Nucleus financial services limited

Annual report and financial statements

For the year ended 31 December 2020

Registered number 05629686

Contents

Purpose and values

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

Naturally, these values align with the principles of our regulator.

Accountable

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

Authentic

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

Energetic

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

Inspiring

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

Strategic report

The directors present their strategic report for the year ended 31 December 2020 for Nucleus Financial Services Limited (NFS, the company).

About NFS

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

The company is a wholly owned subsidiary of Nucleus Financial Group Plc (NFG) and together with Nucleus IFA Services Limited (NIFAS) forms the group (the group or Nucleus). The group provides a wrap platform to UK financial advisers. The Nucleus wrap allows clients to invest directly, or via various 'tax wrappers' into a broad range of asset types, including cash, unit trusts, OEICs, ETFs, investment trusts and other securities.

The company is authorised and regulated by the Financial Conduct Authority (FCA) as an IFPRU limited licence investment firm. In addition, the company has additional FCA and Her Majesty's Revenue and Customs (HMRC) obligations relating to its activities as an operator of a Self-Invested Personal Pension scheme (a Sipp Operator) and also those relating to the management of Individual Savings Accounts (an Isa Manager). The company is authorised to hold and control client money as part of its activities and is therefore subject to the FCA's client asset rules (Cass rules).

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.

Strategic report

Business review

Overview

Since last year's report, Covid-19 has had an extraordinary impact on our lives, financial markets and global systems. 2020 was simply a year like no other and that makes me especially proud of the material progress achieved over the period. Our people and their welfare are always in focus and never more so than when Covid-19 hit. I was moved to see everyone adjusting so brilliantly to maintain our online and offline services, to develop new digital services and to achieve a successful soft launch of IMX, our new model portfolio service. Overall, their efforts led to a 42 per cent increase in net inflows, a 4 per cent increase in customers and closing assets under administration (AUA) of £17.4bn.

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

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

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

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

Operational performance

Inflows began the year strongly as investor sentiment improved following the decisive general election result and our Q1 net inflows were up 100 per cent over the previous year, a marked improvement that would have been better still were it not for the onset of the pandemic in March. Adviser and customer activity slowed materially through Q2 before beginning to recover through Q3 and then accelerate through Q4. Overall we increased our market share of retail advised net inflows from 2.5 per cent to 2.8 per cent, and these were up 42 per cent over 2019, a good result in the circumstances even if our pre-pandemic expectations had been greater. Outflows continued to fall through the year, a positive trend exacerbated by the pandemic.

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

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

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

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

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

Strategic development and outlook

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

Strategic report

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

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

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

Dividend

During the year the company paid an interim dividend in December totalling £1.0m (2019: May and October totalling £4.7m).

The company's key performance indicators are:

	2020 £'000	2019 £'000
Assets under administration	17,415,185	16,141,279
Turnover	51,809	51,517
Operating profit	3,915	6,465
Profit for the financial year	3,196	5,502

Principal risks and uncertainties

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

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

The group operates a risk management framework through which it systematically identifies actual and potential risk events and seeks to manage and mitigate these risks by putting in place appropriate policies and controls as safeguards. Our key risk categories as set out in our risk taxonomy are summarised below, and these are managed within the risk appetites set by the board on an annual basis. Additional information can be found in our Pillar 3 disclosure which can be found on the company's website www.nucleusfinancial.com/investors

Culture risk

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

Strategic report

Strategic and business model risks

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

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

Economic, political and market factors can also affect the level of inflows and outflows and the performance of investment assets. For example, a general deterioration in the global economy, and the UK economy in particular, may have a negative impact on customers' disposable income and assets, and the value of savings and investments on the platform. This was evident during 2020 as the effects of Covid-19 influenced global economies.

Ownership structure

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

Competition

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

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

Relationship with financial advisers

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

Reliance on key suppliers

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

The group's key suppliers are:

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

Strategic report

Operational and regulatory risks

Operational

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

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

- People
  - Failure to attract, train and motivate people.
  - Failure to retain core skills and knowledge in the group (key person risk).
  - people-related errors in core processes.
- Operational process and controls
  - Failure in core processes and controls (whether preventative or detective), either by the group or by third parties.
  - Failure in systems and controls in place to meet the requirements of taxation and other regulations in respect of the suitability of certain investments to be held within certain tax wrappers and accounts.
  - Failure to adopt processes and controls to the changing operating environment (e.g. Covid-19 operating environment).
- Operational resilience and technology
  - Failure of, or disruption to, the sophisticated technology and advanced information systems (including those of the group and its third-party service providers) upon which the group is dependent.
  - Inability to respond to the need for technological change as a result of the failure to continue to improve new technologies, through lack of appropriate investment in new technologies or through such investment proving unsuccessful.
  - Failure to maintain existing technologies or to invest appropriately in continuing improvements to those technologies.
  - Vulnerability of the group's networks and platform (and those of its third-party service providers) to security risks, cyber-attack or other leakage of sensitive or personal data.
  - Vulnerability of the group's networks and platform (and those of its third-party service providers) to security risks or cyber-attack leading to direct theft of monies or assets.

Regulatory

Regulatory risk includes the risks relating to the introduction of new regulations, changes to existing regulations and non-compliance with existing regulatory requirements:

i. Impact of a material breach of existing regulatory requirements

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

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

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

New regulation in 2020

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

Forthcoming regulatory change

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

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

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

January 2022 – The FCA's investment firm prudential regime (MIFIDPRU): MIFIDPRU comes into effect in January 2022. This will replace the capital requirements directive and regulation (CRD IV and CRR) for small and medium-sized investment firms. We do not anticipate that the impact of the changes will be material to our risk profile.

Financial and liquidity risks

Solvency (including access to capital)

The group is required to maintain and have available to it a sufficient level of capital as determined by the requirements applicable to an IFPRU 125k limited licence investment firm and a non-insured Sipp operator.

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

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

Liquidity

The group's liquidity position is subject to a number of factors that may generate liquidity strain in the short or medium term. The group manages its liquidity risk through an ongoing evaluation of its working capital requirements against available cash balances and credit facilities. The group also has a defined liquidity management framework that requires management to monitor and report on liquidity positions and potential risks to the audit committee and board on a quarterly basis.

Risk management framework

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

Our framework, which is also applied to the company, is concerned with:

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

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

In assigning risk management responsibilities, the group operates an approach to risk management that is commonly referred to as the "three lines of defence" model.

The activities within each of the three lines are noted below. At 31 December 2020, there were zero open significant internal audit findings.

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First line of defence

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

Second line of defence

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

Third line of defence

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

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

Going concern

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

- the latest business plan projections of the company, stressed for significant events that would have a material impact on the company's profitability, liquidity, solvency and regulatory capital position.
- actual performance to date.
- the current operating and trading environment.
- The current financial position, adequacy of liquidity and capital to meet operational and regulatory requirements.
- known risks and uncertainties with consideration of the impact of these on the company's solvency and liquidity position.
- known and expected changes in the regulatory environment impacting platform operators.

The directors also consider their approach to assessing the company's ability to continue as a going concern with reference to guidance from the Financial Reporting Council and the recommendations from the Sharman Inquiry of 2012, which sought to identify lessons for companies and auditors addressing going concern and liquidity risks following the credit crisis.

Having regard to these matters, the directors believe it is appropriate to prepare the financial statements on a going concern basis.

Material uncertainty in relation to going concern

As set out in note 27. events after the reporting period below , the group is the subject of an all cash offer from James Hay Holdings that, if successful, is expected to complete in the next 12 months. Whereas the directors note the intentions of James Hay Holdings as set out in the Scheme circular and whereas they do not have any reason to believe that James Hay Holdings would not continue to support the group and company or would materially change its activities in the next 12 months, they are not party to the detailed intentions of the acquirer. Although this does not change the directors' conclusion as to the appropriateness of preparing the financial statements of the group and the company on a going concern basis, it is considered to create a material uncertainty which may cast significant doubt on the group and company's ability to continue as a going concern. Accordingly, the financial statements do not include the adjustments that would result if the group or company were unable to continue as a going concern.

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

S J Geard
Director

S172 Report

Our strategic decision making is driven by a desire to fulfil our purpose, aligned to our values, our policies and our overall attitude to risk.

A key input to any strategic decision is its impact on our stakeholders. In addition to the stakeholder specific outcomes set out on the next couple of pages, the case studies below provide two examples of how the board took its duties set out in s172(1) of the Companies Act 2006 into account during the course of 2020.

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

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

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

Case study one

Nucleus IMX ("IMX") launch

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

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

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

Case study two

Acquisition of certain assets of OpenWealth

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

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

S172 report

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

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

Stakeholders

Customers

What matters most:

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

How do we engage:

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

How did we respond:

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

Platform users

What matters most:

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

How do we engage:

- User sessions
- Platform development group
- Practice development group
- Advisory board
- Dedicated account managers and business development team
- Regular Illuminate events
- Thought leadership platform

How did we respond:

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

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Our people

What matters most:

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

How do we engage:

- Regular updates from the people and development team on Covid-19 and our wellbeing approach
- Regular surveys
- Fortnightly all company briefing sessions and bi-annual strategy updates led by our CEO and his executive team
- Culture champions in each team
- Board member responsible for representing employee voice
- 'Ask me anything' lunch with the executive team for new joiners

How did we respond:

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

Suppliers

What matters most:

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

How do we engage:

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

How did we respond:

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

S172 report

Shareholders

What matters most:

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

How do we engage:

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

How did we respond:

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

Regulators

What matters most:

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

How do we engage:

- Members of the UK platform development group
- Direct communication via our chief risk officer and compliance lead
- Consultations and policy statements

How did we respond:

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

Community, the environment and wider society

What matters most:

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

How do we engage:

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

How did we respond:

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

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2020. All content within the strategic report is applicable to the directors' report.

Introduction

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

The company is authorised and regulated by the FCA as an IFPRU limited licence investment firm. In addition, the company has additional FCA and HMRC obligations relating to its activities as an operator of a Self-Invested Personal Pension scheme (a Sipp Operator) and also those relating to the management of Individual Savings Accounts (an Isa Manager). The company is authorised to hold and control client money as part of its activities and is therefore subject to the FCA's client asset rules (Cass rules).

From April 2020, NFS 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. NFS 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, NFS also falls into the enhanced SM&CR firm category and is required to be enhanced-compliant by August 2021.

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

Business review and strategic report

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

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

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

Results and dividends

The profit for the year was £3.2m (2019: £5.5m). Turnover increased to £51.8m, (2019: £51.5m), with operating profit decreasing to £3.9m (2019: £6.5m). The full results are set out in the accompanying financial statements and notes.

Dividends amounting to £1,000,000 (2019: £4,717,488) were paid during the year.

Post balance sheet events

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

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

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

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

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

Directors' report

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

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

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

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

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

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

This aggregate number consists of the following categories:

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

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

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

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

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

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

Material uncertainty in relation to going concern

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

Disclosure statement to the external auditor

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

Directors

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

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

Company registration

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

Political donations

There have been no political donations made during the year (2019: £nil).

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

S J Geard
Director

Directors' responsibilities statement

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements under UK GAAP in compliance with Financial Reporting Standard 101 "Reduced Disclosure Framework") ("FRS 101"). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

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

- select suitable accounting policies and apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

S J Geard
Director

Independent auditors' report to the members of Nucleus Financial Services Limited

Report on the audit of the financial statements

Opinion

In our opinion, Nucleus Financial Services Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of comprehensive income, the Statement of financial position as at 31 December 2020; and the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

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

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

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

Reporting on other information

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

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

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' responsibilities statement set out on page 17, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to, but were not limited to; any breaches of UK regulatory principles, such as those governed by the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to manual elements of the control environment, such as journal entries, intercompany accounts and accrual balances and areas of significant judgement such as provisions and other critical accounting estimates. Audit procedures performed included:

- Obtained an understanding of the legal and regulatory framework applicable to Nucleus and how the entity is complying with that framework;
- Reviewed minutes of meetings of those charged with governance; and
- Audited the risk of management override of controls, including through testing journal entries and other adjustments for appropriateness, auditing material intercompany and accrual balances, testing accounting estimates (because of the risk of management bias), and evaluating the business rationale of significant transactions outside the normal course of business.

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Lindsay Gardiner (Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
22 March 2021

Statement of comprehensive income

	Note	2020 £'000	2019 £'000
Turnover	3	51,809	51,517
Cost of sales		(23,065)	(22,817)
Gross profit		28,744	28,700
Administrative expenses		(24,904)	(22,340)
Other operating income	4	75	105
Operating profit		3,915	6,465
Interest receivable and similar income	8	38	70
Interest payable and similar expenses	9	-	(2)
Profit before taxation	5	3,953	6,533
Tax on profit	11	(757)	(1,031)
Profit for the financial year		3,196	5,502
Items that may be subsequently reclassified to profit and loss		-	-
Total comprehensive income for the financial year		3,196	5,502

The notes on pages 23 to 38 form part of these financial statements.

Statement of financial position

	Note	2020 £'000	2019 £'000
Fixed Assets			
Intangible assets	12	303	253
Right of use lease assets	13	-	13
Tangible fixed assets	14	1,110	764
Investments	15	1	1
		1,414	1,031
Current Assets			
Debtors	16	9,868	9,567
Investments	17	201	107
Cash and cash equivalents	18	15,394	16,749
		25,463	26,423
Creditors:			
Amounts falling due within one year	19	(6,898)	(9,347)
Net current assets		18,565	17,076
Total assets less current liabilities		19,979	18,107
Provisions for liabilities	21	(392)	(716)
Net assets		19,587	17,391
Capital and reserves			
Called up share capital	23	7,595	7,595
Retained earnings	24	11,992	9,796
Total equity		19,587	17,391

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

S J Geard
Director

The notes on pages 23 to 38 form part of these financial statements.

Statement of changes in equity

	Called up share capital	Retained earnings	Total equity
	£'000	£'000	£'000
Balance at 1 January 2020	7,595	9,796	17,391
Changes in equity			
Dividend paid	-	(1,000)	(1,000)
Profit for the financial year	-	3,196	3,196
Balance at 31 December 2020	7,595	11,992	19,587
Balance at 1 January 2019	7,595	9,012	16,607
Changes in equity			
Dividend paid	-	(4,718)	(4,718)
Profit for the financial year	-	5,502	5,502
Balance at 31 December 2019	7,595	9,796	17,391

The notes on pages 23 to 38 form part of these financial statements.

Notes to the financial statements

1. Accounting policies

Basis of preparation

The financial statements of the company have been prepared in compliance with Financial Reporting Standard 101 "Reduced Disclosure Framework") ("FRS 101"), the Companies Act 2006 ("the Act") and the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410). FRS 101 sets out a reduced disclosure framework for a qualifying entity as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of international accounting standards.

The company is a qualifying entity for the purposes of FRS 101. Note 26 gives details of the company's parent and from where its consolidated financial statements prepared in accordance with IFRS may be obtained.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

Going concern

The company's financial statements are prepared on a going concern basis, under the historical cost convention. Further information relevant to the directors' assessment of going concern is set out in the strategic report on page 10.

Material uncertainty in relation to going concern

As set out in note 27 events after the reporting period below, the group is the subject of an all cash offer from James Hay Holdings that, if successful, is expected to complete in the next 12 months. Whereas the directors note the intentions of James Hay Holdings as set out in the Scheme circular and whereas they do not have any reason to believe that James Hay Holdings would not continue to support the group and company or would materially change their activities in the next 12 months, they are not party to the detailed intentions of the acquirer. Although this does not change the directors' conclusion as to the appropriateness of preparing the financial statements of the group and the company on a going concern basis, it is considered to create a material uncertainty which may cast significant doubt on the group and company's ability to continue as a going concern. Accordingly, the financial statements do not include the adjustments that would result if the group or company were unable to continue as a going concern.

Disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 101:

- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
    - paragraph 79 (a) (iv) of IAS 1; and
    - paragraph 73 (e) of IAS 16 Property Plant and Equipment
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D and 111 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share based payments;
- the requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures; and
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group.

Changes in accounting policies

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

Notes to the financial statements

Turnover

Turnover comprises fees earned by the company from the provision of a wrap platform service to UK financial advisers and their clients. Fees are recognised exclusive of Value Added Tax and net of large case discounts. They are recorded in the year to which they relate and can be reliably measured. Platform fees are calculated monthly using contractual basis point rate cards applied to the daily valuation of assets under administration on the platform. Performance obligations are satisfied as the wrap platform service is provided to customers. Accrued income represents fees that are collected in the following month.

Internally generated intangible assets

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

Amortisation of intangible assets

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

Licenses	5 years

Tangible fixed assets

Tangible fixed assets are stated at historic cost less depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Impairment reviews are performed by the directors at each reporting date. There was no impairment of fixed assets in the year.

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

The estimated useful lives range as follows:

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of comprehensive income.

Taxation

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

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

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

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

Deferred tax assets and liabilities are not discounted.

Foreign currency

The company's functional and presentation currency is the Pound Sterling, generally rounded to the nearest thousand. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of transactions are recognised in the statement of comprehensive income.

Leases

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

Defined contribution pension scheme

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

Expense recognition

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

Notes to the financial statements

Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks. Bank overdrafts are shown within current liabilities due less than one year. Cash equivalents are highly liquid investments that mature no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Interest income

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

Finance costs

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

Fixed asset investments

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

Current asset investments

The company has investments held by it on the platform for operational purposes. These are recognised and measured at fair value using the most recent available market price with gains and losses recognised immediately in the income statement.

Bad and doubtful debt provision

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

Provisions for liabilities

Provisions are made where an event has taken place that gives the company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the statement of comprehensive income in the year that the company becomes aware of the obligation and are measured at the best estimate at the statement of financial position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the statement of financial position.

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

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The critical accounting judgements and the key sources of estimation uncertainty are as follows:

Useful economic lives of tangible assets

The annual depreciation charge for tangible fixed assets is sensitive to changes in the estimated useful lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. There have been no changes to the useful lives of tangible assets during the year. See note 14 for the carrying amount of fixed assets and note 1 for the useful economic lives for each class of asset.

Provisions

The company has recognised provisions in respect of client compensation, outsourced service and dilapidations. Further detail on these provisions, the rationale behind their recognition is included in note 21.

3. Turnover

All turnover is attributable to the principal activity of the company and arose within the United Kingdom (2019: all United Kingdom)

Notes to the financial statements

4. Other operating income

	2020	2019
	£'000	£'000
Other operating income	75	105

5. Profit before taxation

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

	2020	2019
	£'000	£'000
Depreciation of tangible fixed assets	455	450
Depreciation of right of use assets	13	100
Loss on disposal of fixed assets	-	3
Amortisation	22	-
Foreign exchange differences	8	5
Movement in bad debt provision	(42)	59

6. Employees

The staff who manage the affairs of the company are employed by NFG.

Staff costs, including directors' remuneration, recharged to the company were as follows:

	2020	2019
	£'000	£'000
Wages and salaries	13,673	11,992
Social security costs	1,575	1,380
Other pension costs	1,068	983
Share based payment charge	661	448
	16,977	14,803

NFS does not directly employ any staff. The average monthly number of employees, including the directors, whose salaries were recharged to the company during the year was as follows:

	2020	2019
Employees	243	219

Notes to the financial statements

7. Directors remuneration

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

8. Interest receivable and similar income

	2020	2019
	£'000	£'000
Bank interest receivable	38	70

9. Interest payable and similar expenses

	2020	2019
	£'000	£'000
Finance charges payable under finance leases	-	1
Other interest	-	1
	-	2

10. Auditors' remuneration

	2020	2019
	£'000	£'000
Audit of the financial statements	38	41
Prior year under provision on audit of the financial services	2	-
Client assets assurance report	126	146
All other services	5	5
	171	192

Notes to the financial statements

11. Tax on profit

Analysis of tax expense

	2020 £'000	2019 £'000
Current tax:		
Tax on profits for the year	653	1,049
Deferred tax:		
Reversal of timing differences in relation to fixed assets	3	-
Reversal of timing differences in relation to disallowable provisions	101	(18)
Tax expenses in income statement	757	1,031

Factors affecting the tax expense

The tax assessed for the year is higher (2019: lower than) the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are reconciled below:

	2020 £'000	2019 £'000
Profit before taxation	3,953	6,533
Profit before taxation multiplied by the standard rate of corporation tax in the UK of 19.00 per cent (2019: 19.00 per cent)	751	1,241
Effects of:		
Expenses not deductible for tax purposes	5	11
Other tax adjustments, reliefs and transfers	1	(12)
Remeasurement of deferred tax for changes in tax rates	3	-
Income not taxable for tax purposes	(2)	(20)
Adjustments in respect of prior periods	(1)	(189)
Tax expense in income statement	757	1,031

Notes to the financial statements

12. Intangible assets

	Wrap platform	Total
Cost	£'000	£'000
At 1 January 2020	253	253
Additions	72	72
Disposals	-	-
At 31 December 2020	325	325
Amortisation		
At 1 January 2020	-	-
Charge for the year	22	22
Eliminated on disposal	-	-
At 31 December 2020	22	22
Net book value		
At 31 December 2020	303	303
At 31 December 2019	253	253

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

Notes to the financial statements

13. Right of use lease assets

	Right of use asset Office Equipment Edinburgh £'000	Total £'000
Cost		
At 1 January 2020	361	361
Additions	-	-
Disposals	-	-
At 31 December 2020	361	361
Depreciation		
At 1 January 2020	348	348
Charge for the year	13	13
Eliminated on disposals	-	-
At 31 December 2020	361	361
Net book value		
At 31 December 2020	-	-
At 31 December 2019	13	13

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

Notes to the financial statements

14. Tangible fixed assets

	Fixtures and fittings £'000	Office equipment £'000	Total £'000
Cost			
At 1 January 2020	551	1,458	2,009
Additions	3	798	801
Disposals	-	-	-
At 31 December 2020	554	2,256	2,810
Depreciation			
At 1 January 2020	257	988	1,245
Charge for the year	130	325	455
Eliminated on disposal	-	-	-
At 31 December 2020	387	1,313	1,700
Net book value			
At 31 December 2020	167	943	1,110
At 31 December 2019	294	470	764

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

Notes to the financial statements

15. Investments

	Investment in subsidiary companies £'000
Cost	
At 1 January 2020 and 31 December 2020	1
Net book value	
At 31 December 2020	1
At 31 December 2019	1

The company's investments at the statement of financial position date in the share capital of companies include the following:

NFS (Nominees) Limited

Registered office	Elder House St Georges Business Park, 207 Brooklands Road, Weybridge, Surrey, England, KT13 0TS
Class of shares	Ordinary
Holding	100%
Principal activity	Vehicle to ensure appropriate registration of title of client assets for the purposes of the client money rules as defined by the Financial Conduct Authority.

	2020 £	2019 £
Aggregate capital and reserves	1	1

Nucleus Trustee Company Limited

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

	2020 £	2019 £
Aggregate capital and reserves	1,000	1,000

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

Notes to the financial statements

16. Debtors: amounts falling due within one year

	2020 £'000	2019 £'000
Other debtors	1,057	1,124
Amounts owed by HMRC	2,200	1,929
Trade debtors	172	444
Prepayments and accrued income	6,439	6,070
	9,868	9,567

Included within other debtors is a balance of cash prefunded on the wrap platform as required by our client terms and conditions. This fluctuates due to timing. The total loss allowance provided for trade and other receivables is £188,768 (2019: £230,410)

17. Current asset investments

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

18. Cash and cash equivalents

	2020 £'000	2019 £'000
Cash at bank and in hand	15,394	16,749

The company has a £5,000,000 uncommitted overdraft facility with Royal Bank of Scotland International Limited. Interest is charged on this facility at 3% plus base rate up to an overdrawn amount of £5,000,000 and 5% plus base rate on any amount over £5,000,000. The overdraft is secured by a fixed and floating charge over all the company's assets. The overdraft was undrawn as at 31 December 2020.

Notes to the financial statements

19. Creditors: amounts falling due within one year

	2020 £'000	2019 £'000
Preference shares	50	50
Trade creditors	1,471	1,018
Amounts owed to group undertakings	1,830	2,252
Corporation tax	249	324
Social security and other taxes	-	1
Other creditors	1,241	2,196
Amounts owed to HMRC	628	118
Accruals	1,429	3,388
	6,898	9,347

20. Financial liabilities - borrowings

	2020 £'000	2019 £'000
Current:		
Preference shares	50	50

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

The holder of preference shares, NFG, has the right to receive a non-cumulative fixed preferential dividend, calculated at the rate of 3% per annum on the amounts paid up or treated as paid up on such shares.

At the discretion of the directors, preference shares can be redeemed at their nominal value, or the nominal value treated as paid up on the preference shares, not less than five years and one day after the preference shares were first allotted.

On winding up of the company, preference shares will rank ahead of all other shares in sharing the company's assets. The holder of the preference shares will be entitled to the amount paid up on the preference share and the amount of any dividend which is due for payment on or after the date the winding up commenced.

The holder of the preference shares is entitled to receive notice of general meetings, and to attend, speak and vote at general meetings in relation to proposed resolutions which affect the rights of preference shareholders.

Notes to the financial statements

21. Provisions for liabilities

	2020 £'000	2019 £'000
Deferred tax	126	22
Other provisions:		
Client compensation	266	535
Outsourced service	-	159
	266	694
Aggregate amounts	392	716

	Deferred tax £'000	Client compensation £'000	Outsourced service £'000	Total £'000
At 1 January 2019	41	429	158	628
Provided during year	-	388	1	389
Utilised during year	-	(122)	-	(122)
Unused amounts reversed during year	-	(160)	-	(160)
Credit to statement of comprehensive income	(19)	-	-	(19)
At 31 December 2019	22	535	159	716
Provided during year	-	155	-	155
Utilised during year	-	(256)	-	(257)
Unused amounts reversed during year	-	(168)	-	(168)
Charge/(credit) to statement of comprehensive income	104	-	(159)	(54)
At 31 December 2020	126	266	-	392

Notes to the financial statements

21. Provisions for liabilities continued

Deferred tax

The deferred tax liability arises as a result of temporary differences between the company's accounting and tax carrying values, the anticipated and enacted tax rate and estimated taxes payable for the current year.

Client compensation

The company remediates clients affected by errors on the platform and calculates any amounts due in line with guidance given by the Financial Ombudsman Service in respect of the type of client loss, distress and inconvenience for which clients should be compensated. Where actual trading losses are suffered by clients, these are calculated in accordance with MiFID II best execution rules to ensure clients are restored to the position they would have been in had the error or omission not been made. Amounts are provided and utilised against the administrative expenses line in the statement of comprehensive income and the majority of the outstanding issues are expected to be agreed in the first half of 2021.

Outsourced service

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

22. Dividends

	2020 £'000	2019 £'000
Interim dividend 13p per share (2019 46p per share)	1,000	3,518
Interim dividend 0p per share (2019 16p per share)	-	1,200
	1,000	4,718

Notes to the financial statements

23. Called up share capital

	2020 £'000	2019 £'000
Shares classified as equity:		
Allotted, called up and fully paid		
7,595,000 ordinary shares of £1 each (2019: 7,595,000)	7,595	7,595

There is a single class of ordinary shares, representing the nominal value of shares that have been issued. There are no restrictions on the distribution of dividends and the payment of capital.

There were no shares issued during the year.

	2020 £'000	2019 £'000
Shares classified as debt:		
Allotted, called up and fully paid		
50,000 preference shares of £1 each (2019: 50,000)	50	50

24. Reserves

Retained earnings

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

External capital requirements

The company 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 company complied with these requirements throughout the reporting period.

25. Related party transactions

As a 100% subsidiary of NFG, the company is exempt from disclosing transactions with entities that are part of the group, in accordance with the requirements of FRS 101 section 8(k).

26. Ultimate controlling party

NFS is a company incorporated in England and Wales. The immediate parent undertaking is NFG, a company incorporated in England and Wales. There is no ultimate controlling party.

NFG is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements at 31 December 2020. The consolidated financial statements of NFG can be obtained from Companies House or the Company Secretary at Nucleus HQ, Greenside, 12 Blenheim Place, Edinburgh, EH7 5JH or the group's website www.nucleusfinancial.com

Notes to the financial statements

27. Events after the reporting period

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

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

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

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

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

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

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

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

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

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

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

This aggregate number consists of the following categories:

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

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

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

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

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

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

Company information

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S J Geard
M G Hassall
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J C Polin
J A A Samuels
A Tagliabue

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M Bruce

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