Nucleus Financial Group plc

Nucleus Pillar 3 disclosure

March 2021

Contents

Introduction

This document contains information prepared on a consolidated group basis in respect of the risk management practices, capital resources, remuneration policies and certain other disclosures of Nucleus Financial Group (Nucleus), and other limited disclosures of Nucleus Financial Services Limited (NFS) as at 31 December 2020.

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

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

Pillar 1

Capital adequacy – sets minimum capital requirements

Pillar 2

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

Pillar 3

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

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

This document is a requirement under Part Eight of the CRR and should be read in conjunction with the Nucleus Financial Group plc annual report and financial statements for the year ended 31 December 2020. Both documents are available at www.nucleusfinancial.com.

Nucleus Financial Group overview

Nucleus Financial Group plc (the company) is the parent company of a group of companies comprising

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

From April 2020, NFS and the group temporarily met the definition of a significant IFPRU firm and are therefore required to comply with the rules and requirements applicable to a significant IFPRU firm. The group last met the definition of a significant IFPRU firm in November 2020, and is therefore required to continue to meet the requirements for a further period of twelve months. Having met the definition of a significant IFPRU firm, the group also falls into the enhanced SMCR firm category and is required to be enhanced-compliant by August 2021. In addition, NFS has FCA and HMRC obligations relating to its activities as an operator of a self-invested personal pension scheme (a Sipp operator) and also those relating to the management of individual savings accounts (an Isa manager). NFS is authorised to hold and control client money as part of its activities and is therefore subject to the FCA's client asset rules (Cass rules).

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

Nucleus provides independent wrap platform services (through NFS) to over 14,400 active advisers from more than 880 financial advice firms. As at 31 December 2020, it was responsible for assets under administration of £17.4 billion on behalf of more than 101,000 customers. The platform offers a range of custody, trading, payment, reporting, fee-handling, research and integration services and a variety of tax wrappers. Asset choices including cash, OEICs, unit trusts, offshore funds, structured products and listed securities, including ETFs and investment trusts, are available through the platform.

Risk management

We believe we can maximise the potential opportunities presented by our business environment through strong risk management, and that effective risk management is fundamental to effective decision-making and delivery of an outstanding experience for our customers, employees, business partners and other stakeholders. Risk management is a core skill for our business leaders and people alike. Nucleus operates three lines of defence in assigning risk management responsibilities, which is commonly referred to as the "three lines of defence" model.

The delivery of our strategy and business plan is supported by a robust, scalable and enterprise-wide risk management framework. The risk team is the custodian of the risk management framework and is an independent second line function reporting to the chief risk officer. The role of the second line of defence is to develop and maintain the risk management policies and framework and review the effectiveness of the operation of the risk management practices by operational management. Embedding the risk management framework is key to this work, as is providing support and advice to the business risk owners in reporting risk related information, including management information on risk measurement, risk assurance and other risk management matters.

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

Risk assessment and identification

We identify, assess, manage and report Nucleus' risks and risk profile, as required by the Nucleus risk management framework.

Our risk management 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 on the basis of strong and effective risk management culture and structures;
- embedding a risk aware culture with risk management recognised as a management competence, critical to the delivery of our business strategy and performance targets.

When assessing our risk profile, we consider the following for each corporate risk for current and future assessments:

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

Regular reporting is provided to the risk committee on our material current and future risks and agreed actions to mitigate any identified gaps.

Principal risks

Our risk universe is defined, aligned to IFPRU risk categories, captured in the ICAAP annual review and approved by the board. The board approves our risk appetite preferences, qualitative and quantitative statements and key risk indicators on an annual basis. Material risks are tracked through our corporate risk matrix, which is reviewed on a quarterly basis by management and the risk committee. Appropriate management actions are agreed as required in the event that risk appetite tolerances and/ or limits are threatened. Reports on key risks and performance measures are considered at regular management and governance meetings.

Please see the Nucleus Financial Group plc annual report and financial statements for a more detailed breakdown of relevant risks. A summary of these risks and our high level risk appetite preferences are provided below.

Risk appetites

The board believes a balanced approach to the management of risks is appropriate for our business. The board recognises that it is inevitable that some degree of risk is inherent in our activities, business model and markets. Similarly, the board believes there are clearly defined risks that should be sought in order to deliver appropriate risk and reward. The board uses risk appetite preferences and statements to manage our risk profile. Our risk appetites are expressed as our preference to seek, accept or avoid risks in order to meet our business plan and strategic objectives.

Culture risks

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 whilst 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.

The conduct framework comprises strategies, policies, processes and systems through which we identify, measure, manage and monitor our culture and conduct, and ensure we remain aligned with delivering good customer outcomes. This includes an executive conduct group that reports to the board on a quarterly basis on performance against key conduct risk metrics.

Strategic risks

We believe there are opportunities to grow our business and create value through the developing nature of our audience. We seek competition risk through a compelling blend of product and services and price and seek to challenge our operating model to generate best value and appropriate risk and reward for our stakeholders. However, we accept that as a regulated firm with specific permissions, we are subject to regulatory change.

Our strategic risks are managed through our risk management framework which comprises of strategies, policies, processes and systems to identify, measure, manage and monitor our risk profile against appetite. We also perform horizon scans to identify new opportunities.

Operational risks

Operational risk is one of the main drivers of our risk profile and our risk and control frameworks focus on documenting our control environments and providing management with assurance over the design and performance of our controls.

Certain operational risks are inevitable for our business model and we accept we are exposed to the following types of operational risks:

- External risks such as cyber and financial crime risk
- Proposition and business model related risks, such as outsourcing, tax wrapper and Cass risk
- Regulatory and legal risks

In addition, we believe there is competitive advantage and an opportunity to strengthen our operational resilience from seeking out opportunities to better deploy elements of our business model. We do this in a well-defined and controlled manner to ensure our operational risk profile remains within appetite and our conduct standards. Areas where we seek appropriate risk and reward include change, people, process, infrastructure and information and data risks.

Our operational risks are managed through our risk management framework which comprises of strategies, policies, processes and systems to identify, measure, manage and monitor our risk profile against appetite. We report on control design and performance on core processes regularly and review our operational risk profile quarterly.

Financial risks

We avoid solvency risk by ensuring we retain sufficient qualifying capital to meet our minimum regulatory capital requirements at all times. For liquidity risk, we retain sufficient liquid assets to meet our business plan and customer obligations. In general, we avoid liquidity risk except where we are required to fund client money positions (and avoid Cass breaches as a result of unfunded positions) and we are fulfilling Cass and HMRC requirements.

The group holds surplus corporate cash balances with its banking partners and is therefore exposed to counterparty credit risk in that a failure of one or more of these banks would impact Nucleus' resources and its ability to meet its solvency and liquidity requirements. We avoid credit risk from low quality credit counterparties, including failure of our main banker, and will seek to recover all debts within our agreed contractual provisions. At the time of writing, all banking partners have a long-term rating that is BBB+ (S&P) or better.

In the ordinary course of business, market risk does not apply to Nucleus' activities as it does not trade on its own account other than where assets are required to be purchased by the group for operational trading reasons. Should this situation arise, assets are held as available for sale and sold at the earliest opportunity. We do, however, seek market risk to a limited extent through our revenue model, which exposes our profitability to fluctuations in financial market performance.

Capital requirements

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

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

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

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

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

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

Own funds

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

	Nucleus Financial Group plc consolidated As at 31 Dec 2020 £'000's	Nucleus Financial Services Limited As at 31 Dec 2020 £'000's	Nucleus Financial Group plc consolidated As at 31 Dec 2019 £'000's	Nucleus Financial Services Limited As at 31 Dec 2019 £'000's
Called up share capital	76	7,595	76	7,595
Audited reserves	22,655	11,992	19,630	9,796
Total equity	22,731	19,587	19,706	17,391
Regulatory deductions				
Other reserves – non qualifying	(42)	(42)	(34)	(34)
Intangible asset	(2,258)	(303)	(253)	(253)
Deferred tax asset	(9)	-	(195)	-
Total own funds	20,422	19,242	19,224	17,104

Total own funds exceeded the internal minimum capital requirement at all times throughout 2020 and the prior year. Own funds consist of Common Equity Tier 1 Capital only.

Asset encumbrance and capital ratios

	Nucleus Financial Group plc consolidated As at 31 Dec 2020 £'000's	Nucleus Financial Services Limited As at 31 Dec 2020 £'000's	Nucleus Financial Group plc consolidated As at 31 Dec 2019 £'000's	Nucleus Financial Services Limited As at 31 Dec 2019 £'000's
Total own funds	20,422	19,242	19,224	17,104
Total assets*	36,361	26,877	34,696	27,454
Total risk exposure amount	135,025	135,800	97,505	95,654
Minimum capital requirement – pillar 1	10,802	10,864	7,800	7,652
Surplus / (deficit) own funds over capital requirement.	9,620	8,378	11,424	9,452
Total capital ratio	15.1%	14.2%	19.7%	17.9%
Minimum required capital ratio	8%	8%	8%	8%

*Total assets are encumbered by a fixed and floating charge in respect of an uncommitted overdraft facility of £5,000,000 with The Royal Bank of Scotland International Limited. The overdraft facility has not been used in the current or previous year.

Remuneration policy

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

Nucleus is also subject to parts of the FCA's senior management arrangements, systems and controls (SYSC) high level standards, including SYSC 19A IFPRU Remuneration Code. The remuneration and HR committee has approved a directors' remuneration policy (also applicable to executives and other senior leaders) that encompasses the FCA's remuneration principles for IFPRU investment firms. The policy has utilised the remuneration principles proportionality rule, taking into consideration the size, internal organisation and nature, scope and complexity of the group's activities.

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

In the remuneration and HR committee report and note 26. Share-based payments of the financial statements, we set out arrangements for share-based payments in respect of growth shares and options that have been granted to directors and employees. This includes information on the performance criteria on which the entitlement to shares is based.

Code staff

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

In total 7 employees (2019 – 8) were categorised as code staff and a summary of their remuneration is set out below:

Code staff remuneration	2020	2019
	£'000's	£'000's
Fixed	1,436	1,377
Variable – cash	474	662
Total	1,910	2,039

The company expensed £465k (2019 - £237k) for share-based payments relating to code staff.

The tables below summarise code staff employee awards made under the group's share-based incentive schemes during the current and previous year.

	Award type	Number of participants at year end	Grant date	Awarded during the year	Lapsed during the year	Vested during the year	As at 31 December 2020
Code staff	LTIP	6	6 October 2020	914,824	-	-	914,824
	SIP	4	-	3,340	-	-	3,340
Total							918,164

	Award type	Number of participants at year end	Grant date	Awarded during the year	Lapsed during the year	Vested during the year	As at 31 December 2019
Code staff	LTIP	8	3 April 2019	618,726	-	-	618,726
	SIP	6	-	3,895	-	-	3,895
Total							622,621

The general performance conditions, valuation assumptions and other relevant award information are set out in note 26. Share-based payments of the Nucleus Financial Group plc annual report and financial statements.

Non-executive directors

Non-executive directors are not categorised and formally notified as code staff, however their professional activities do have a material impact on the firm's risk profile. The aggregate remuneration awarded to non-executive directors, of which there were 7 (2019 – 6) amounted to £306,000 (2019 – £266,000) and was all fixed in nature.

Other

No individual remuneration exceeded EUR 1 million in the 2020 year.

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

Governance arrangements

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

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

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

	2020 Total	2020 – SYSC groupings
J A A Samuels	22	3
T Dunley-Owen	9	4
J P Gibson**	5	2
M Hassall	14	3
J A Levin	18	2
J C Polin	23	1
A Tagliabue***	7	3
D R Ferguson*	6	1
SJ Geard*	6	1

* executive

** resigned 25 February 2020

*** appointed 25 February 2020

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