

Company Registration No. 07503666 (England and Wales)

**NUTMEG SAVING AND INVESTMENT LIMITED
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

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NUTMEG SAVING AND INVESTMENT LIMITED

COMPANY INFORMATION

| | |
|--------------------------|---|
| Directors | Mr Nicholas Hungerford Mr Craig Anderson Mr Daniel Aegerter Mr Nicholas George Mr Stephen Clark Mr Timothy Bunting Mr Martin Stead Mr Johnny Chen Mr I Meng Huang (appointed 26 th October 2017) |
| Secretary | Taylor Wessing Secretaries Limited |
| Company number | 07503666 |
| Registered office | 5 New Street Square, London, EC4A 3TW |
| Auditor | RSM UK Audit LLP 25 Farringdon Street London EC4A 4AB |

NUTMEG SAVING AND INVESTMENT LIMITED

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NUTMEG SAVING AND INVESTMENT LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present their report and financial statements for the year from 1 January 2017 to 31 December 2017.

Principal activities

The principal activity of the Company is digital discretionary investment management.

Results and dividends

The result for the year is set out on page 12. No dividend was paid or proposed (2016: £Nil).

Directors

The following directors have held office during the year:

Mr Nicholas Hungerford
Mr Craig Anderson
Mr Daniel Aegerter
Mr Nicholas George
Mr Stephen Clark
Mr Timothy Bunting
Mr Martin Stead
Mr Johnny Chen
Mr I Meng Huang (appointed 26th October 2017)

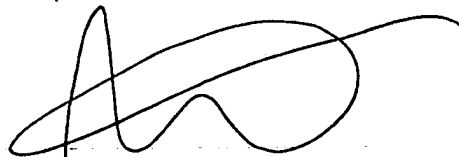
Auditor

The auditor, RSM UK Audit LLP, Chartered Accountants, has indicated its willingness to continue in office.

Statement of disclosure to the auditor

The directors have confirmed that as far as they are aware, there is no relevant audit information of which the Company's auditors are unaware. Each of the directors has confirmed that they have taken all the necessary steps that they ought to have taken as directors, in order to make themselves aware of all relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board



Martin Stead
CEO and Director
31st March 2018

NUTMEG SAVING AND INVESTMENT LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

Review of the business

Nutmeg continued to grow significantly in 2017 passing £1bn of assets under management, closing the year with over 50,000 customers, and becoming the most recognised online investment brand in London with 47% prompted brand awareness¹.

The Nutmeg proposition has a broad appeal across a varied section of society, attracting both first-time investors who have previously been excluded from accessing wealth management services, through to sophisticated, experienced investors who are looking for a genuine alternative to the status quo. Nutmeg's youngest investor is 18 and its oldest investor is 96.

Nutmeg was founded on the principle of using innovative technology to transform the wealth management industry and throughout 2017 it continued to invest significantly in products and technology to deliver new features and benefits to customers, thereby delivering accelerated organic growth. Being one of only three providers to offer a Lifetime ISA (LISA) on the first day of HMRC launch in April 2017, Nutmeg successfully acquired thousands of LISA customers at a low cost of acquisition. 2017 also saw Nutmeg launch a range of *fixed allocation* portfolios in addition to offering a *fully managed* service, widening Nutmeg's appeal to a broader set of customers. Nutmeg's *fixed allocation* portfolios are priced at the same price point as the *platform fee* of the UK's market leading execution-only fund supermarket, making this a highly attractive proposition for DIY investors who are looking for professionally constructed passive investment portfolios at a low cost, to maximise returns. In addition, Nutmeg's first Apple iOS app was released in January 2017, achieving a rating of 4.5 stars in the App Store, and an Android app has also recently been released. The vast majority of Nutmeg customers now use these apps on a regular basis to track and manage their investments.

In 2017, Nutmeg passed the five-year milestone of managing investments for our customers. In those five calendar years since launch (2013-2017), its managed portfolios delivered returns ranging from 5.3% (risk level 1) to 73.9% (risk level 10). When measured against comparable portfolios of traditional wealth managers serving high-net worth investors (as measured by the Asset Risk Consultants Private Client Index²) Nutmeg achieved significant out-performance ranging from +6.3% to +17.6% over and above the relative average return of those traditional wealth managers. Nutmeg was recently recognised with the Private Asset Managers (PAM) 2018 award for Best Digital Wealth solution, demonstrating that Nutmeg has now fully established itself as a credible and high-performing alternative to traditional wealth managers who manage wealth for high net worth individuals.

Despite an increase in competition, Nutmeg remains, by a significant distance, the largest European pure online digital wealth manager³, and one of the fastest growing wealth managers in the UK⁴. Nutmeg continues to invest in the business and this investment is reflected in the trading loss reported in the Statement of Comprehensive Income.

2017 also brought additional regulatory requirements and the business needed to devote significant resource to further enhance its control framework and prepare for MifID II regulation, which came into effect on 3 January 2018. The developments required for this regulation drew on resources from almost every area of the business throughout the second half of 2017. The breadth and complexity of accommodating these new rules was particularly burdensome for smaller wealth managers such as Nutmeg. Even so, Nutmeg successfully met this regulatory deadline.

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Work on the new General Data Protection Regulation (“GDPR”), which comes into effect in May 2018, also started in 2017 as this requires a comprehensive review of data classification, storage, encryption, record keeping and supplier management. At the year end, the team and the detailed plans are in place to ensure that Nutmeg is GDPR compliant by the May 2018 deadline.

Matters of strategic importance

Nutmeg continues to be backed by long term investors who are committed to supporting Nutmeg in maintaining its leadership position in digital wealth management, and towards becoming a major global player of scale. As such, the business continues to invest in infrastructure, user experience and customer acquisition to grow its customer base and prepare for its next stage of evolution. The business is on track with its business plan and continues to scale cost-effectively, with a view to delivering long-term profitability for its shareholders.

As the business scales, the investment and trading processes continue to be reviewed to ensure customers always get the best value achievable.

The business is also focused on new growth opportunities beyond its existing digital wealth management proposition in the UK. Specifically, it is leveraging its Financial Advice license to further develop its online financial advice proposition. During the year, Nutmeg also entered into a partnership to explore opportunities for expansion within the Asia market.

Principal risks and uncertainties

As the Company continues to invest for growth, it will manage the associated risks and challenges that this entails on an ongoing basis. Within the Company, responsibility for risk management rests with the Board. The Board delegates risk management oversight to the Compliance and Risk Committee (“CAR”), upon which members of the Board sit, along with the Company’s Executive Team. The CAR meets at least six times per year and is proactive in recognising, evaluating and managing risk across the business. The CAR presents the risk register annually to the Board to identify, manage and mitigate business risk, as reflective of its scale.

The Company uses various financial instruments including cash, operating leases and various items such as trade creditors that arise directly from its operations. The main purpose of these financial instruments is to create working capital for the Company’s operations.

The existence of these financial instruments exposes the Company to a number of financial risks, which are described in more detail below. The main risks arising from the Company’s financial instruments are market risk, cash flow interest rate risk, credit risk and liquidity risk. The directors review and manage each of these risks and they are summarised below.

Cybercrime and Information security

The threat of cybercrime and breaches of information security are a key area of focus for the Company. We continue to work with world class providers to ensure that we put in place the appropriate mitigations for cyberattacks and we have in place processes to react swiftly in the event of an attack. The responsibilities associated with information security are taken very seriously throughout the Company from the Board to the employees. Our ability to attract and retain customers is underpinned by working to ensure cyber security awareness is part of our DNA coupled with significant investment in proprietary technology and carefully selected third party software, to always keep the security of our customers’ data at the heart of our business. As this risk landscape evolves so too will the

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investment, planning and management time invested by the Company to continue to safeguard the information of our customers and the value of the business for our shareholders.

Market risk

Market risk encompasses two types of risk, being interest rate risk and the impact of financial markets risk on customer sentiment. The Company's policies for managing interest rate risk are considered along with those for managing cash flow interest rate risk and are set out in the subsection entitled "interest rate risk" below. The Company manages the impact of financial markets risk on customer sentiment through the provision of proactive educational content and an on-going customer communication programme.

Interest rate risk

The Company finances its operations through available funds. There is no exposure to interest rate fluctuations as all contracts are negotiated at fixed rates. The only risk arises with future commitments and is deemed to be minimal risk.

Credit risk

The Company's principal financial asset is cash. The credit risk associated with cash is limited as the counterparties have high credit ratings assigned by international credit-rating agencies.

Liquidity risk

The Company seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely.

Third party indemnity provision for directors

Qualifying third party indemnity provision is in place for the benefit of all directors of the Company.

Changes to the Nutmeg Board of Directors

During the year, the Board appointed Tim Bunting as Chairman following Craig Anderson's decision to step back into a non-executive director role after 2 years as Chairman. Nutmeg would like to thank Craig for his hard work and oversight during his tenure. The Nutmeg board also appointed Mr. I Meng Huang to the board as an additional non-executive director.

Future developments

The Company executive team continues to take a long-term view and is focused on investing heavily in people and technology to build a business of scale, to deliver on the Company's mission of democratising wealth management and empowering generations of investors, and to achieve Nutmeg's objective to be the most trusted and fastest growing digital wealth manager in the world.

By order of the Board.



Martin Stead

CEO and Director

31st March 2018

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Footnotes to the Strategic Report

¹ Research conducted on behalf of Nutmeg Saving and Investment Ltd. 19th-20th April 2017 by Populus Research. Nationally representative sample (Figure quoted for London region)

² Versus peer group average returns (ARC). The Nutmeg returns quoted are regarded as simulated as they do not represent a single client account or an average of customer returns. The data is calculated using actual Nutmeg trading data from client accounts, using actual trades carried out at market prices, and is based on an account size of £25,000. The returns are calculated after Nutmeg management fees, calculated as the weighted average rate paid by Nutmeg clients of 0.82% per year including VAT prior to 01/02/2016, 0.72% between 01/02/2016 and 01/02/2017 and 0.64% thereafter. Returns also account for investment fund costs and the effect of market spread. Dividends have been included on an accrual basis. Average competitor returns data is based on monthly results published by Asset Risk Consultants (ARC). ARC compute the average returns from discretionary investment managers based on risk profile, after fees. These include results from firms such as Barclays, Coutts & Co, JP Morgan Private Bank, UBS, Rathbones, Rothschild Wealth Management, and others. For Nutmeg risk levels 3-4 the Sterling Cautious index (0-40% Equity Risk) is used, for 5-6 the Sterling Balanced Asset index (40%-60% Equity Risk), for 7-8 the Sterling Steady Growth index (60%-80% Equity Risk), and for 9-10 the Sterling Equity Risk Index (80%-120% Equity Risk). ARC do not provide data for portfolios equivalent to Nutmeg risk levels 1-2. Source: Macrobond AB

³ Based on AUM <http://www.techfluence.eu/investtech.html>

⁴ PAM Insight Limited 2017 report

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STATEMENT OF DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 year.

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 year.

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

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and accounting estimates that are reasonable and prudent;
- c. state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- d. 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 proper 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. They 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.

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NUTMEG SAVING AND INVESTMENT LIMITED

Opinion

We have audited the financial statements of Nutmeg Saving and Investment Ltd (the 'Company') for the year ended 31 December 2017 which comprise of the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we

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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 in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report and the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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.

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities> This description forms part of our auditor's report.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and

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for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



DAVID BLACHER (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
25 Farringdon Street
London
EC4A 4AB

31st March 2018

NUTMEG SAVING AND INVESTMENT LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

| | Notes | 2017 £ | 2016 £ |
|--|-------|----------------------------|---------------------------|
| Turnover | 2 | 4,563,794 | 2,556,406 |
| Operating expenses | | (16,920,764) | (11,937,856) |
| Operating loss | | <u>(12,356,970)</u> | <u>(9,381,450)</u> |
| Other interest receivable and similar income | 4 | 66,690 | 33,699 |
| Loss on ordinary activities before taxation | 3 | <u>(12,290,280)</u> | <u>(9,347,751)</u> |
| Tax on loss on ordinary activities | 5 | (141,736) | - |
| Loss for the year and total comprehensive income | | <u><u>(12,148,544)</u></u> | <u><u>(9,347,751)</u></u> |

The statement of comprehensive income has been prepared on the basis that all operations are continuing operations.

NUTMEG SAVING AND INVESTMENT LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

| | Notes | £ | 2017 £ | £ | 2016 £ |
|--|-------|-------------|--------------------|-------------|--------------------|
| Fixed assets | | | | | |
| Intangible assets | 6 | | 1,637,994 | | 484,458 |
| Tangible assets | 7 | | 266,717 | | 298,361 |
| | | | <u>1,904,711</u> | | <u>782,819</u> |
| Current assets | | | | | |
| Debtors | 8 | 1,912,988 | | 1,066,950 | |
| Cash at bank and in hand | 20,21 | 25,435,780 | | 27,890,427 | |
| | | | <u>27,348,768</u> | | <u>28,957,377</u> |
| Current liabilities | | | | | |
| Creditors: amounts falling due within one year | 9 | | | | |
| | | (1,382,416) | | (1,066,768) | |
| | | | <u>(1,382,416)</u> | | <u>(1,066,768)</u> |
| Net current assets | | | 25,966,352 | | 27,890,609 |
| NET ASSETS | | | 27,871,063 | | 28,673,428 |
| Capital and reserves | | | | | |
| Called up share capital | 10 | | 12,710 | | 11,386 |
| Share premium account | 11 | | 69,661,929 | | 58,206,939 |
| Share based payment reserve | 11 | | 53,891 | | 164,026 |
| Profit and loss account | 11 | | (41,857,467) | | (29,708,923) |
| TOTAL EQUITY | | | 27,871,063 | | 28,673,428 |

The notes on pages 16 to 28 form part of these financial statements

Approved by the Board and authorised for issue on 31st March 2018


Martin Stead
Director

Company Registration No. 07503666

NUTMEG SAVING AND INVESTMENT LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

| | Share Capital | Share based payment reserve | Share Premium Account | Profit and loss account | Total |
|---|---------------|-----------------------------------|-----------------------------|-------------------------------|-------------------|
| | £ | £ | £ | £ | £ |
| Balance at 1 January 2016 | 8,091 | 293,585 | 29,426,515 | (20,361,172) | 9,367,019 |
| New share capital subscribed | 3,295 | - | 28,780,424 | - | 28,783,719 |
| Loss for the year and total comprehensive income | - | - | - | (9,347,751) | (9,347,751) |
| Share based payment charge | - | (129,559) | - | - | (129,559) |
| Balance at 31 December 2016 | 11,386 | 164,026 | 58,206,939 | (29,708,923) | 28,673,428 |
| New share capital subscribed | 1,324 | - | 11,454,990 | - | 11,456,314 |
| Loss for the year and total comprehensive income | - | - | - | (12,148,544) | (12,148,544) |
| Share based payment credit | - | (110,135) | - | - | (110,135) |
| Balance at 31 December 2017 | 12,710 | 53,891 | 69,661,929 | (41,857,467) | 27,871,063 |

NUTMEG SAVING AND INVESTMENT LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

| | Notes | £ | 2017 £ | £ | 2016 £ |
|--|-------|-------------|--------------------|-----------|-------------------|
| OPERATING ACTIVITIES | | | | | |
| Net cash used in operations | 19 | | (12,237,937) | | (9,107,665) |
| INVESTING ACTIVITIES | | | | | |
| Purchase of intangible assets | | (1,567,496) | | (478,010) | |
| Purchase of tangible assets | | (105,528) | | (242,166) | |
| Net cash used in investing activities | | | (1,673,024) | | (720,176) |
| FINANCING ACTIVITIES | | | | | |
| Proceeds from issuance of share capital | | | 11,456,314 | | 28,783,718 |
| (Decrease)/increase in cash in the year | 21 | | (2,454,647) | | 18,955,877 |
| Net funds at 1 January | 21 | | 27,890,427 | | 8,934,550 |
| Net funds at 31 December | 21 | | 25,435,780 | | 27,890,427 |

NUTMEG SAVING AND INVESTMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. Accounting policies

1.1. GENERAL INFORMATION

Nutmeg Saving and Investment Limited ("the Company") is a limited Company domiciled and incorporated in England.

The address of the Company's registered office is 5 New Street Square, London, EC4A 3TW, and the principal place of business is 2nd Floor, Vox Studios, 1-45 Durham Street, London SE11 5JH.

The Company's principal activities are detailed in the Directors' Report.

1.2. Basis of Accounting

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006, including the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, and under the historical cost convention.

1.3. Turnover

Turnover represents management fees, based on the average value of assets under management each month.

1.4. Intangible assets and amortisation

Intangible fixed assets are stated at cost less amortisation. Amortisation is provided on all revenue generating intangible fixed assets at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

| | |
|-----------------------|----------------------|
| Intellectual property | 20% straight line |
| Development costs | 33.33% straight line |

1.5. Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

| | |
|--------------------------------|-----------------------------|
| Computer equipment | 33.33% straight line |
| Fixtures, fittings & equipment | 20% to 33.33% straight line |

1.6. Pensions

The Company operates a defined contribution scheme for the benefit of its employees.

1.7. Leased assets

Rent payable under an operating lease is charged against income on a straight line basis over the term of the lease. The rent free period is amortised on a straight line basis over the term of the lease.

NUTMEG SAVING AND INVESTMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

1.8. Share based payments

Equity-settled share-based payments are issued to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the estimate of shares that will eventually vest.

The fair value is measured by use of the Black-Scholes option pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restriction, and behavioural considerations.

1.9. Financial instruments

The Company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102, in full, to all of its financial instruments.

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument, and are offset only when the Company currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.10. Financial assets and liabilities

Trade and other debtors

Trade and other debtors (including accrued income) which are receivable within one year and which do not constitute a financing transaction are initially measured at the transaction price and are subsequently measured at amortised cost, being the transaction price less any amounts settled and any impairment losses.

A provision for impairment of debtors is established when there is objective evidence that the amounts due will not be collected according to the original terms of the contract. Impairment losses are recognised in profit or loss for the excess of the carrying value of the trade debtor over the present value of the future cash flows discounted using the original effective interest rate. Subsequent reversals of an impairment loss, that objectively relate to an event occurring after the impairment loss was recognised, are recognised immediately in profit or loss.

Financial liabilities and equity

Financial instruments are classified as liabilities and equity instruments according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Trade creditors

Trade creditors payable within one year that do not constitute a financing transaction are initially measured at the transaction price and subsequently measured at amortised cost, being the transaction price less any amounts settled.

NUTMEG SAVING AND INVESTMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

Where the arrangement with a trade creditor constitutes a financing transaction, the creditor is initially and subsequently measured at the present value of future payments discounted at a market rate of interest for a similar instrument.

De-recognition of financial assets and liabilities

A financial asset is derecognised only when the contractual rights to cash flows expire or are settled, or substantially all the risks and rewards of ownership are transferred to another party, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party. A financial liability (or part thereof) is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

1.11. Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based upon tax rates that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited in profit or loss, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity, or items charged or credited directly to other comprehensive income, in which case the deferred tax is also recognised in other comprehensive income.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and the deferred tax relates to income tax levied by the same tax authorities on either:

- the same taxable entity or;
- different taxable entities which intend to settle current tax assets and liabilities on a net basis or to realise and settle them simultaneously in each future period when the significant deferred tax assets and liabilities are expected to be realised or settled.

1.12. Research and development

Expenditure on research and development is charged to the Statement of Comprehensive Income in the year in which it is incurred except for expenditure on the development of certain major new projects, where the outcome of those projects is assessed as being reasonably certain as regards to viability and technical feasibility. Such expenditure is capitalised and amortised over a period of three years from the date that this becomes operational.

NUTMEG SAVING AND INVESTMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

1.13. Going concern

The directors have prepared the financial statements on the going concern basis. The directors have carried out a detailed review of the trading position and cash flow projections for the foreseeable future and have, based on the results of this review, determined that the Company may require further cash injections to continue to develop and market its product offering and to build its customer base and its assets under management. Under such a scenario, the directors have a reasonable expectation of securing additional funding from the existing shareholders and new investors.

The directors are therefore confident that sufficient financial resources will be available to enable the Company to meet the medium term cash requirements as set out in the relevant cash flow projections.

1.14. Critical accounting judgements and estimates

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.

Critical accounting estimates

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

The equity-settled share based payment charges are measured at fair value. The fair value is measured by use of an option pricing model and includes estimates for exercise restrictions, behavioural considerations, expected volatility and expected life.

Critical areas of judgement

In assessing expenditure on research and development that should be capitalised, management makes judgements as to the future economic benefits of the assets developed based on future business growth.

2. Turnover

Turnover is generated solely within the United Kingdom, and from the business's principal activity.

3. Loss on ordinary activities before taxation

| | 2017 | 2016 |
|--|-----------|-----------|
| | £ | £ |
| Loss on ordinary activities before taxation is stated after charging/(crediting) | | |
| Amortisation of intangible assets | 413,960 | 9,630 |
| Depreciation of tangible assets | 137,173 | 105,502 |
| Share based credits | (110,135) | (129,559) |
| Operating lease - property | 471,717 | 590,646 |
| Audit services: | | |
| -statutory audit | 20,500 | 15,000 |
| -audit related assurance services | 7,500 | 8,295 |
| -taxation and compliance service | 32,100 | 11,500 |

NUTMEG SAVING AND INVESTMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

4. Other interest receivable and similar income

| | 2017 £ | 2016 £ |
|-----------------|---------------|---------------|
| Bank interest | 66,608 | 32,404 |
| Escrow interest | 82 | 1,295 |
| | <u>66,690</u> | <u>33,699</u> |

5. Taxation

| | 2017 £ | 2016 £ |
|--|------------------|-------------|
| Domestic current year tax | | |
| U.K. corporation tax | - | - |
| Adjustment for prior periods | - | - |
| Total current tax | <u>-</u> | <u>-</u> |
| Factors affecting the tax charge for the period | | |
| Loss on ordinary activities before taxation | (12,148,544) | (9,347,751) |
| Loss on ordinary activities before taxation multiplied by effective rate of UK corporation tax of 20.00% (31 December 2015 20.25%) | (2,338,179) | (1,869,550) |
| Effects of: | | |
| - Non-deductible expenses | 28,043 | 3,900 |
| - Other tax adjustments - losses | - | 1,001,328 |
| - Fixed asset timing differences | 1,833 | (11,148) |
| - Short term timing differences | - | 36,773 |
| - Permanent timing differences | - | (50,819) |
| - Other timing differences | 272,098 | 889,516 |
| - Adjustments in respect of prior periods | (141,736) | - |
| Current tax credit for the period | <u>(141,736)</u> | <u>-</u> |

No deferred tax asset has been recognised based on uncertainty over the timing of future profits.

The Company has tax losses of £41,296,598 (2016: £29,622,528) to offset against future profit.

NUTMEG SAVING AND INVESTMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

6. Intangible assets

| | Development costs £ | Intellectual property £ | Total £ |
|-----------------------|---------------------------|-------------------------------|------------------|
| Cost | | | |
| At 31 December 2016 | 478,009 | 51,930 | 529,939 |
| Additions | 1,567,496 | - | 1,567,496 |
| At 31 December 2017 | <u>2,045,505</u> | <u>51,930</u> | <u>2,097,435</u> |
| Amortisation | | | |
| At 31 December 2016 | - | 45,481 | 45,481 |
| Charge for the year | 409,602 | 4,358 | 413,960 |
| At 31 December 2017 | <u>409,602</u> | <u>49,839</u> | <u>459,441</u> |
| Net book value | | | |
| At 31 December 2017 | <u>1,635,903</u> | <u>2,091</u> | <u>1,637,994</u> |
| At 31 December 2016 | <u>478,009</u> | <u>6,449</u> | <u>484,458</u> |

7. Tangible assets

| | Computer equipment £ | Fixtures, fittings & equipment £ | Total £ |
|-----------------------|----------------------------|---|----------------|
| Cost | | | |
| At 31 December 2016 | 189,194 | 274,462 | 463,656 |
| Additions | 73,565 | 31,963 | 105,528 |
| At 31 December 2017 | <u>262,759</u> | <u>306,425</u> | <u>569,184</u> |
| Depreciation | | | |
| At 31 December 2016 | 94,848 | 70,447 | 165,295 |
| Charge for the year | 72,392 | 64,781 | 137,173 |
| At 31 December 2017 | <u>167,240</u> | <u>135,228</u> | <u>302,468</u> |
| Net book value | | | |
| At 31 December 2017 | <u>95,519</u> | <u>171,197</u> | <u>266,717</u> |
| At 31 December 2016 | <u>94,346</u> | <u>204,015</u> | <u>298,361</u> |

NUTMEG SAVING AND INVESTMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

8. Debtors

| | 2017 | 2016 |
|----------------------------------|------------------|------------------|
| | £ | £ |
| Other debtors and accrued income | 1,178,192 | 657,108 |
| Taxation recoverable | 141,736 | 17,463 |
| Prepayments | 593,060 | 392,379 |
| | <u>1,912,988</u> | <u>1,066,950</u> |

9. Creditors: amounts falling due within one year

| | 2017 | 2016 |
|-----------------|------------------|------------------|
| | £ | £ |
| Trade creditors | 391,727 | 163,148 |
| Accruals | 727,731 | 596,715 |
| Other creditors | 262,958 | 306,905 |
| | <u>1,382,416</u> | <u>1,066,768</u> |

10. Share capital

| | 2017 | 2016 |
|--|---------------|---------------|
| | £ | £ |
| Allotted, called up and fully paid | | |
| 1,825,386 Ordinary shares of £0.001 each | 1,825 | 1,641 |
| 2,637,250 B preferred Ordinary shares of £0.001 each | 2,637 | 2,637 |
| 1,486,826 Preferred Ordinary shares of £0.001 each | 1,487 | 1,487 |
| 2,378,641 C preferred Ordinary shares of £0.001 each | 2,379 | 2,379 |
| 4,102,967 D preferred Ordinary shares of £0.001 each | 4,103 | 2,963 |
| 279,011 Non-voting shares of £0.001 each | 279 | 279 |
| | <u>12,710</u> | <u>11,386</u> |

During 2017, the Company issued additional share capital raising £12.1 million (gross of transaction fees) through the issue of 183,893 ordinary shares and 1,140,045 D preferred ordinary shares. All shares have a nominal value of £0.001. All shares in issue have equal voting rights, except for Non-voting shares.

NUTMEG SAVING AND INVESTMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

11. Reserves

Share based payment reserve

This reserve account is described in note 12 of these financial statements

Share premium reserve

Consideration received for shares issued above their nominal value net of transaction costs.

Profit and loss account

Cumulative profit and losses net of distributions to shareholders.

12. Share based payments

Equity-settled share option plan

Equity-settled share-based payments are issued to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the estimate of shares that will eventually vest.

The fair value is measured by use of Black-Scholes option pricing model. The inputs into the Black-Scholes option pricing model are as follows:

| | 2017 | 2016 |
|---------------------------------|---------|---------|
| Weighted average share price | 25p | 99p |
| Weighted average exercise price | 39p | 213p |
| Expected volatility | 31% | 40% |
| Expected life | 4 Years | 4 Years |
| Risk free rate | 0.54% | 0.32% |
| Expected dividends | Nil | Nil |

Expected volatility was determined by calculating the historical volatility of the share price of similar quoted companies. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions, and behavioural considerations.

The Company plan provides for a grant price equal to the average price of the Company's shares on the date of grant. The vesting period is generally 3 to 5 years.

NUTMEG SAVING AND INVESTMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

| | Options Number | 2017 Weighted average exercise price (p) | Options Number | 2016 Weighted average exercise price (p) |
|----------------------------|-------------------|--|-------------------|--|
| Granted during the year | 1,828,721 | 38 | 590,148 | 250 |
| Exercised | (183,893) | - | (331,667) | - |
| Lapsed | (164,914) | - | (269,552) | - |
| Forfeited | (943,359) | - | - | - |
| Outstanding at 31 December | <u>1,535,252</u> | <u>39</u> | <u>998,697</u> | <u>213</u> |
| Exercisable at 31 December | <u>566,167</u> | <u>39</u> | <u>354,574</u> | <u>156</u> |

The options outstanding at 31 December had a weighted average exercise price of 39p (2016: 213p) and a weighted average remaining contractual life of 3 years (2016: 2 years).

The weighted average fair value of options granted in the year using the Black-Scholes option pricing model was 25p per option (2016: 99p per option).

13. Financial commitments

At 31 December 2017 the Company was committed to making the following payments under rent and custodian service agreements:

| | 2017 £ | 2016 £ |
|----------------------------|------------------|------------------|
| Within one year | 1,154,594 | 1,151,686 |
| Between two and five years | 3,329,541 | 3,796,857 |
| More than five years | 2,083,042 | 2,770,320 |
| | <u>6,567,177</u> | <u>7,718,863</u> |

NUTMEG SAVING AND INVESTMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

14. Lease income from operating leases

At 31 December 2017 the Company was committed to receiving the following under rent and service agreements:

| | 2017 £ | 2016 £ |
|----------------------------|-----------|----------------|
| Within one year | - | 92,423 |
| Between two and five years | - | 94,069 |
| | <u>-</u> | <u>186,492</u> |
| | <u>-</u> | <u>186,492</u> |

The operating leases represent the sub-leasing to a third party. Leases are over a term of 2 years (with an option to break after 1 year available to the third party) and rentals are fixed for the term of the lease. There are no options in place for either party to extend the lease terms.

15. Directors' remuneration

| | 2016 £ | 2015 £ |
|---|----------------|----------------|
| Remuneration for qualifying services | 322,592 | 507,077 |
| | <u>322,592</u> | <u>507,077</u> |
| | <u>322,592</u> | <u>507,077</u> |
| Remuneration disclosed above include the following amounts paid to the highest paid director: | | |
| Remuneration for qualifying services | 226,582 | 169,833 |
| | <u>226,582</u> | <u>169,833</u> |
| | <u>226,582</u> | <u>169,833</u> |

No directors accrued retirement benefits under pension schemes (2016: none). During 2017, Nicholas Hungerford exercised 62,500 share options at an option price of £0.38 per share (during 2016, Nicholas Hungerford exercised 31,750 share options at an options price of £2.50 per share).

16. Remuneration of key personnel

The total remuneration of the employees who are considered by the directors to be the key personnel of the Company was £1,449,012 (2016: £765,789).

NUTMEG SAVING AND INVESTMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

17. Employees

| | 2017 No. | 2016 No. |
|--|-------------------------|-------------------------|
| Number of employees | | |
| The average monthly number of employees (including directors) during the year was: | | |
| Full time staff | 88 | 71 |
| Part time staff | 3 | 2 |
| | <u>91</u> | <u>73</u> |
| | <u><u>91</u></u> | <u><u>73</u></u> |
| Employment costs | 2017 | 2016 |
| | £ | £ |
| Wages and salaries | 5,782,040 | 4,706,451 |
| Social security costs | 645,928 | 537,371 |
| Pension costs | 154,106 | 97,548 |
| | <u>6,582,074</u> | <u>5,341,370</u> |
| | <u><u>6,582,074</u></u> | <u><u>5,341,370</u></u> |

Included in the wages and salaries above is £1,341,674 (2016: £478,010) relating to development costs, and £15,015 (2016: £-) relating to international expansion costs which have been capitalised.

18. Related party transactions

| | 2017 £ | 2016 £ |
|--|----------------------|----------------------|
| The table below outlines transactions between the Company and related parties: | | |
| Related parties by virtue of having a mutual director | 73,132 | 61,030 |
| | <u>73,132</u> | <u>61,030</u> |
| | <u><u>73,132</u></u> | <u><u>61,030</u></u> |

The outstanding balance relating to the above transactions at the year end was a credit balance of £5,336 (2016: £3,457).

NUTMEG SAVING AND INVESTMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

19. Reconciliation of loss after tax to net cash used in operations

| | 2017 £ | 2016 £ |
|---|----------------------------|---------------------------|
| Loss after tax | (12,148,544) | (9,347,751) |
| Adjust for: | | |
| Depreciation of tangible assets | 137,172 | 105,502 |
| Amortisation of intangible assets | 413,960 | 9,629 |
| Share based payment credit | (110,135) | (129,559) |
| Operating cash flows before movements in working capital | <u>(11,707,547)</u> | <u>(9,362,179)</u> |
| Increase in trade and other debtors due within one year | (846,037) | (138,534) |
| Increase in trade and other creditors due within one year | 315,647 | 393,047 |
| Net cash used in operations | <u><u>(12,237,937)</u></u> | <u><u>(9,107,665)</u></u> |

20. Analysis of net funds

| | 2016 £ | Cash flow £ | 2017 £ |
|--------------------------|-------------------|--------------------|-------------------|
| Net Cash: | | | |
| Cash at bank and in hand | 27,890,427 | (2,454,647) | 25,435,780 |
| Net Funds | <u>27,890,427</u> | <u>(2,454,647)</u> | <u>25,435,780</u> |

21. Reconciliation of net cash flow to movement in net funds

| | 2017 £ | 2016 £ |
|--|--------------------------|--------------------------|
| Increase/(decrease)in cash in the year | (2,454,647) | 18,955,877 |
| Movement in net funds in the year | <u>(2,454,647)</u> | <u>18,955,877</u> |
| Opening net funds | 27,890,427 | 8,934,550 |
| Closing net funds | <u><u>25,435,780</u></u> | <u><u>27,890,427</u></u> |

NUTMEG SAVING AND INVESTMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

22. Ultimate controlling party

There is no ultimate controlling party as no shareholder owns greater than 50% of the voting rights.

23. Pillar 3 disclosure

Under the requirements of Pillar 3, the Company is required to disclose regulatory capital information, and has done so by marking disclosure available on the Company's website at www.nutmeg.com/legal/regulatory.

24. Post Balance Sheet Events

There were no past balance sheet events.

25. Financial Instruments

| | 2017 | 2016 |
|---|-------------|-------------|
| | £ | £ |
| Carrying amount of financial assets: | | |
| Debt instruments measured at amortised cost | 1,178,192 | 657,109 |
| | <hr/> | <hr/> |
| Carrying amount of financial liabilities: | | |
| Measured at amortised cost | (1,382,416) | (1,066,769) |
| | <hr/> | <hr/> |