risk, head of compliance, the money laundering reporting officer, chief legal officer and Cass oversight function holder.

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 44, 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 also considers 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 revenue recognition, provisions, share-based payments and income taxes.
- Reviewing the group's interim results announcement.
- Reviewing the annual money laundering reporting officers report.
- Reviewing the impact of the company's final and interim dividend payments in May and October 2019.
- Extending the relationship with our internal audit provider, Deloitte LLP (Deloitte) to include provision of cyber assurance.
- Overseeing the delivery of the external statutory and Cass regulatory audit(s) by PricewaterhouseCoopers LLP (PwC) and engaging PwC for verification of profits.

- Agreeing the external audit plan, agreeing the audit fees and reviewing the effectiveness of the external audit.
- Providing challenge and oversight of the group's response to external and internal control findings and reviewing the independence of the second line of defence.
- Reviewing the 2019 annual report and financial statements and receiving report from PwC relating to their audit.
- Reviewing and recommending the financial statements of subsidiaries to the relevant board (Nucleus Financial Services Limited, Nucleus IFA Services Limited, Nucleus Trustee Company Limited, NFS (Nominees) Limited and Nucleus IMX Limited).
- Reviewing the committee effectiveness and recommending changes to committee's terms of reference.

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 accounts 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, propose that PwC is re-appointed as external auditor at the company's forthcoming AGM.

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.

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

6 April 2020

Seven

audit committee
meetings held in 2019

Four

risk committee
meetings held in 2019

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>. In accordance with these terms of reference, the committee is responsible for:

- Reviewing and advising the board on the group's current and future overall risk exposure, appetite and tolerance, and recommending any changes to the board.
- Providing assurance to the board regarding 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.
- Monitoring the effectiveness of the business risk management processes in the group.
- Reviewing and approving corporate policies in accordance with the group policy framework.

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 44, 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

- Conducting a detailed review of the risk universe, and recommending revised risk categories and re-statement of our corporate risks, as well as risk preferences and risk appetites, to the board for approval.
- Engaging on the decision to appoint a chief risk officer, and the recruitment process.
- Working to streamline reporting to the committee.
- Reviewing and recommending board approval of the 2018 Icaap approach and methodology (including a change in the approach for credit risk provision).
- Reviewing the assessment of regulatory capital requirement quarterly.
- Reviewing the Icaap approach and methodology in respect of the 2019 Icaap, this being also relevant for 2020.
- Providing assurance on the group's risk management framework and development of key risk indicators.
- Reviewing the group's existing and forecasted risk profile.
- Reviewing the corporate risk matrix including consideration of the principal risks and reviewing the risk watchlist.
- Reviewing and recommending risk preferences to the board.
- Reviewing and approving a redesigned framework for group policies, approving of a number of policies and recommending policy changes to the board, including in the conduct policy.
- Conducting a deep dive on cyber risk.
- Reviewing the committee's effectiveness and recommending changes to committee's terms of reference.

On behalf of the risk committee

Tracy Dunley-Owen
Chair of the risk committee

6 April 2020

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 2019.

Margaret Hassall
Chair of the nomination committee and remuneration and HR committee



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>. In accordance with these terms of reference, the committee is responsible for:

- Reviewing 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.
- Identifying and nominating 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.
- Recommending suitable candidates for the role of senior independent director (as and when required).
- Evaluating director and management training needs.
- Evaluating the target operating model and organisational design and making recommendations concerning any changes to the responsibilities or other associated changes to the organisational structure.
- Reviewing performance appraisals and fitness and proprietary assessments for non-executive directors and senior managers annually.
- Supporting 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 44, 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

- Encouraging 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.
- Reviewing the executive team structure, management responsibilities map and organisation structure in preparation for the adoption of SM&CR in December 2019.
- Reviewing board and executive succession planning.
- Recommending the appointment of John Levin as senior independent director to the board.
- Engaging on the creation of the role of chief risk officer, and the recruitment process to fill that role.
- Recommending the appointment of a new director to the trustee board of a group subsidiary.
- Reviewing the committee effectiveness, agreeing actions for improvements and recommending changes to committee's terms of reference to the board.

On behalf of the nomination committee

Margaret Hassall
Chair of the nomination committee

6 April 2020

Remuneration and HR committee report

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>. In accordance with these terms of reference, the committee is ultimately responsible for:

- Setting the overall remuneration policy for the executive directors and other senior employees.
- Within the terms of that policy, determining the terms and conditions of employment of those individuals and the level of their remuneration (including short-term and long-term incentives).
- Reviewing the delivery of our people strategy.

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 44, 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, the committee sought external advice from Deloitte on non-executive remuneration benchmarking.

Committee highlights

- Approving grant of performance share plan awards and conditions.
- Approving annual salary increases for executive directors, executive committee members and other employees.
- Approving performance targets for the 2019 long-term incentive plan awards and associated performance conditions.
- Approving performance targets for the executive directors' and other senior leaders' 2019 bonus scheme.
- Approving executive directors' and other senior leaders' 2019 bonus awards.
- Reviewing and recommending approval of the directors' remuneration policy (effective from 14 November 2018) to the board.
- Reviewing and approving, or recommending to the board (as required), changes to policies to implement the SM&CR.
- Reviewing the group's people strategy.
- Considering and recommending to the board the nomination of the chair as an employee stakeholder representative point of contact.
- Reviewing the committee effectiveness, agreeing actions for improvements, and recommending changes to committee's terms of reference to the board.

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 2019 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 current executive directors' remuneration policy was developed during the course of 2018 and was formally adopted by the committee on 14 November 2018. It was last reviewed and approved by the committee on 21 November 2019.

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

“In 2019 the group performance measures were: profit, net inflows, project delivery, systems and controls and service.”

Executive director remuneration policy

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 2019 the group performance measures were: profit, net inflows, project delivery, systems and controls and service.

In 2019 the personal element was measured by assessing delivery against the business plan, conduct, leadership and progress towards diversity and inclusion objectives.

Executive director remuneration policy

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 misstatement.

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.

Four

nomination committee
meetings held in 2019

Five

remuneration and HR
committee meetings held
in 2019

Executive director remuneration policy

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.

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.

Directors' remuneration in 2019

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 2019 and the prior year:

	Basic salary / fees		Taxable benefits		Pension		Annual bonus		Growth shares		LTIP/SIP		Total	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Executive directors														
David Ferguson ^{1,2,6}	297	281	2	1	9	15	138	200	-	2,131	-	-	446	2,628
Stuart Geard ^{1,2,6}	249	245	1	1	10	14	108	143	-	1,580	-	-	368	1,983
Non-executive directors														
Tracy Dunley-Owen ³	39	16	-	-	-	-	-	-	-	-	-	-	39	16
Jeremy Gibson ^{4,5}	35	37	-	-	-	-	-	-	-	-	-	-	35	37
Margaret Hassall ³	39	16	-	-	-	-	-	-	-	-	-	-	39	16
John Levin	35	35	-	-	-	-	-	-	-	-	-	-	35	35
Jonathan Polin ⁵	35	35	-	-	-	-	-	-	-	-	-	-	35	35
Angus Samuels ⁵	83	83	-	-	-	-	-	-	-	-	-	-	83	83
Michael Seddon ⁴	-	23	-	-	-	-	-	-	-	-	-	-	-	23
Stephen Tucker ⁴	-	23	-	-	-	-	-	-	-	-	-	-	-	23

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

¹ Basic salary includes 8.5 per cent pension cash allowance

² Pension restricted for annual taper allowance

³ Non-executive director fee received in 2018 pro-rated from appointment onto the board and sub committees post AIM listing

⁴ Weighted average non-executive director fee received in 2018 reflecting stepping down from sub-committee chair or board post AIM admission

⁵ Remuneration paid to third parties

⁶ The remuneration received by the executive directors in 2018 included the value, at their date of conversion into ordinary shares in Nucleus Financial Group Limited (being 26 January 2018) of the realised G ordinary shares in Nucleus Financial Group Limited held by them. The growth shares, being G1 and G2 ordinary shares, were issued to the executive directors as part of a previous long-term incentive plan operated by the group. Further details of the scheme are set out in note 27 share-based payments below.

Summary of share incentive plan awards

The table below summarises individual executive director share scheme awards as at 31 December 2019.

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
SIP		1,204	-
Total shares awarded		444,431	298,918

The performance conditions, valuation assumptions and other relevant award information are set out in note 27 share-based payments.

Directors' interest in shares

The number of shares held by the directors as at 31 December 2019 is as follows:

Director	Shares beneficially owned ¹	Unvested LTIP options	Non-entitled SIP shares	Total
David Ferguson	1,810,713	443,227	1,204	2,255,144
Stuart Geard	954,625	298,918	-	1,253,543
Angus Samuels	53,409	-	-	53,409

Margaret Hassall
Chair of the remuneration and HR committee

6 April 2020

¹ Includes shares held by connected parties

Directors' report

A wrap platform

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2019. 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) (the group).

“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.”

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.

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

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 8 to 29. 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 1 financial instruments and in the risk management framework above.

Results and dividends

The group's profit for the year was £6.0m (2018: £4.8m). Revenue increased 4.3 per cent to £51.5m, (2018: 8.7 per cent to £49.4m), with operating profit up 25.8 per cent to £7.1m (2018: up 10.4 per cent to £5.6m). The full results are set out in the accompanying financial statements and notes.

In light of the exceptional and open-ended uncertainty caused by the Covid-19 pandemic and the still rapidly changing environment, the board has decided, in the interests of prudence, not to recommend a dividend until there is more certainty around the term and impact on markets, investor confidence and revenue.

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.

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 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.

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

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

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

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

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, which has been severely impacted by Covid-19.
- The current financial position, adequacy of liquidity and capital to meet operational and regulatory requirements (further details of which are set out on page 29 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 has adequate resources to continue in operational existence for at least 12 months from the date of this report. The group and the company therefore continues to adopt the going concern basis in preparing its financial statements.

Disclosures to the external auditor statement

Each individual director confirms that as far as they are aware, there is no relevant audit information of which the company's auditor is unaware, and that they have taken all the steps that ought to have been taken as a director 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 6 April 2020 and signed on its behalf.

David Ferguson
Director

Directors' responsibilities statement

True and fair view

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 applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). 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 EU 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

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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 2019 and of the group's profit and the group's and the company's cash flows for the year then ended
- Have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions 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 2019; 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.

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.

Report on the audit of the financial statements

Our audit approach

Overview



Overall group materiality: £350,100 (2018: £282,650), based on 5% of profit before tax.

Overall company materiality: £200,003 (2018: £212,499), based on 1% of total expenses.

The consolidated 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 consolidated financial statements.

Revenue recognition (group).

Impact of Covid-19.

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. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Report on the audit of the financial statements

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. This is not a complete list of all risks identified by our audit.

Key audit matter

How our audit addressed the 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 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.

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, by 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

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 via obtaining original application documents

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

Report on the audit of the financial statements

Key audit matter

Impact of Covid-19

Refer to page 8 Chairman's statement, page 12 Chief executive's report and page 22 Chief financial officer's report.

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.

Given the significant uncertainties and potential impacts on the group resulting from the COVID-19 outbreak, management have modelled scenarios of market stress 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. Given that Revenue is primarily based on asset values this downturn could have an impact on the group's profitability, liquidity and regulatory capital.

As part of their consideration, management have identified a number of possible mitigating actions which could be taken 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, the directors continue to believe that it is appropriate to adopt the going concern basis in preparing the financial statements and have made a number of disclosures explaining the factors they have considered.

We determined that there were no key audit matters applicable to the company to communicate in our report.

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.

How our audit addressed the key audit matter

We have obtained a copy of management's going concern assessment and discussed the basis of preparation with management and the Audit Committee. We have agreed the cash flow model to the group's strategic plan.

We have obtained, understood and challenged management's scenarios which have been extended to reflect the potential impact on financial markets of COVID-19 and considered management's key assumptions for reasonableness.

We have considered the reasonableness and achievability of the mitigating actions that management have identified.

We have considered the adequacy of management's disclosures in the financial statements and read relevant "other information" and checked consistency with the financial statements and our knowledge based on our audit.

We believe that the disclosures made within the financial statements are appropriate.

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.

Report on the audit of the financial statements

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:

	Group financial statements	Company financial statements
Overall materiality	£350,100 (2018: £282,650).	£200,003 (2018: £212,499).
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.

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 £14,565 and £200,003. Certain components were audited to a statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £17,505 (Group audit) (2018: £14,133) and £10,000 (Company audit) (2018: £10,625) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

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

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

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

Reporting on other information

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

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

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

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

Report on the audit of the financial statements

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the 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.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 66, 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.

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Other voluntary reporting

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

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

Edinburgh
6 April 2020

Consolidated statement of comprehensive income

	Note	2019 £'000	Restated* 2018 £'000
Continuing operations			
Revenue	3	51,517	49,405
Cost of sales*		(22,817)	(20,587)
Gross profit		28,700	28,818
Other operating income	4	122	22
Administrative expenses*		(21,718)	(23,191)
Operating profit		7,104	5,649
Analysed as:			
Adjusted EBITDA		7,923	8,304
Right of use lease liability interest in adjusted EBITDA		180	-
Right of use depreciation included in adjusted EBITDA		438	-
Depreciation		(1,102)	(585)
Loss on disposal of fixed asset		(3)	-
Other income		17	22
Share based payments		(349)	(404)
AIM admission costs		-	(1,688)
Finance income	8	80	11
Finance costs	8	(182)	(7)

Consolidated statement of comprehensive income

	Note	2019 £'000	Restated* 2018 £'000
Profit before income tax	5	7,002	5,653
Income tax	10	(1,049)	(897)
Profit for the financial year		5,953	4,756
Items that may be subsequently reclassified to profit and loss		-	-
Total comprehensive income attributable to equity holders		5,953	4,756
Earnings per share (pence)			
Basic	12	7.8	6.3
Diluted	12	7.8	6.3

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

The notes on pages 82 to 113 form part of these financial statements.

Consolidated statement of financial position

	Note	31 December 2019 £'000	31 December 2018 £'000
Assets			
Non-current assets			
Intangible assets	13	253	-
Right of use lease assets	14	3,476	-
Property, plant and equipment	15	1,698	2,029
Deferred tax	26	107	163
		5,534	2,192
Current assets			
Trade and other receivables	16	10,530	10,611
Investments in securities	17	107	84
Tax receivable		-	541
Cash and cash equivalents	18	18,525	17,672
		29,162	28,908
Total assets		34,696	31,100
Equity			
Shareholders' equity			
Called up share capital	23	76	76
Capital redemption reserve	24	53	53
Share-based payment reserve	24	465	150
Treasury shares	24	(121)	(30)
Retained earnings	24	19,233	17,224
Total equity		19,706	17,473

Consolidated statement of financial position

	Note	31 December 2019 £'000	31 December 2018 £'000
Liabilities			
Non-current liabilities			
Lease liabilities	20	3,737	-
Financial liabilities	21	-	6
Provisions	28	99	32
Deferred tax	26	22	41
		<hr/> 3,858	<hr/> 79
Current liabilities			
Lease liabilities	20	475	-
Financial liabilities	21	-	87
Trade and other payables	19	9,606	12,134
Tax payable		357	740
Provisions	28	694	587
		<hr/> 11,132	<hr/> 13,548
Total liabilities		<hr/> 14,990	<hr/> 13,627
Total equity and liabilities		<hr/> 34,696	<hr/> 31,100

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

Stuart Geard
Director

The notes on pages 82 to 113 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	Fair value 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)	27	-	-	-	-	315	-	315
Balance at 31 December 2019		76	19,233	(121)	53	465	-	19,706

	Note	Called up share capital £'000	Retained earnings £'000	Treasury shares £'000	Capital redemption reserve £'000	Share-based payment reserve £'000	Fair value reserve £'000	Total equity £'000
Balance at 1 January 2018		21	13,475	-	1	2,646	39	16,182
Reclassify investments from FVOCI to FVPL		-	39	-	-	-	(39)	-
Changes in equity								
Issue of preference shares		50	(50)	-	-	-	-	-
Redemption of preference shares		(50)	-	-	50	-	-	-
Issue of bonus shares and G share conversion		57	(57)	-	-	-	-	-
Buy back and redemption of G shares and deferred shares		(2)	-	-	2	-	-	-
Profit for the year		-	4,756	-	-	-	-	4,756
Dividends paid	11	-	(3,933)	-	-	-	-	(3,933)
Purchase of own shares		-	-	(30)	-	-	-	(30)
Gain on disposal of own shares		-	94	-	-	-	-	94
Transfer on share conversion		-	2,900	-	-	(2,900)	-	-
Share-based payments charge	27	-	-	-	-	404	-	404
Balance at 31 December 2018		76	17,224	(30)	53	150	-	17,473

The notes on pages 82 to 113 form part of these financial statements.

Consolidated statement of cash flows

	Note	2019 £'000	2018 £'000
Cash flows from operating activities			
Cash inflows from operations	29	6,790	7,298
Interest received	8	80	8
Income tax paid		(855)	(1,822)
Net cash inflow from operating activities		6,015	5,484
Cash flows from investing activities			
Purchase of intangible fixed assets	13	(253)	-
Purchase of tangible fixed assets	15	(348)	(833)
Purchase/(sale) of investments	17	(16)	10
Net cash outflow from investing activities		(617)	(823)
Cash flows from financial activities			
Interest paid	8	(182)	(2)
Dividends paid	11	(3,873)	(3,933)
Purchase of Treasury shares		(91)	(30)
Repayment of finance leases	22	-	(107)
Lease payments - principal	20	(393)	-
Exercise of options		-	98
Net cash outflows from financing activities		(4,539)	(3,974)
Increase in cash and cash equivalents		859	687
Cash and cash equivalents at beginning of year		17,672	16,992
Effects of exchange rate changes	5	(6)	(7)
Cash and cash equivalents at end of year	18	18,525	17,672

The notes on pages 82 to 113 form part of these financial statements.

Notes to the consolidated financial statements

1. Accounting policies

Basis of preparation

The financial statements comply with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and 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 EU adopted IFRS 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 has adequate resources to continue in operational existence for at least 12 months from the date of signing of the financial statements. The group and the company therefore continues to adopt the going concern basis in preparing its financial statements. Further information relevant to the directors' assessment of going concern is set out in the directors' report on page 65.

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.

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.

Notes to the consolidated financial statements

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 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.

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. No impairment indicators were identified during the year.

Internally generated intangible assets

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

Amortisation of intangible assets

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

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

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. No impairment indicators were identified during year.

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

The estimated useful lives range as follows:

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

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 14, and liabilities in note 20.

Notes to the consolidated financial statements

Finance leases

For the year ended 31 December 2018 where assets were financed by leasing agreements that give rights approximating to ownership, the assets were treated as if they had been purchased outright. The amount capitalised was the lower of the fair value of the leased asset and the present value of the minimum lease payments. Office equipment acquired under finance leases was depreciated over its useful life of three years on a straight-line basis. Depreciation on the relevant assets was charged to the statement of comprehensive income. Interest on the finance lease was recognised in the statement of comprehensive income using the effective interest method.

Operating lease commitments

For the year ended 31 December 2018 rentals under operating leases were charged to the statement of comprehensive income on a straight-line basis over the lease term.

Incentives received to enter into an operating lease were credited to the statement of comprehensive income, to reduce the lease expense, on a straight-line basis over the period of the lease.

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.

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.

Notes to the consolidated financial statements

Taxation

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

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse, based on tax laws that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax assets and liabilities are not discounted 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. In the previous year the incurred loss model is used to calculate the impairment provision.

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.

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.

Notes to the consolidated financial statements

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 2019 financial statements

Standard	Effective from
IFRS 16: Leases	1 January 2019
IFRIC 23 - Uncertainty over income tax	1 January 2019
Amendments to IFRS 9: Financial instruments - prepayment features with negative compensation	1 January 2019
Amendments to IAS 28: Investments in associates - long-term interests in associates and joint ventures	1 January 2019
Annual improvements 2015-2017 cycle	1 January 2019
Amendments to IAS 19: Employee benefits - plan amendments, curtailments or settlements	1 January 2019

IFRS 16 Leases

The group adopted IFRS 16 Leases effective 1 January 2019. Details of the impact are set out in note 36 Changes in accounting policies. Other new and amended standards did not have any impact on the group's accounting policies. Details of the assets can be found in note 14, and liabilities in note 20.

Future standards, amendments to standards and interpretations not early-adopted in the 2019 financial statements

New accounting standards and interpretations have been published that are not mandatory for adoption in the 2019 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 - amendments to IFRS 9, IAS 39 and IFRS 7	1 January 2020
IFRS 17: Insurance contracts	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 will be available in future against which deferred tax assets can be utilised. Based on forecasts, the group expects to materially recover its deferred tax assets within the next two years.

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.

Notes to the consolidated financial statements

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

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 28.

Restatement of costs of sales presentation in 2018

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

	2018 £'000	Adjustment £'000	Restated 2018 £'000
Continuing operations			
Revenue	49,405	-	49,405
Cost of sales	(19,809)	(778)	(20,587)
Gross profit	29,596	(778)	28,818
Other operating income	22	-	22
Administrative expenses	(23,969)	778	(23,191)
Operating profit	5,649	-	5,649
Profit for the financial year	4,756	-	4,756

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 (2018: all United Kingdom).

4. Other operating income

	2019 £'000	2018 £'000
Other operating income	122	22

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

Notes to the consolidated financial statements

5. Profit before income tax

The profit before income tax is stated after charging:

	2019 £'000	2018 £'000
Depreciation of tangible fixed assets	664	585
Depreciation of right of use assets	438	-
Interest on right of use assets	180	-
Loss on disposal of fixed assets	3	-
Unrealised (gain)/loss on investments	(7)	5
Foreign exchange differences	6	7
Movement in expected loss provision	59	8
Operating lease rentals - (replaced re IFRS 16)	-	446
Share based payment charge	349	404

6. Employees

	2019 £'000	2018 £'000
Wages and salaries	12,191	11,812
Social security costs	1,402	1,424
Other pension costs	997	906
Share-based payment charge	349	404
	14,939	14,546

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

	2019	2018
Employees	223	203

7. Directors' remuneration

Details of directors' remuneration are set out in the remuneration and HR committee report on pages 54 to 61.

Notes to the consolidated financial statements

8. Net finance (cost)/income

	2019 £'000	2018 £'000
Finance income:		
Bank interest receivable	70	10
Other interest income	10	1
	80	11
	2019 £'000	2018 £'000
Finance costs		
Lease interest	(180)	-
Interest on finance leases	-	(2)
Other interest paid	(2)	(5)
	(182)	(7)
Net finance (cost)/income	(102)	4

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:

	2019 £'000	2018 £'000
Audit of the financial statements	182	235
Client asset audit services	175	151
All other services	30	395
	387	781

Other services in 2018 related to fees earned by PwC in their capacity as reporting accountants to the company's admission to AIM and other corporate finance transactions.

Notes to the consolidated financial statements

10. Income tax

Analysis of tax expense

	2019 £'000	2018 £'000
Current tax:		
Tax on profits for the year	1,271	1,435
Adjustments in respect of prior periods	(260)	(527)
Deferred tax:		
Origination and reversal of timing differences	24	(11)
Effect of tax rate on opening balances	14	-
Total expense in statement of comprehensive income	1,049	897

Factors affecting the tax expense

The tax assessed for the year is lower (2018: lower) than the standard rate of corporation tax in the UK of 19.00 per cent (2018: 19.00 per cent).

The differences are reconciled below:

	2019 £'000	2018 £'000
Profit before taxation	7,002	5,653
Profit before taxation multiplied by the standard rate of corporation tax in the UK of 19.00 per cent (2018: 19.00 per cent)	1,330	1,074
Effects of:		
Expenses not deductible for tax purposes	84	412
Fixed asset differences	18	5
Adjustments to tax charge in respect of prior period R&D claims	(258)	(527)
Deferred tax not recognised	(218)	(70)
Other differences	93	3
	1,049	897

Notes to the consolidated financial statements

11. Dividends

	2019	2018
	£'000	£'000
£0.01 ordinary share dividends* (2018: 142p per share)	-	1,577
£0.001 ordinary share dividends* 5.1p (2018: 1.4p per share)	3,873	1,063
B ordinary share dividend (2018: 142p per share)	-	1,081
G3 share dividends (2018: 243p per realised share)	-	84
G3 share dividends (2018: 142p per realised share)	-	49
G4 share dividends (2018: 243p per realised share)	-	50
G4 share dividends (2018: 142p per realised share)	-	29
	3,873	3,933

*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.

	2019	2018
	£'000	£'000
Profit for the year	5,953	4,756
	2019	2018
Weighted average number of ordinary shares (basic)	75,862,105	75,932,243
SIP scheme	71,255	1,821
LTIP scheme	345,932	16,209
Weighted average number of ordinary shares (diluted)	76,279,292	75,949,568
	2019	2018
Basic earnings per ordinary share (pence)	7.8	6.3
Diluted earnings per ordinary share (pence)	7.8	6.3

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 23.

Notes to the consolidated financial statements

13. Intangible assets

	Licences £'000
Cost	
At 1 January 2019	-
Additions	253
Write-offs	-
	<hr/>
At 31 December 2019	<u>253</u>
Amortisation	
At 1 January 2019	-
Charge for the year	-
Impairments	-
	<hr/>
At 31 December 2019	<u>-</u>
Net book value	
At 31 December 2019	<u>253</u>
At 31 December 2018	<u>-</u>

The costs capitalised during 2019 represents development expenditure in relation to ancillary platform services.

The remaining contractual commitment in respect of the development expenditure amounts to £72,222 and is payable within 1 year.

Notes to the consolidated financial statements

14. Right of use lease assets

	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	-	-	-
	<hr/>	<hr/>	<hr/>
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	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 December 2019	438	348	786
Net book value			
At 31 December 2019	<hr/> 3,463	<hr/> 13	<hr/> 3,476
At 31 December 2018	<hr/> -	<hr/> -	<hr/> -

Notes to the consolidated financial statements

15. Property, plant and equipment

	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
	Short-term leasehold property £'000	Fixtures and fittings £'000	Office equipment £'000	Total £'000
Cost				
At 1 January 2018	837	357	1,303	2,497
Additions	300	170	364	834
Disposals	-	-	(159)	(159)
At 31 December 2018	1,137	527	1,508	3,172
Depreciation				
At 1 January 2018	7	34	676	717
Charge for the year	92	93	400	585
Eliminated on disposals	-	-	(159)	(159)
At 31 December 2018	99	127	917	1,143
Net book value				
At 31 December 2018	1,038	400	591	2,029
At 31 December 2017	830	323	627	1,780

Notes to the consolidated financial statements

16. Trade and other receivables

	2019 £'000	2018 £'000
Current:		
Other debtors	1,201	2,230
Amounts owed by HMRC	1,929	1,754
Trade debtors	444	429
Accrued income	5,243	4,646
Prepayments	1,713	1,552
	<u>10,530</u>	<u>10,611</u>

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 £230,410 (2018: £176,784).

17. Investments in securities

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

18. Cash and cash equivalents

	2019 £'000	2018 £'000
Cash at bank and in hand	<u>18,525</u>	<u>17,672</u>

During 2018, the company transferred its £5,000,000 uncommitted overdraft facility from The Royal Bank of Scotland plc to The Royal Bank of Scotland International Limited. The purpose of the overdraft is to support the company's discretionary commitment to prefund tax relief on eligible pension contributions and other temporary funding required under the client money and client asset rules. 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 2019.

Notes to the consolidated financial statements

19. Trade and other payables

	2019 £'000	2018 £'000
Current:		
Trade creditors	1,423	3,674
Social security and other taxes	372	380
Other creditors	2,206	1,816
Amounts owed to HMRC	118	240
Accruals	5,487	6,024
	<u>9,606</u>	<u>12,134</u>

20. Lease liabilities

	2019 £'000	2018 £'000			
Non-current:					
Lease liabilities	3,737	-			
Current:					
Lease liabilities	475	-			
	<u>475</u>	<u>-</u>			
	1 year or less £'000	1 - 2 years £'000	2-5 years £'000	> 5 years £'000	Total £'000
2019					
Lease liabilities	475	494	1,602	1,641	4,212
2018					
Lease liabilities	-	-	-	-	-

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

21. Financial liabilities

	2019 £'000			2018 £'000
Non-current:				
Finance leases			-	6
Current:				
Finance leases			-	87
	1 year or less £'000	1 - 2 years £'000	2-5 years £'000	Total £'000
2019				
Finance leases	-	-	-	-
2018				
Finance leases	87	6	-	93

Financial liabilities now classified as lease liabilities as a result of adopting IFRS 16 Leases effective 1 January 2019.

22. Finance leases

Minimum lease payments under finance leases fall due as follows:

	2019 £'000		2018 £'000	
Gross obligations payable:				
Within one year	-	-	-	88
Between one and five years	-	-	-	6
			-	94
Finance charges payable:				
Within one year	-	-	-	1
Between one and five years	-	-	-	-
			-	1
Net obligations payable:				
Within one year	-	-	-	87
Between one and five years	-	-	-	6
			-	93

Notes to the consolidated financial statements

23. Share capital

	2019 £'000	2018 £'000
Fully paid ordinary shares of £0.001 each: 76,473,360 (2018: 76,473,360)	76	76

Employee benefits trusts hold a total of 611,255 shares (2018: 561,442).

During January 2018, in line with the growth share scheme, 142,362 G1 and 95,404 G2 shares converted into 124,448 ordinary and 113,318 deferred shares.

On 8 May 2018, the company issued 50,000 redeemable non-convertible preference shares at a nominal value of £1 per share. Each preference share carried a right to a fixed non-cumulative dividend of 0.01 per cent of its nominal value, payable annually in arrears, and did not carry any voting rights. These were redeemed on 26 July 2018.

On 6 July 2018, Nucleus Financial Group Limited was re-registered under the Companies Act 2006 as a public company under the name of Nucleus Financial Group plc. The company listed on AIM on 26 July 2018 and this coincided with the following share capital transactions:

On listing, 18,823 G3 shares and 8,812 G4 shares converted to ordinary shares and 21,905 G3 shares and 16,864 G4 shares converted to deferred shares. Following this there were no G3 and G4 shares remaining in issue.

The company bought back 30,712 G1 shares, 9,026 G2 shares and 152,087 deferred shares for a consideration of £1. Following this there were no G1, G2 or deferred shares remaining in issue.

The company then converted the remaining 761,028 B ordinary shares into ordinary shares and awarded a bonus issue of three new ordinary shares for each existing ordinary share. This resulted in the creation of 5,735,502 new ordinary shares, bringing the total ordinary shares in issue to 7,647,336. Subsequently, each ordinary share was then sub-divided into 10 new ordinary shares. This has given rise to a post-listing number of fully paid shares in issue of 76,473,360.

24. 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.

Notes to the consolidated financial statements

25. 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
2019				
Financial assets				
Investments in securities	107	-	-	107
Cash and cash equivalents	-	-	18,525	18,525
Trade and other receivables	-	-	10,530	10,530
Total financial assets	107	-	29,055	29,162
Non-financial assets				5,534
Total assets				34,696
Financial liabilities				
Lease liabilities	-	4,212	-	4,212
Trade and other payables	-	9,606	-	9,606
Total financial liabilities	-	13,818	-	13,818
Non-financial liabilities				1,172
Total liabilities				14,990

Notes to the consolidated financial statements

25. 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
2018				
Financial assets				
Investments in securities	84	-	-	84
Cash and cash equivalents	-	-	17,672	17,672
Trade and other receivables	-	-	10,611	10,611
Total financial assets	84	-	28,283	28,367
Non-financial assets				2,733
Total assets				31,100
Financial liabilities				
Finance lease obligations	-	93	-	93
Trade and other payables	-	12,134	-	12,134
Total financial liabilities	-	12,227	-	12,227
Non-financial liabilities				1,400
Total liabilities				13,627

Notes to the consolidated financial statements

25. 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 £'000	Level 2 £'000	Level 3 £'000	Total £'000
2019				
Investments in securities	107	-	-	107

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
2018				
Investments in securities	84	-	-	84

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, Royal Bank of Scotland plc, Bank of Scotland plc and Investec Bank 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 2019 was £230,410 (2018: £176,674).

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.

Notes to the consolidated financial statements

25. Financial instruments (continued)

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.

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.

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

2019

Financial assets	< 3 months £'000	3-12 months £'000	1-5 years £'000	>5 years £'000	Total £'000
Cash and cash equivalents	18,525	-	-	-	18,525
Investments	-	107	-	-	107
Trade and other receivables	10,085	445	-	-	10,530
	28,610	552	-	-	29,162

2018

Financial assets	< 3 months £'000	3-12 months £'000	1-5 years £'000	>5 years £'000	Total £'000
Cash and cash equivalents	17,672	-	-	-	17,672
Investments	-	84	-	-	84
Trade and other receivables	10,182	429	-	-	10,611
	27,854	513	-	-	28,367

Notes to the consolidated financial statements

25. Financial instruments (continued)

2019

Financial liabilities	< 3 months £'000	3-12 months £'000	1-5 years £'000	>5 years £'000	Total £'000
Trade and other payables	9,606	-	-	-	9,606
Lease liabilities	119	356	2,096	1,641	4,212
	9,725	356	2,096	1,641	13,818

2018

Financial liabilities	< 3 months £'000	3-12 months £'000	1-5 years £'000	>5 years £'000	Total £'000
Trade and other payables	11,966	168	-	-	12,134
Finance lease obligations	87	-	6	-	93
	12,053	168	6	-	12,227

26. 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 2018	(5)	41	122	158
(Charge)/credit to statement of comprehensive income	13	(24)	16	5
At 31 December 2018	8	17	138	163
(Charge)/credit to statement of comprehensive income	(1)	81	(136)	(56)
At 31 December 2019	7	98	2	107

As a result of the uncertainty in the opinion of the directors regarding the timing and extend of future profit generation by the group, a deferred tax asset of £455,684 (2018: £286,290) has not been recognised.

Notes to the consolidated financial statements

26. 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 2018	(46)	-	-	(46)
(Charge)/credit to statement of comprehensive income	5	-	-	5
At 31 December 2018	(41)	-	-	(41)
(Charge)/credit to statement of comprehensive income	19	-	-	19
At 31 December 2019	(22)	-	-	(22)

27. Share-based payments

Total cost of share-based payments:

	2019 £'000	2018 £'000
Long term incentive plan	290	150
Employers NIC on long term incentive plan	34	-
Share incentive plan	25	1
Growth shares	-	253
	349	404

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

27. 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). 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 2019	LTIP 2018
At 1 January 2018	-	-
Shares awarded during the year	-	1,013,612
Lapsed during the year	-	(68,865)
At 31 December 2018	-	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

	LTIP 2019 TSR condition	LTIP 2019 Other conditions	LTIP 2018 TSR condition	LTIP 2018 Other conditions
Option pricing model	Monte Carlo	Black Scholes	Monte Carlo	Black Scholes
Date granted	03/04/2019	03/04/2019	26/07/2018	26/07/2018
Share price on grant date (p)	176p	176p	183p	183p
Vesting period (years)	3	3	3	3
Exercise price	0p	0p	0p	0p
Expected volatility	40%	40%	34%	34%
Risk-free rate	0.72%	0.72%	0.84%	0.84%
Dividend yield	nil	nil	nil	nil
Fair value per option at grant date	89p	176p	85p	183p
Remaining vesting period (years)	2.3	2.3	1.6	1.6

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.

Notes to the consolidated financial statements

27. Share-based payments (continued)

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

	2019	2018
Brought forward at the beginning of the year	21,444	-
Matching shares awarded	53,911	21,444
Matching shares forfeited	(1,088)	-
	<hr/>	<hr/>
Outstanding matching shares at the end of the year	74,267	21,444

Growth shares

G3 and G4 Ordinary Shares were granted to directors and employees. Details of the rights and the conditions attached to these shares are included in note 1.

The growth shares granted were valued as at the date of grant or entitlement using the Black Scholes model. The significant assumptions used are shown in the table below:

	G3 shares	G4 shares
Date granted	6/10/2015	17/11/2016
Par value	£0.05	£0.05
Realisable	31/12/2019	31/12/2020
Shares in issue 31/12/2017	40,727	25,676
Price of the underlying share (£)	£34.41	£44.35
Effective strike price of the G Ordinary share	£34.41	£44.35
Expected volatility of the share price	25%	28%
Risk free interest rate over the life of the G Ordinary share	1.05%	0.55%
Dividend yield	Nil	Nil
Fair value per G Ordinary share at grant date	£7.61	£10.34

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

Coinciding with the companies listing on AIM on 26 July 2018, the growth share scheme ceased to exist. Details of the conversion of growth shares into ordinary shares are set out in note 23 Share capital.

Notes to the consolidated financial statements

28. Provisions

	2019 £'000	2018 £'000
Client compensation	536	429
Outsourced service	158	158
Dilapidations	65	32
Share incentive plans	34	-
	<hr/> 793	<hr/> 619
Analysed as follows:		
Current	694	587
Non-current	99	32
	<hr/> 793	<hr/> 619

	Share incentive plans £'000	Client compensation £'000	Outsourced service £'000	Dilapidations £'000	Total £'000
At 1 January 2018	-	98	204	224	526
Provided during year	-	435	612	30	1,077
Utilised during year	-	(73)	(333)	(222)	(628)
Unused amounts reversed during year	-	(31)	-	-	(31)
(Charge)/credit to statement of comprehensive income	-	-	(325)	-	(325)
At 31 December 2018	-	429	158	32	619
Provided during year	34	389	-	33	456
Utilised during year	-	(122)	-	-	(122)
Unused amounts reversed during year	-	(160)	-	-	(160)
(Charge)/credit to statement of comprehensive income	-	-	-	-	-
At 31 December 2019	<hr/> 34	<hr/> 536	<hr/> 158	<hr/> 65	<hr/> 793

Notes to the consolidated financial statements

28. Provisions (continued)

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 2020.

Outsourced service

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

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.

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.

Notes to the consolidated financial statements

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

	2019 £'000	2018 £'000
Profit before income tax	7,002	5,653
Depreciation	1,102	585
Loss on disposal of fixed assets	3	-
Unrealised gain on investments	(7)	-
Share based payments charge (excl. NIC)	315	404
Bad debt provision	59	8
Increase in trade and other receivables	(1,166)	(615)
Decrease/(increase) in operational platform funding	1,187	(257)
(Decrease)/increase in trade and other payables	(1,987)	1,426
Increase in other provisions	174	93
Interest paid	182	2
Interest received	(80)	(8)
Net exchange differences	6	7
Cash inflows from operations	6,790	7,298

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

30. Reconciliation of liabilities arising from financing activities

	At 1 January 2018 £'000	Non-cash changes £'000	Cash flows £'000	At 31 December 2018 £'000
Finance lease liabilities	200	2	(109)	93

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

31. Operating leases

The group's future minimum lease payments under non-cancellable operating leases were as follows:

	2019 Total £'000	2018 Phase 1 £'000	2018 Phase 2 £'000	2018 Total £'000
Within one year	-	312	72	384
Between one and five years	-	2,614	602	3,216
In more than five years	-	1,518	350	1,868
	-	4,444	1,024	5,468

On 28 November 2017, the company entered into a new lease for its office premises at Greenside, Edinburgh and this agreement contains an initial rent-free period of 18 months. The future minimum lease payments relate solely to this lease agreement. These agreements are no longer classified as operating leases following the adoption and implementation of IFRS 16 Leases in 2019, details of which are set out in note 36.

32. 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 £3,385 and the Nucleus Financial Group plc Share Incentive Plan whose costs are borne by the group.

33. 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 £997,401 (2018: £906,115). Contributions totalling £90,009 (2018: £91,340) were payable to the fund at the balance sheet date.

34. 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.

Notes to the consolidated financial statements

35. Related party transactions

Entities with significant influence over the company

Transactions with NIFAC and Sanlam were as follows:

	2019 £'000	2018 £'000
Sanlam		
Amounts owed to Sanlam in respect of board fees by NFG	84	176
Amounts owed to Sanlam in respect of fees for the Onshore Bond by NFS	79	72
Amounts charged by Sanlam to NFS in respect of the Onshore Bond	459	429
Amounts owed to Sanlam to NFS in respect of tax collected from the Onshore Bond	23	97
Dividend paid to Sanlam by NFG	2,036	1,976
NIFAC		
Amounts owed to NFG	-	42
Dividend paid to NIFAC by NFG	-	632

On Nucleus' admission to AIM, NIFAC realised part of its shareholding in Nucleus and distributed the net proceeds together with its residual shareholding interest to its underlying shareholders. NIFAC no longer holds shares in Nucleus.

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:

	2019 £'000	2018 £'000
NFS		
Amounts owed to NFG by NFS	1,760	706

Other related parties

During the year the company was charged £nil (2018: £390,000) for services provided by Craven Street Capital of which J A Samuels is a director.

Key management personnel

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

	2019 £'000	2018 £'000
Short-term employee benefits	1,736	2,238
Post-employment benefits	61	95
Share-based payments	229	314
	2,026	2,647

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

Notes to the consolidated financial statements

36. Changes in accounting policies

IFRS 16 Leases

In adopting this standard, which became effective from 1 January 2019, the modified retrospective approach was used, resulting in the cumulative effect of application on 1 January 2019 being recognised through an adjustment to opening retained earnings. On adoption the group recognised lease liabilities in relation to previously classified operating property leases. The liability was measured at the present value of future lease payments, discounted using an estimated incremental borrowing rate of 4 per cent. The associated right-of-use asset was measured on a retrospective basis as if the new standard had always applied. There were no changes relating to the recognition of finance leases. Use was made of the practical expedient which allows the continuation of the existing assessment as to whether a contract contains a lease for all ongoing contracts entered into before 1 January 2019.

	31 December 2018 £'000	Effect of IFRS 16 £'000	1 January 2019 £'000
Assets			
Non-current assets			
Right of use lease assets	-	4,013	4,013
Property, plant and equipment	2,029	(112)	1,917
Deferred tax	163	-	163
	<u>2,192</u>	<u>3,901</u>	<u>6,093</u>
Current assets	<u>28,908</u>	<u>-</u>	<u>28,908</u>
Total assets	<u>31,100</u>	<u>3,901</u>	<u>35,001</u>
Total equity	<u>17,473</u>	<u>(71)</u>	<u>17,402</u>
Liabilities			
Non-current liabilities			
Lease liabilities	-	4,217	4,217
Financial liabilities	6	(6)	-
Provisions	32	-	32
Deferred tax	41	-	41
	<u>79</u>	<u>4,211</u>	<u>4,290</u>
Current liabilities			
Lease liabilities	-	389	389
Financial liabilities	87	(87)	-
Trade and other payables	12,134	(541)	11,593
Tax payable	740	-	740
Provisions	587	-	587
	<u>13,548</u>	<u>(239)</u>	<u>13,309</u>
Total liabilities	<u>13,627</u>	<u>3,972</u>	<u>17,599</u>
Total equity and liabilities	<u>31,100</u>	<u>3,901</u>	<u>35,001</u>

Notes to the consolidated financial statements

37. Events after the reporting period

The Covid-19 pandemic, which first impacted the group, its users, its customers and the broader economy in the first quarter of 2020, is considered to be a non-adjusting post balance sheet event. Further information relevant to the directors' assessment of going concern is set out in the directors' report on page 65.

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

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

Company statement of financial position

	Note	31 December 2019 £'000	31 December 2018 £'000
Assets			
Non-current assets			
Right of use lease assets	4	3,463	-
Property, plant and equipment	5	934	1,038
Investments	6	7,645	7,645
Deferred tax	12	107	163
		12,149	8,846
Current assets			
Trade and other receivables	7	3,174	1,382
Cash and cash equivalents	8	1,007	1,758
		4,181	3,140
Total assets		16,330	11,986
Equity			
Shareholders' equity			
Called up share capital	19	76	76
Capital redemption reserve	19	53	53
Share-based payment reserve	19	465	150
Treasury shares	19	(120)	(29)
Retained earnings	19	8,632	7,481
Total equity		9,106	7,731
Liabilities			
Non-current liabilities			
Lease liabilities	10	3,737	-
Provisions	11	99	32
		3,836	32
Current liabilities			
Lease liabilities	10	475	-
Trade and other payables	9	2,883	4,223
Tax payable		30	-
		3,388	4,223
Total liabilities		7,224	4,255
Total equity and liabilities		16,330	11,986

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 £5,094,729 (2018: £562,727). Included in this amount is dividends received of £4,718,988 (2018: £2,335,065), 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 6 April 2020.

S J Geard
Director

The notes on pages 117 to 128 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 2019		76	7,481	(29)	53	150	7,731
IFRS 16 conversion		-	(71)	-	-	-	(71)
Changes in equity							
Other movements		-	-	-	-	-	-
Profit for the year		-	5,095	-	-	-	5,095
Dividend paid		-	(3,873)	-	-	-	(3,873)
Purchase of own shares		-	-	(91)	-	-	(91)
Share based payments charge		-	-	-	-	315	315
Balance at 31 December 2019		76	8,632	(120)	53	465	9,106

	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 2018		21	8,058	-	1	2,646	10,726
Changes in equity							
Issue of preference shares		50	(50)	-	-	-	-
Redemption of preference shares		(50)	-	-	50	-	-
Issue of bonus shares and G share conversion		57	(57)	-	-	-	-
Buy back and redemption of G shares and deferred shares		(2)	-	-	2	-	-
Profit for the year		-	563	-	-	-	563
Dividend paid		-	(3,933)	-	-	-	(3,933)
Purchase of own shares		-	-	(29)	-	-	(29)
Transfer on share conversion		-	2,900	-	-	(2,900)	-
Share based payments charge		-	-	-	-	404	404
Balance at 31 December 2018		76	7,481	(29)	53	150	7,731

The notes on pages 117 to 128 form part of these financial statements.

Company statement of cash flows

	Note	2019 £'000	2018 £'000
Cash flows from operating activities			
(Cash outflows)/cash inflows from operations	14	(1,014)	149
Income tax paid		(1)	(2)
Net cash (outflow)/inflow from operations		(1,015)	147
Cash flows from investing activities			
Purchase of tangible fixed assets	5	(10)	(300)
Dividend received		4,719	2,335
Interest received		-	2
Net cash inflow from investing activities		4,709	2,037
Cash flows from financial activities			
Interest paid		(180)	-
Dividend paid		(3,873)	(3,933)
Purchase of Treasury shares		(91)	(29)
Lease payments - principal	10	(301)	-
Net cash outflows from financing activities		(4,445)	(3,962)
Decrease in cash and cash equivalents		(751)	(1,778)
Cash and cash equivalents at beginning of year		1,758	3,540
Effects of exchange rate changes		-	(4)
Cash and cash equivalents at end of year		1,007	1,758

The notes on pages 117 to 128 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.

New standards effective for the first time in the 2019 financial statements

IFRS 16 Leases

The company adopted IFRS 16 Leases effective 1 January 2019. Details of the impact are set out in note 22 Changes in accounting policies.

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 33 to the consolidated financial statements.

Directors' remuneration and compensation of key management personnel is disclosed in notes 7 and 35 to the consolidated financial statements.

Notes to the company financial statements

4. Right of use lease assets

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

Notes to the company financial statements

5. Property, plant and equipment

	Short-term leasehold property £'000
Cost	
At 1 January 2019	1,137
Transition to IFRS 16	-
Additions	10
Disposals	-
	<hr/>
At 31 December 2019	1,147
Depreciation	
At 1 January 2019	99
Transition to IFRS 16	-
Charge for the year	114
Eliminated on disposals	-
	<hr/>
At 31 December 2019	213
Net book value	
At 31 December 2019	<hr/> 934
At 31 December 2018	<hr/> 1,038
	Short-term leasehold property £'000
Cost	
At 1 January 2018	837
Additions	300
Disposals	-
	<hr/>
At 31 December 2018	1,137
Depreciation	
At 1 January 2018	7
Charge for the year	92
Eliminated on disposals	-
	<hr/>
At 31 December 2018	99
Net book value	
At 31 December 2018	<hr/> 1,038
At 31 December 2017	<hr/> 830

Notes to the company financial statements

6. Investment in subsidiary companies

	2019 £'000	2018 £'000
Cost		
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, Surrey, England, KT13 0TS

Class of shares: Ordinary

Holding: 100%

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

	2019 £'000	2018 £'000
Aggregate capital and reserves	17,391	16,607
Profit for the financial year	5,502	6,020

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

	2019 £'000	2018 £'000
Aggregate capital and reserves	726	648
Profit for the financial year	78	523

Notes to the company financial statements

6. Investment in subsidiary companies (continued)

Nucleus IMX Limited

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

Class of shares: Ordinary

Holding: 100%

Principal activity: Non-trading subsidiary

	2019	2018
	£	£
Aggregate capital and reserves	1	1
Profit for the financial year	-	-

7. Trade and other receivables

	2019	2018
	£'000	£'000
Amounts owed by group undertakings	2,231	706
Other debtors	57	116
Prepayments	886	560
	3,174	1,382

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

8. Cash and cash equivalents

	2019	2018
	£'000	£'000
Cash at bank and in hand	1,007	1,758

9. Trade and other payables

	2019	2018
	£'000	£'000
Trade creditors	407	367
Social security and other taxes	371	380
Other creditors	9	6
Accruals	2,096	3,470
	2,883	4,223

Notes to the company financial statements

10. Lease liabilities

	2019 £'000	2018 £'000
Non-current: Lease liabilities	3,737	-
Current: Lease liabilities	475	-

	1 year or less £'000	1 - 2 years £'000	2-5 years £'000	> 5 years £'000	Total £'000
2019 Lease liabilities	475	494	1,602	1,641	4,212
2018 Lease liabilities	-	-	-	-	-

11. Provisions

	2019 £'000	2018 £'000
Dilapidations	65	32
Share incentive plans	34	-
	99	32
Analysed as follows:		
Current	-	-
Non-current	99	32
	99	32

Notes to the company financial statements

11. Provisions (continued)

	Share incentive plans £'000	Dilapidations £'000	Total £'000
At 1 January 2018	-	224	224
Provided during year	-	30	30
Utilised during year	-	(222)	(222)
At 31 December 2018	-	32	32
Provided during year	34	33	67
Utilised during year	-	-	-
At 31 December 2019	34	65	99

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.

Notes to the company financial statements

12. Deferred tax

	Accelerated capital allowances £'000	Short term timing differences £'000	Losses and other deductions £'000	Total £'000
At 1 January 2018	(5)	41	122	158
(Charge)/credit to statement of comprehensive income	13	(24)	16	5
At 31 December 2018	8	17	138	163
(Charge)/credit to statement of comprehensive income	(1)	81	(136)	(56)
At 31 December 2019	7	98	2	107

The total potential deferred tax asset arising in respect of unutilised tax losses and timing differences at 31 December 2019 is £562,305 (2018: £449,832). However, as a result of the uncertainty in the opinion of the directors regarding the timing and extent of future profit generation by the company, a deferred tax asset of £455,684 (2018: 286,290) has not been recognised.

13. Financial instruments

	Financial liabilities at amortised cost £'000	Financial assets at amortised cost £'000	Total £'000
2019			
Financial assets			
Investments in securities	-	-	-
Cash and cash equivalents	-	1,007	1,007
Trade and other receivables	-	3,174	3,174
Total financial assets	-	4,181	4,181
Non-financial assets			12,149
Total assets			16,330
Financial liabilities			
Finance lease obligations	4,212	-	4,212
Trade and other payables	2,883	-	2,883
Total financial liabilities	7,095	-	7,095
Non-financial liabilities			129
Total liabilities			7,224

Notes to the company financial statements

13. Financial instruments (continued)

	Financial liabilities at amortised cost £'000	Financial assets at amortised cost £'000	Total £'000
2018			
Financial assets			
Investments in securities	-	-	-
Cash and cash equivalents	-	1,758	1,758
Trade and other receivables	-	1,382	1,382
Total financial assets	-	3,140	3,140
Non-financial assets			8,990
Total assets			12,130
Financial liabilities			
Finance lease obligations	-	-	-
Trade and other payables	4,223	-	4,223
Total financial liabilities	4,223	-	4,223
Non-financial liabilities			32
Total liabilities			4,255

	< 3 months £'000	3-12 months £'000	1-5 years £'000	>5 years £'000	Total £'000
2019					
Financial assets					
Cash and cash equivalents	1,007	-	-	-	1,007
Trade and other receivables	3,173	1	-	-	3,174
	4,180	1	-	-	4,181

	< 3 months £'000	3-12 months £'000	1-5 years £'000	>5 years £'000	Total £'000
2018					
Financial assets					
Cash and cash equivalents	1,758	-	-	-	1,758
Trade and other receivables	1,382	-	-	-	1,382
	3,140	-	-	-	3,140

Notes to the company financial statements

13. Financial instruments (continued)

	< 3 months £'000	3-12 months £'000	1-5 years £'000	>5 years £'000	Total £'000
2019					
Financial liabilities					
Trade and other payables	2,883	-	-	-	2,883
Lease liabilities	119	356	2,096	1,641	4,212
	3,002	356	2,096	1,641	7,095
2018					
Financial liabilities					
Trade and other payables	4,055	168	-	-	4,223
Finance lease obligations	-	-	-	-	-
	4,055	168	-	-	4,223

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

	2019 £'000	2018 £'000
Profit before income tax	5,182	558
Depreciation	552	92
Share based payments charge (excl. NIC)	315	404
(Increase)/decrease in trade and other receivables	(1,792)	1,273
(Decrease)/increase in trade and other payables	(799)	347
Increase/(decrease) in other provisions	67	(192)
Net exchange differences	-	4
Interest paid	180	-
Dividend received	(4,719)	(2,337)
(Cash outflows)/cash inflows from operations	(1,014)	149

Notes to the company financial statements

15. Dividends

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

16. Called up share capital

Details of the share capital of the company are disclosed in note 23 to the consolidated financial statements.

17. Operating lease commitments

Details of the company's operating lease commitments are disclosed in note 31 to the consolidated financial statements.

18. Share-based payments

For details of the company's share schemes, including the valuation models used, refer to note 27 in the consolidated financial statements.

19. Reserves

Details of the company's reserves are disclosed in note 24 to the consolidated financial statements.

20. Related party transactions

Details of related party transactions are disclosed in note 35 to the consolidated financial statements.

21. Controlling party

Details of the ultimate controlling party are disclosed in note 34 to the consolidated financial statements.

Notes to the company financial statements

22. Changes in accounting policies

IFRS 16 Leases

In adopting this standard, which became effective from 1 January 2019, the modified retrospective approach was used, resulting in the cumulative effect of application on 1 January 2019 being recognised through an adjustment to opening retained earnings. On adoption the group recognised lease liabilities in relation to previously classified operating property leases. The liability was measured at the present value of future lease payments, discounted using an estimated incremental borrowing rate of 4 per cent. The associated right-of-use asset was measured on a retrospective basis as if the new standard had always applied. There were no changes relating to the recognition of finance leases. Use was made of the practical expedient which allows the continuation of the existing assessment as to whether a contract contains a lease for all ongoing contracts entered into before 1 January 2019.

	31 December 2018 £'000	Effect of IFRS 16 £'000	1 January 2019 £'000
Assets			
Non-current assets			
Right of use lease assets	-	3,901	3,901
Property, plant and equipment	1,038	-	1,038
Investments	7,645	-	7,645
Deferred tax	163	-	163
	<u>8,846</u>	<u>3,901</u>	<u>12,747</u>
Current assets	<u>3,140</u>	<u>-</u>	<u>3,140</u>
Total assets	<u>11,986</u>	<u>3,901</u>	<u>15,887</u>
Total equity	<u>7,731</u>	<u>(71)</u>	<u>7,660</u>
Liabilities			
Non-current liabilities			
Lease liabilities	-	4,211	4,211
Provisions	32	-	32
	<u>32</u>	<u>4,211</u>	<u>4,243</u>
Current liabilities			
Lease liabilities	-	302	302
Trade and other payables	4,223	(541)	3,682
	<u>4,223</u>	<u>(239)</u>	<u>3,984</u>
Total liabilities	<u>4,255</u>	<u>3,972</u>	<u>8,227</u>
Total equity and liabilities	<u>11,986</u>	<u>3,901</u>	<u>15,887</u>

Company information

Directors

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

Company secretary

N C Megaw

Registered number

05522098

Registered office

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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, 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
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

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
GDPR	The General Data Protection Regulation (Regulation (EU) 2016/679)
IFRS	International Financial Reporting Standards as adopted by the 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
Priips	The Packaged Retail and Insurance-based Investment Products Regulation
Sanlam	Sanlam UK Limited
SM&CR	Senior Managers and Certification Regime

