CLS Group Holdings AG

Annual Report & Consolidated Accounts 31 December 2019

trusted market solutions

cls-group.com

Contents

Our unique position at the center of the FX market enables us to collaborate widely across the industry, leading the development of standardized solutions that enhance operations for all our clients.

"The delivery of our strategy continues to be our most important priority as we invest in the excellence and resilience of our services to ensure we operate to the highest of standards expected for a systemically important financial market infrastructure."

Kenneth Harvey
Chairman

CLS Group Holdings AG | Report & Accounts 2019

23 members of CLS oversight committee

- Bank of Canada
- Bank of England
- Bank of France
- Bank of Israel
- Bank of Italy
- Bank of Japan
- Bank of Korea
- Bank of Mexico
- Bank of Norway
- Central Bank of Hungary
- Danmarks Nationalbank
- Deutsche Bundesbank
- European Central Bank
- Hong Kong Monetary Authority
- Federal Reserve Board and FRBNY (chair)
- Monetary Authority of Singapore
- National Bank of Belgium
- Netherlands Bank
- Reserve Bank of Australia
- Reserve Bank of New Zealand
- South African Reserve Bank
- Sveriges Riksbank
- Swiss National Bank

18 of the most actively traded currencies globally

- Australian dollar
- Canadian dollar
- Danish krone
- Euro
- Hong Kong dollar
- Hungarian forint
- Norwegian krone
- Israeli shekel
- Japanese yen
- Korean won
- Mexican peso
- New Zealand dollar
- Singapore dollar
- South African rand
- Swedish krona
- Swiss franc
- UK pound
- US dollar

25,000+ third-party clients

We're proud to be the world's leading provider of FX settlement services. Since launch in 2002, we have transformed FX with our innovative approach to multilateral netting and settlement.

Ever since, our specialists have worked to reduce systemic risk, while creating operational efficiencies and significant cost savings for our clients.

We have earned the trust of our members – over 70 of the world's largest financial institutions. Over 25,000 third-party participants use our service, including banks, funds, non-bank financial institutions and multinational corporations.

Operational highlights

Protect

- Ongoing enhancement of risk and control functions across people and processes, including the appointment of Deborah Hrvatin as Chief Risk Officer
- Go-live of CLSNow – our bilateral, same-day gross payment-versus-payment settlement service – serving clients across Canadian dollar, euro, British pound sterling and US dollar, with additional currencies to be added over time
- In active dialog with the Central Bank of Chile and local market participants to include the Chilean peso as a currency on CLSSettlement

Improve

- Record investment in our infrastructure to deliver a technical foundation in settlement, netting and other post-trade tools that are among the most flexible, resilient and leading edge in the industry
- Delivery of a series of enhancements to CLSNet, our standardized, automated bilateral payment netting calculation service

Grow

- Continued global engagement with third-party participants, which exceed 25,000 in number
- Record growth in our Compression service, eliminating USD9.1 trillion of gross notional value from FX forward portfolios, an annual increase of 71%

Financial highlights

338.1
GBP million
Total equity

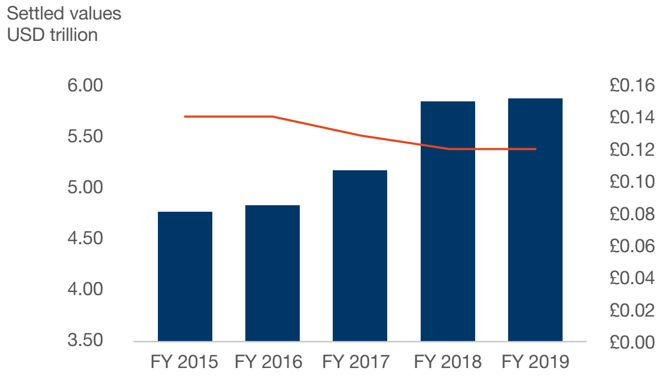
417.7
GBP million
Total assets at year end

		2019	2018
Revenue for the year	GBP million	**207.8**	206.1
Operating expenses	GBP million	**237.9**	234.4
(Loss) from operations	GBP million	**(30.2)**	(28.4)
Total (loss) for the year	GBP million	**(28.3)**	(18.5)
Total equity	GBP million	**338.1**	376.0
Capital expenditure	GBP million	**55.6**	58.4
Daily average settled value*	USD trillion	**5.9**	5.9
Daily average billable volume**	Number of sides	**1,007,000**	891,000
Average revenue per USD million settled	GBP	**0.12**	0.12
Peak value day (settled)	USD trillion	**12.8**	12.7
Peak volume day (settled)	Number of sides	**2,196,000**	2,392,000
Number of shareholders at year end		**79**	79
Number of settlement members at year end		**72**	71

*Settled value is a measure of the value of trades settled by CLS.
**Billable volume is a measure of the number of input instructions sent to CLS.

Performance trends

Average daily settled value

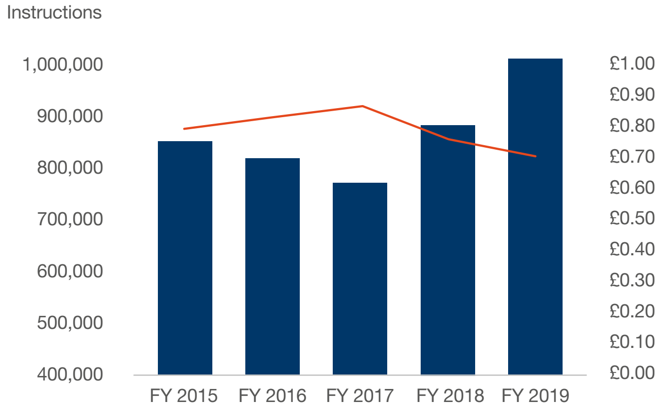


Settlement values

Average daily settled remained flat at USD5.9 trillion in 2019.

Average daily settled value
Average revenue per USDm settled

Average daily billable volume

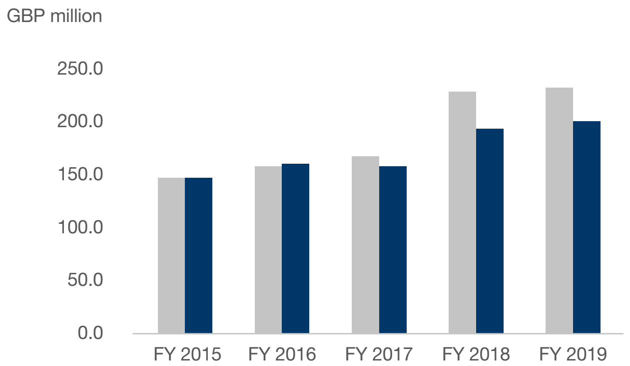


Input volumes

Average daily settled volumes in the CLSSettlement service increased by 13% in 2019 compared to 2018.

Average daily billable volumes
Average revenue per instruction

Operating expenses



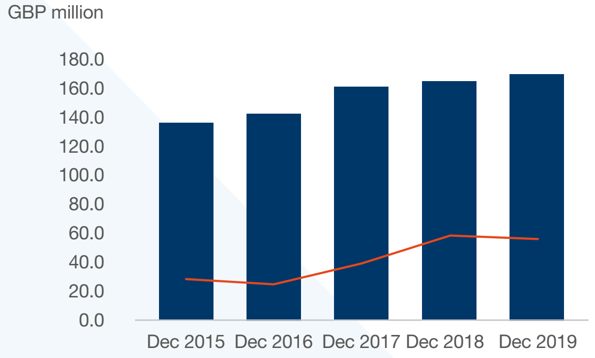
Operating expenses

Operating expenses were flat in 2019 compared to 2018 as a result of a continuation of spend on new initiatives and accelerated amortization.

Underlying costs increased by 4% year-on-year.

Reported expenses
Underlying expenses

Investment in CLS system

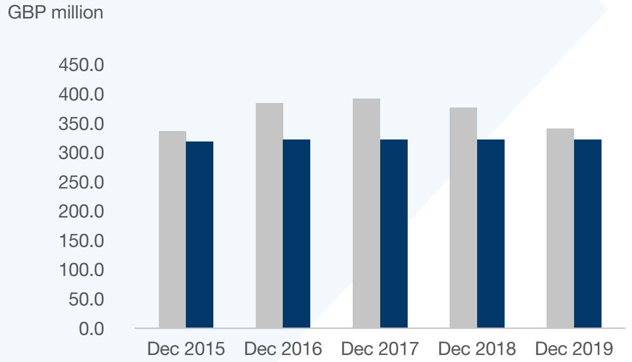


Investment in CLS

Our investment in CLSSettlement continued through 2019.

Intangible assets NBV
Capital investment

Total equity and paid in capital



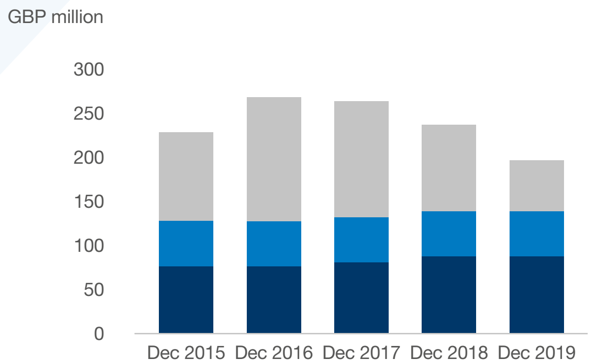
Total equity and paid in capital

Total equity decreased from GBP376.0 million at the end of 2018 to GBP338.1 million at the end of 2019.

CLS continues to be well capitalized.

Total equity
Paid in capital

Cash and deposit balances



Capital resources

Capital resources decreased from from GBP235.7 million at the end of 2018 to GBP195.2 million at the end of 2019.

Available capital
Buffer
Regulatory capital

Chairman's statement

Kenneth Harvey
Chairman

> "The team have refined the strategy further and collectively focused on delivering our settlement service every day, while investing in our infrastructure, enhancing our suite of settlement, processing and data solutions, as well as improving our controls structure and procedures."

207.8
GBP million
Revenue for the period

Given my tenure until Q3 2019 as Interim CEO, I am using this Annual Report as an opportunity to provide you with an overview of performance and progress against our strategy.

Firstly, please join me in welcoming Marc Bayle de Jessé as CLS's new CEO. Marc joined us in December 2019 from the European Central Bank where he was Director General, Market Infrastructure and Payments, and Chairperson of the Market Infrastructure Board. Marc has played a central role in revolutionizing Europe's settlement infrastructure and is extremely well placed to lead CLS. His extensive experience with central banks and market participants will help ensure we continue to respond to the needs of the industry, enhancing and developing our risk mitigation solutions. Marc has already had a significant impact on the organization and I look forward to working with him through 2020 and beyond as he establishes himself at the helm of CLS.

As referenced in previous reports, our overarching strategy at CLS has not changed and the areas of focus highlighted in the 2018 Annual Report and 2019 Interim Financial Report remain consistent. The team has refined the strategy further and is collectively focused on delivering our settlement service every day, while investing in our infrastructure, enhancing our suite of settlement, processing and data solutions, as well as improving our controls structure and procedures. I'm very confident that under Marc's leadership, we will continue to make good progress in these areas during 2020.

As a leading financial market infrastructure, effective risk management is central to our mission. We pride ourselves in fostering, and maintaining, a strong risk culture that promotes risk awareness and discipline across all our activities. This is a central commitment from the Board, the Executive Management Committee as well as the broader organization, and an area we will continue to enhance. As a result, I am also delighted to welcome Deborah Hrvatin as our new Chief Risk Officer, a risk management specialist who brings significant experience from previous roles at Citigroup and Deutsche Bank to enhance our risk culture and control environment. In addition to building dialog and improving systemic risk mitigation across the ecosystem, she will be partnering with Chief Compliance Officer Michele Fleming to deliver an enhanced culture of risk identification, challenge and mitigation across the organization.

Product and service updates

Following broadly flat year-on-year volumes in CLSSettlement in the first half of the year, overall activity picked up in the second half of the year. Overall, average traded volumes in 2019 were USD1.7 trillion, while average daily instructions increased to 1.0 million, compared to USD1.7 trillion and 0.9 million in 2018, respectively. As we enter our fifth consecutive year of unchanged tariffs, our pricing, which reduces the unit price of each transaction as business activity increases, is at its lowest level since 2015. However we will continue to assess our pricing levels throughout 2020 to ensure we not only exceed regulatory requirements, but also invest, as appropriate, in our settlement infrastructure for the future.

Third-party participation continued to increase during the year, thanks to our global sales team, with total participants in excess of 25,000. There were some notable milestones during this period, including Nomura Asset Management Co., Ltd. (NAM) acting as the first asset manager headquartered in Japan to provide access to CLSSettlement for Japanese domiciled funds, the first Japanese domiciled pension fund accessing CLSSettlement via State Street Trust and Banking Co., Ltd, and China CITIC Bank International Limited (CNCBI) joining CLSSettlement as the first Chinese third-party bank. All these notable milestones demonstrate the ongoing global recognition of CLSSettlement as a leading provider of risk mitigation services.

From a currency expansion perspective we remain in close dialog with the Central Bank of Chile and local market participants to include the Chilean peso as a currency on CLSSettlement. As the first potential South American currency for the settlement service, this remains an extremely exciting development.

In addition to our participation expansion efforts, we have continued to make progress with our Convergence program. As highlighted in previous reports, we are now in the final phase of our seven-year-old program which will mark the complete retirement of legacy infrastructure in CLS. Our technical foundation in settlement, netting and other post-trade tools will be among the most flexible, resilient and leading-edge in the industry. However, due to the sheer complexity of the project as well as the time needed for the entire community to perform appropriate testing, we have delayed the migration of CLSSettlement onto the new Unified Services Platform. Trevor will provide more detail of the financial impacts of this decision in his report. However, as a financial market infrastructure it is imperative that we prioritize safety and resilience over speed and are engaging with all relevant stakeholders to ensure they are fully aware of developments. As we deliver one of the most sophisticated and up-to-date technology infrastructures in the market, in order to improve efficiency and resilience for all our FX settlement solutions, we must balance this with continuing to deliver CLSSettlement seamlessly.

At the end of July, we went live with CLSNow – our bilateral, same-day gross payment-versus-payment (PvP) settlement service with two participants. CLSNow enables banks to exchange currency positions with mitigated settlement risk on a near real-time basis. Currencies offered include the Canadian dollar, euro, British pound sterling and US dollar, and additional currencies will be added over time. CLSNow is an important step forward in the delivery of our strategy and replaces CLSSameDay (our same-day settlement service for USD and CAD payment instructions) which was deactivated in December 2019.

Within the processing business line, earlier in 2019 we released a series of enhancements to CLSNet, our standardized, automated bilateral payment netting calculation service. CLSNet went live in 2018 and participants now include multiple global banks as well as non-bank financial institutions. By early 2020, we expect that six of the world's ten largest banks will be on the network, demonstrating the value of the service for market participants. We continue to invest in the growth and resilience of the service and have a roadmap of regular enhancements throughout 2020 and beyond that will expand the value proposition to clients.

The Compression service, developed in partnership with TriOptima, which helps to manage gross notional exposures and reduce counterparty credit risk, continued to go from strength to strength. 2019 was a record year for the service, eliminating USD9.1 trillion of gross notional value from FX forward portfolios, an annual increase of 71%. In Q4 alone, the service compressed USD4.9 trillion of gross notional value, 153% above the previous quarterly high achieved in Q3 2018. This was driven by increased participation from the prime broker and executing broker community, larger trade populations being submitted for compression and increased year-end activity as market participants managed their risk exposure and capital charges. It demonstrates the value the service continues to deliver for our clients, enabling them to further improve their capital efficiencies and significantly reduce risk.

> "...we have continued to make progress with our Convergence program. As highlighted in previous reports, we are now in the final phase of our seven-year-old program which will mark the complete retirement of legacy infrastructure in CLS."

Following the launch of our data business line in 2017 we continue to embed and commercialize our data business line through the expansion of our FX alternative data products. In addition, we have enhanced the data team and focused on delivering reporting and analytics capability. This business line has seen good progress throughout 2019 and we expect this trend to continue into 2020 as we engage with a broader cross-section of the buy- and sell-side community.

We also actively recognize the need for our clients to have seamless access to their data and value-added services. As such, earlier this year we went live with the first phase of CLS Direct, our new secure multi-product, multi-channel web-based client platform, which provides a single point of access for many of our new ancillary services and reporting tools, including CLSNet, CLSTradeMonitor and CLSMarketData. This is a very exciting development with multiple enhancements and releases scheduled for 2020.

Investment and financial stability

I have highlighted on numerous occasions that given the sheer level of current investment in our settlement infrastructure and in new services such as CLSNow, CLSNet and Data, we can expect to see a negative impact on our medium-term profitability. In 2019 we delivered a small underlying profit which reflects the significant investment made in further enhancing our control functions in addition to the items noted above.

The Convergence program marks an important milestone in what will be a multi-year investment program which will have an impact on overall profitability for another two-three years. However, our capital position remains, and will remain, in excess of regulatory requirements. Trevor's report will provide further details of our financial position.

The delivery of our strategy continues to be our most important priority as we invest in the excellence and resilience of our services to ensure we operate to the highest of standards expected for a systemically important financial market infrastructure. I look forward to working with Marc and the Executive Management Committee in continuing to deliver this ambitious agenda.

Kenneth Harvey
Chairman of the Board

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Chief Executive Officer's report

Marc Bayle de Jessé
Chief Executive Officer

> "Mitigating settlement risk will always be our core priority; however, the processing and data businesses provide solutions to some of the longstanding operational efficiency and risk challenges facing the FX industry."

55.6
GBP million
Capital expenditure

Having recently joined CLS I am very pleased to be joining such an important organization.

Following more than 22 years at the ECB, joining the world's leading provider of FX settlement services is a logical next step in my career and gives me an opportunity to bring my experience in operating, defining and leading the implementation of policies and existing/new market infrastructure and payments services to CLS.

Much of my career has been focused on maintaining and improving services within the context of market and technological developments, all while ensuring compliance within the current regulatory environment. That balance of skillsets aligns perfectly with CLS's strategy to further expand its risk mitigation capabilities to the FX industry and our members.

Over the years the FX market has evolved as a result of structural change, regulatory reform and new technology. Throughout this transformation, CLS has delivered an exemplary level of service and resilience in order to maintain the stability of the FX market in key leading currencies and the wider financial industry as a whole. At the same time, it has also kept pace with an evolving industry and helped market participants address other post-trade challenges.

Our overarching priorities do not change. We are continuing to strengthen our resilience, control functions and infrastructure as well as drive the uptake of our settlement, processing and data solutions.

Mitigating settlement risk will always be our core priority; however, the processing and data businesses provide solutions to some of the longstanding operational efficiency and risk challenges facing the FX industry. Our focus will be on further increasing participation in these services for the benefit of our industry.

I will be leveraging my experience to deliver the highest levels of corporate governance, risk management and operational resilience, while addressing the challenges of digitization, cyber threats and globalization.

As a financial market infrastructure, we must at all times deliver resilient and efficient services for the global FX market while fostering innovation, not just for innovation's sake, but to support the industry in answering the many challenges we are facing. Already, during my brief time at CLS I have met very motivated, committed and engaged colleagues. CLS is building on its three lines of defense and is delivering highly efficient risk mitigation services to the global FX ecosystem.

This is an extremely exciting time at CLS and I am very much looking forward to partnering with the Executive Management Committee and the Board of Directors to ensure we continue to deliver the highest level of service to our clients and shareholders, as well as further expanding our capabilities as a trusted market solutions provider.

Marc Bayle de Jessé
Chief Executive Officer

Chief Financial Officer's report

Trevor Suarez
Chief Financial Officer

195.2
GBP million
Cash and investments

"Analysis of our cash and deposit balances reflects a year of significant, but conscious investment."

As highlighted in my previous reports, our current financial results continue to be the outcome of our ongoing multi-year investment program.

Reported losses after tax were GBP28 million for the year (2018: loss GBP19 million), while cash and deposit balances, a measure of our capital strength, stood at GBP195 million. Although balances were down compared to last year, our level of capital remains well in excess of the required minimum regulatory requirements.

Before tax, reported losses for the year were GBP29 million. The loss for the year included GBP17 million of accelerated amortization charges and GBP13 million of product development investment, which we have charged in full to the income statement. Both items are further detailed below.

Excluding these two items, to allow for a more meaningful assessment of financial performance, we achieved an underlying profit before tax of GBP2 million in the year (2018: profit GBP9 million). Most notably, this includes the cost to maintain our technology infrastructure to the standards expected for a systemically important financial market infrastructure, and enhancements to our Governance and Control framework, as we continue to raise the bar in this area.

Our reported results as stated include an accelerated amortization charge relating to our legacy FXCore infrastructure platform. This non-cash accounting adjustment recognizes charges in the income statement earlier than originally planned and reflects the move to a new technology platform for CLSSettlement. Further, this charge is aligned to the completion of our Convergence program, and given its later anticipated delivery, we have revised the rate of future accelerated amortization charges. Additionally, we have factored the cost of further investment to complete the program into our future financial projections.

As in prior years, we have fully expensed charges relating to further enhancing CLSNet. This includes costs to further enhance the flexibility and scalability of the product and to provide alternative connectivity for both buy-side and sell-side clients. To date I am encouraged by the number of participants that have recently joined this service and the respective network opportunity.

However, as we further develop and enhance our products, we must remain mindful of the need to fully justify any further investment and whether these developed assets can be held on our balance sheet. The majority of these assets relate to our settlement business line, operating on both our new and legacy platforms. However, a small amount of assets relate to our new processing and data businesses. Our experience to date shows that it will take several years to fully achieve steady state economic maturity. Given this, we have chosen to expense development costs for CLS Direct, our new web-based client portal, to the income statement now, rather than hold the asset on the balance sheet in the future.

Revenues, as expected, were broadly comparable year-on-year. Underpinning this, is that tariff rates for our CLSSettlement service have remained unchanged since 2015. In that period the total level of value settled within CLS Settlement has significantly increased and as a result our settlement members have benefited overall from a double digit percentage reduction in the unit price for every USD million of value settled.

This year we also saw a modest, but increasing revenue contribution from other products. Revenues and activity in our Compression service grew strongly, complemented by revenues from CLSClearedFX, our settlement service for OTC cleared FX derivatives. As a positive future sign, we are seeing increasing momentum across many of our other products, including recently launched CLSNow and CLSNet.

With respect to operating expenses in 2019, underlying costs increased by a modest 4% year-on-year. As in 2019, our investment program will continue, and wherever possible we will seek strategic savings to offset this activity. Given competing priorities, we must, and will also continue to adopt a robust prioritization of our book of work.

Analysis of our cash and deposit balances reflects a year of significant, but conscious investment. This was not only in the Convergence program, but in strengthening our control processes by adding new talent, capabilities, and enhancing related process and tools. We will continue to monitor our current and future capital position closely, at both an aggregate and individual legal entity level. On completion of our long-term investment program, we are targeting a return to positive cash generation. In the intervening period we will ensure that we continue to hold capital well above the minimum requirements in our regulated entity. In aggregate across the Group, we will also ensure that we hold a level of capital in excess of these minimum requirements, in the form of a buffer, held for prudence purposes.

While the scale of investment has had an impact on our financial results, at all times we will actively balance the need for service excellence and resilience with our capital position. The heart of our business continues to be CLSSettlement and ongoing investment here is paramount. However the completion of our Convergence program and the introduction of our Unified Services Platform for CLSSettlement remains one of our most critical priorities. Coupled with initiatives to strengthen our Governance and Control framework, this will set the foundation for the future. In parallel, we will also seek to carefully enhance our three business lines of settlement, data and processing, to fully support our clients.

In closing I look forward to sharing further updates of our progress with you in future reports, but for now I thank all our many stakeholders and especially my fellow colleagues for their commitment and continued contribution to CLS.

Trevor Suarez
Chief Financial Officer

> "While the scale of investment has had an impact on our financial results, at all times we will actively balance the need for service excellence and resilience with our capital position."

Our people

“...our focus is on making CLS a great place to work – one that values differences, respects new perspectives and is dedicated to supporting our clients across the world.”

Kathryn Herrington
Chief Administrative Officer

As a systemically important financial market infrastructure, we work to make a real difference to the global markets we serve and the communities in which we work and live. This starts with our people.

Employees always have been, and always will be, the backbone of our organization. Our ambition to be an employer of choice is underpinned by a focus on attracting, developing and retaining diverse, high-performing teams that work together to solve important and complex market-wide challenges. This focus is central to our recruitment, reward, talent and employee engagement practices, and helps to ensure we have the skills, behaviors, backgrounds and experience required for success.

Our approach to talent at CLS is anchored in our values of **protecting** our ecosystem, **improving** our ways of working and **growing** our business to ensure that we continue to deliver trusted market solutions every day. This framework of values and behaviors provides the foundation through which we embed individual accountability, collaborate effectively and innovate to successfully deliver our vision and strategy.

We are committed to promoting equality, preventing discrimination and providing a supportive and inclusive working environment. I'm proud to be part of an Executive Management Committee that is 40% women, and one in which **all** of us are fully committed to fostering greater gender balance at all levels of the organization. Our diversity and inclusion initiatives have included support for Black History Month, International Women's Day and Pride. In 2019 we became a member of Women in Banking and Finance, a UK membership organization for finance and banking professionals.

As we strive to enhance our overall employee experience we have also evolved our approach to wellbeing and corporate social responsibility (CSR). Health@CLS ran a range of activities and events throughout the year, such as mental health first aid training – all with the aim of fostering a healthy and psychologically safe working environment.

At CLS we also support the local communities in which we operate – in 2019 employees chose to focus on child wellbeing and the homeless, partnering with the Whitechapel Mission in the UK and Children's Aid Society in the US. Employees were also able to leverage their volunteer days to participate in our reading program in local schools, and work with Trees for Cities, a charity focused on creating more green spaces for children in deprived areas in London.

I'm excited about what we can continue to achieve as an organization through the work of our talented, committed teams. To build on our success we will maintain our focus on making CLS a great place to work – one that values differences, respects new perspectives and is dedicated to supporting our clients across the world.

Kathryn Herrington
Chief Administrative Officer

Directors' report

"CLS plays a fundamental role in the FX market – it operates the world's largest multicurrency cash settlement system to mitigate settlement risk for the FX transactions of its members and their customers."

12.8
USD trillion
Peak value day (settled)

The Directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the year ending 31 December 2019. The Governance statement forms part of this report.

The Group has its registered office in Lucerne, Switzerland and subsidiaries in London, UK (CLS UK Intermediate Holdings Ltd. and CLS Services Ltd.), New York City and New Jersey, US. (CLS Bank provides FX-related settlement services, and CLS Aggregation Services LLC, a Delaware limited liability company that is a majority-owned subsidiary of CLS Bank and a joint venture with Traiana, Inc., a CME Group company, formerly provided the Group's aggregation services and is in the process of being dissolved). Additional non-settlement services are provided by other CLS Group subsidiaries.

Principal activities and business review

CLS plays a fundamental role in the FX market – it operates the world's largest multicurrency cash settlement system to mitigate settlement risk for the FX transactions of its members and their customers.

Owned by the world's leading financial institutions, CLS settles payment instructions relating to underlying FX transactions in 18 major currencies and certain other transactions that result in one-way payments in a subset of those currencies.

Financial results and dividends

The Group achieved a loss after interest and tax of GBP28.3m, compared to a loss of GBP18.5m in 2018. Net assets of GBP338.1m showed a decrease of GBP37.9m compared to 2018. No dividend is recommended for the year (2019: GBPnil).

Going concern

The Board of Directors has formed a judgment, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

The Directors estimate, based on their assessment of progress to date on service uptake and having reviewed cash flow forecasts for the 2020 budget year and long-term business plans, that sufficient funds will be available in the business for the foreseeable future.

Strategy

CLS continues to uphold its extraordinary mission and responsibility while balancing its corporate objectives. The focus of CLS's strategy in 2020 – amongst others – will be to protect its core competency of Settlement, improve the development of a strong Risk Culture, manage the delivery of a number of significant multi-year major initiatives (e.g. Convergence, CLSNet migration, Resilience, etc.) and grow participation across CLS's products (e.g. CLSNow, CLSNet, Data products, etc). Successful execution of the Strategy will be dependent on: adherence to CLS's prioritization of settlement-related activities and risk appetite; awareness and consideration of the risks associated with executing the Strategy; and finally, operating carefully under the parameters of both financial and human resources. The Strategy seeks to ensure that CLS remains the leading provider of risk mitigation and operational services for the global foreign exchange market for 2020 and beyond.

Risk management

Given its mission to provide risk mitigation services to the FX market, the Group's activities are exposed to a variety of risks. The Group continues to monitor and manage its risks in line with its Risk Appetite Statement and risk policies.

The Chief Risk Officer, Deborah Hrvatin has a dual reporting line to the Risk Management Committee (RMC) and Chief Executive Officer. An appropriate set of risk metrics, the Risk Appetite Statement and various risk policies were reviewed by the RMC and approved by the Board, which also receives a quarterly risk report from the Chief Risk Officer with the agreed metrics.

Internal controls

The Audit and Finance Committee (AFC) reviewed and approved the annual Internal Audit Plan and reviewed and monitored CLS Group management's responsiveness to findings and recommendations of the Internal Audit division.

The Chief Internal Auditor, Duncan Barnard has direct access to the Chairman, Kenneth Harvey and reports directly to the AFC with an administrative reporting line to the Chief Executive Officer. The AFC also ensures that the Internal Audit division of the Group has adequate resources and appropriate access to information for effective functioning and in accordance with relevant professional standards.

The AFC also approves the terms of engagement of the independent auditor of the Group and reviews the findings of the independent auditor and the effectiveness of the audit.

Executive management

The Chairman's Committee of the Board reviews and approves the qualifications, remuneration, retention plans and succession plans of Executive Management.

Regulatory affairs

The Board acknowledges that the regulatory developments in multiple jurisdictions are important for refining CLS's strategy. The Board receives a quarterly update of each regulatory development that impacts CLS and/or its settlement members. A description of the relevant regulatory developments follows.

Governance

The CPMI-IOSCO Principle 2 of Principles for Financial Market Infrastructures (PFMI) requires that an FMI should have governance arrangements that are clear and transparent. An overview of corporate governance follows this report.

Capital structure

Details of the authorized and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 21. The Company has one class of ordinary shares which carry no right to fixed income. All issued shares are fully paid.

Directors and their interests

The Directors who served during the year are listed on pages 42 to 46.

There were no Directors with an interest in the share capital of CLS Group Holdings AG or any of the subsidiaries at any time during the year. All Directors certified their compliance with the Code of Conduct.

During the year, the Group has maintained Directors' and Officers' insurance relating to specified liabilities that may arise in relation to Group companies. This remains in force at the date of this report.

Auditors

Each of the persons who is a Director at the date of approval of this annual report confirms that:

So far, as the Director is aware, there is no relevant audit information of which the company's auditors are unaware; and

The Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On the recommendation of the AFC, to comply with governance policy, the Board approved the submission of a proposal to Shareholders for the reappointment of KPMG AG as the Independent Auditor for CLS Group Holdings AG and the reappointment of KPMG LLP as the Independent Auditor for the Group's subsidiaries at the Annual General Meeting of Shareholders to be held on May 11, 2020. By order of the Board.

Kenneth Harvey
CLS Group Holdings AG
Chairman
30 March 2020

Directors' responsibilities statement

"The Board is committed to maintaining an open dialog with individual shareholders and the shareholder community as a whole."

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

The Directors have prepared the financial statements in accordance with the requirements of Swiss law, International Financial Reporting Standards (IFRS) and the Company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the given circumstances.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS.

However, Directors are also required to:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and;
- Make an assessment of the Group's ability to continue as a going concern.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Overview

The Board recognizes the important role the Group plays in the FX market and the importance of providing active governance designed to ensure the effectiveness and soundness of the Group's business practices and operations.

The Group seeks to maintain the highest standards in corporate governance by continually monitoring its practices and incorporating, as appropriate, best governance practices that emerge from regulatory bodies, governance advisors and the financial services industry.

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Governance statement

The Group seeks to maintain robust and transparent governance arrangements; a full disclosure regarding CLS governance is more fully described in the Principles for Financial Market Infrastructures (PFMI) Disclosure Framework available on the Group's website.

Shareholders

At the CLS Group Holdings AG Annual General Meeting, shareholders elect Directors to the Board, approve the Group's financial statements, approve the engagement of an independent auditor and undertake any other business reserved for the shareholders. The elected Board of Directors is responsible for the oversight of the Group on behalf of its shareholders.

The Board is committed to maintaining an open dialog with individual shareholders and the shareholder community as a whole. Shareholders are invited to contact the Chairman of the Board directly or the Company Secretary by using the following email: ShareholderCommunications@cls-bank.com

Board of Directors

The Board is responsible for providing direction and oversight of the Group's business as it represents the interests of its shareholders, members and other stakeholders. The Board continuously reviews and strengthens its own corporate governance, as well as the governance of its subsidiaries, striving to implement best practices where applicable.

The Board has delegated the responsibility to undertake the Group's business and operational activities and to implement the Board's directives to the Executive Management of the Group, headed by the Chief Executive Officer of CLS Group Holdings AG.

In addition, CLS Group Executive Management has established an internal governance structure that clarifies its decision-making process and delineates reporting lines to the Board. The Board and its Committees oversee the performance of Executive Management as it undertakes the Group's business.

The Board held twelve meetings in 2019, four of which were convened in person. Board Committees meet regularly, as needed, to fulfill their chartered responsibilities. In addition to its meetings, the Board receives regular communications from the Chairman regarding industry or regulatory developments and from the Chief Executive Officer regarding business matters for the Group.

Board leadership and composition

As of 31 December 2019, the Board was comprised of twenty-two Directors. CLS shareholder institutions are represented by fifteen Directors, with seven Outside Directors.

The Board is required to have a minimum of four Outside Directors, one of whom must serve as its Chairman. In addition, the Group's constitutional documents mandate that the roles of Chairman and Chief Executive Officer be separated in order to enhance the ability of each to discharge his or her respective duties effectively and as set out in the Group's constitutional documents. In keeping with best practices, the Chairmen of the Audit and Finance Committee, the Nominating and Governance Committee and the Risk Management Committee are Outside Directors.

The Board regularly meets in non-executive session without Executive Management present.

The Nominating and Governance Committee and Board regularly consider and assess the size of the Board and whether it supports the Board's oversight responsibilities. Following a comprehensive governance review, the Board has agreed to reduce the number of directors, with a least one-third of the Board consisting of independent non-executive directors.

Given the complex business relationships, global constituents, regulatory requirements and responsibilities related to its position as a FMI, the agreed size of the Board is deemed satisfactory, to continue to provide robust resources and the appropriate skillsets to ensure the Board fulfills its oversight responsibilities.

Board Remuneration

Only the Outside Directors, including the Chairman, are remunerated for their services. In addition, expenses incurred by all Non-Executive Directors in fulfilling their Board responsibilities are reimbursed.

As it considers the appropriate level and structure of remuneration for Outside Directors and the Chairman, the Group is committed to attracting and retaining experienced and dedicated individuals who will contribute to the long-term health and success of the Group. CLS shareholders have previously approved the following remuneration for the

1. The Chairman of the Board, who is required to attend meetings with regulatory and oversight agencies, industry associations and shareholders and who is required to devote up to 50% of his or her time to the Group, receives an annual stipend of USD600,000 (or its equivalent in a different currency), and
2. Each Outside Director, who is required to spend up to 20% of his or her time on Group matters, receives an annual stipend of USD200,000 (or its equivalent in a different currency). As an exceptional matter, certain stipends are grossed up to account for relevant foreign taxes.
3. Outside Directors serving on more than one Committee receive an additional USD10,000 for each additional committee exceeding the one committee requirement. Outside Directors who serve as Chairman of a committee receive an additional USD35,000.

Director compliance and Code of Conduct

All Directors are compliant with legal and regulatory requirements imposed by Swiss, UK and US law.

Directors are required to annually review, receive training on, and attest to their compliance with the Group Directors' Code of Conduct, which sets out standards of ethical conduct and provides guidance regarding the avoidance of conflicts of interest. In addition, Directors are required to disclose all business and industry affiliations.

Led by its Nominating and Governance Committee, the Board also undertakes annual self-assessments, and a periodic review of its governance structure and practices, including its constitutional documents and charters.

Director development

The Directors attend regular Director Education sessions on regulatory, strategic and risk-related topics and the Board is supportive of, and reimburses, attendance at Director Education programs. In addition, each newly elected Director attends a two day induction program.

CLS Group Board Committees

The Board has six board committees to support its oversight responsibilities. Board committees meet regularly to review and advise the Board on matters related to their chartered responsibilities, which extend to all CLS Group subsidiaries.

Audit and Finance Committee

The Audit and Finance Committee (AFC) is charged with (i) overseeing the Internal Audit function, (iii) managing the relationship with the independent auditor, and (ii) overseeing finance activities, including financial strategies, capital budgeting, pricing policies, and budget and forecasting, as well as accounting policies and methods and compliance with legal and accounting standards.

Governance statement (continued)

Board Strategy Committee[1]

While the responsibility for the Group's strategic vision and its implementation lies with the Board, the Board Strategy Committee (BSC) reviews, refines and advises Executive Management regarding the Group's strategic vision, business opportunities and associated business plans and provides advice, counsel, and recommendations to the Board.

Chairman's Committee

The Chairman's Committee provides counsel to the Chairman and the CEO on Board matters, including agendas and Board policies. In addition, the Committee serves as the Compliance Committee and is also responsible for reviewing and making recommendations to the Board on human resources and remuneration matters, legal issues, shareholder communications and regulatory affairs. The Chairman's Committee also oversees the Group's whistle-blowing policy and processes.

Nominating and Governance Committee

The Nominating and Governance Committee (NGC) advises the Board regarding the governance of the Group and its subsidiaries, including oversight of the process of nominating and vetting Director candidates and ensuring the efficacy of the Group corporate governance practices, including board and committee composition, governance and constitutional documents. In addition, the NGC oversees the board and committee self-evaluation, director induction and education.

Risk Management Committee[2]

The Risk Management Committee (RMC) is responsible for reviewing and assessing areas of risk such as credit risk, market risk, liquidity risk, legal risk, compliance risk, payment risk, cybersecurity risk, and operational risk. The RMC also assists the Board in (i) setting the risk appetite and (ii) the proper oversight of the risk management function of of the Group.

Technology and Operations Committee[2]

The Technology and Operations Committee (TOPS) oversees the technology and operational aspects of CLS's settlement and non-settlement services, including strategic or significant enhancements or modifications to the CLS core system and support systems. TOPS also supports and guides the management of strategic technology relationships, including CLS core platforms, contingency policies and procedures.

CLS Group Subsidiaries

CLS Group Holdings AG, a Swiss corporation, is the parent holding company for the Group and is owned by 79 Shareholders, each of whom (with limited exceptions) is a settlement member or an affiliate of a settlement member of CLS Bank, a US Edge Act corporation. CLS Bank provides FX-related settlement services, and CLS Aggregation Services LLC, a Delaware limited liability company that is a majority-owned subsidiary of CLS Bank and a joint venture with Traiana, Inc. (a CME Group company) formerly provided the Group's aggregation services and is in the process of being dissolved. Additional non-settlement services are provided by other CLS Group subsidiaries.

Supervision and oversight

The Group adheres to the Swiss Code of Best Practice for Corporate Governance and laws, rules, and regulations applicable to SIFMUs, Edge Act corporations, and to bank holding companies subject to regulation and supervision by the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of New York (Federal Reserve).

As an Edge Act corporation formed under Section 25A of the Federal Reserve Act, CLS Bank is regulated and supervised by the Federal Reserve. In addition, the central banks whose currencies are settled in CLS Bank have established a cooperative oversight arrangement, the CLS Oversight Committee, as a mechanism to fulfil their responsibilities to promote safety, efficiency and stability in financial markets and payment systems in which CLS Bank participates. The Federal Reserve organizes and administers the CLS Oversight Committee, which is the primary forum for the participating central banks to carry out their oversight of the CLS system.

CLS Bank complies with regulations related to designations imposed by various jurisdictions with which it interacts, including the European Union and US Treasury. In addition, the CLS system is specified by HM Treasury as a recognized inter-bank payment system under the Banking Act 2009 and is, therefore, subject to direct supervision by UK regulatory authorities.

[1]In recognition of the Board's role in setting the comprehensive corporate strategy, the remit of the BSC was amended to better reflect its actual role which is the oversight of product development. In February 2020, the name of the BSC was amended to the Product Development Committee to more accurately reflect the Committee's responsibilities.

[2]In connection with the Board's enhancements to its governance processes, the oversight responsibilities previously held jointly by the RMC and TOPS regarding cybersecurity will be the responsibility of the full Board of Directors.

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CLS Group Holdings Board and Committee Composition 2019

CLS Group Holdings Board Members	CLS Group Holdings Board	Audit & Finance Committee	Board Strategy Committee	Chairman's Committee	Nominating & Governance Committee	Risk Mgmt. Committee	Technology & Operations Committee
Total number of meetings in 2019	12	13	6	11	12	12	7
Kenneth Harvey*	Chair		•	Chair			•
Ericka Leslie[1]	Deputy Chair			•			•[2]
Thomas Berkery*	•	•					•
Vidya Bittianda[3]	•					•	
Vincent Bonamy	•		•			•	
Gerald Brady	•			•			Chair[4]
Jennifer Buonopane	•				•		
David Gary	•					•	
Peter Healey	•	•					
Akira Hoshino[5]	•					•	
Sheryl Kennedy*[3]	•	•			•		
Michael Lawrence	•					•	
Dominique Le Masson	•		•				
Gilbert Lichter*	•			•	Chair		
Bruce Nolop*	•	Chair		•			
Bryan Osmar*	•			•	•	Chair	
Rick Sears[6]	•				•		
William Stenning	•		•	•	•		
Edward Sterba*[3]	•						•
Robert Stolte[7]	•						•
Fabrizio Tallei	•	•					
David Thomas	•				•		•
Jason Vitale	•		Chair	•	•		
Sara Wardell-Smith[7]	•				•		
Eddie Wen[3]	•						•
Ronnie Yam	•	•					

• Denotes Board/Committee membership

Asterisk (*) indicates Outside (Independent) Director

(1) Elected Deputy Chairman 7 May 2019
(2) Resigned as Chairman 7 May 2019
(3) Elected 7 May 2019
(4) Elected Chairman 7 May 2019
(5) Resigned 7 July 2019
(6) Resigned 7 May 2019
(7) Resigned 31 January 2019

Regulatory developments

CLS operates in a dynamic regulatory environment, shaped by international standards and comprehensive domestic legislative and regulatory frameworks. We proactively engage with lawmakers, authorities, and standard-setting bodies to share our unique perspectives and advocate for sound policies that, inter alia, facilitate the mitigation of settlement risk in the global FX market. Over the past year, we have been particularly focused on FX settlement risk mitigation, the evolving regulatory standards for cybersecurity and operational resilience, RTGS renewal initiatives, jurisdiction-specific requirements for FMIs, Brexit, and the development of effective cross-border recovery and resolution regimes.

Mitigation of FX settlement risk

CLS's proactive engagement with international standard-setting bodies and central banks related to the BIS Triennial Survey and FX settlement risk management has resulted in a renewed and increased focus on mitigating FX settlement risk, a risk that appears to have increased since 2013. In this respect, the BIS has recognized the importance of payment-versus-payment settlement in mitigating FX settlement risk, a solution that CLS provides for eligible currency pairs that make up approximately 80% of total global trading activity. Given its important risk-mitigating role in the FX market, CLS will continue to engage with relevant stakeholders on this issue.

Brexit

Following the decision by the United Kingdom to leave the European Union, CLS formed a dedicated inter-divisional team tasked with identifying and proactively addressing potential Brexit-related issues that could impact CLS or its participants, including legal and regulatory issues. In particular, CLS has focused on mitigating risks relating to its anticipated loss of statutory finality protections under the EU Settlement Finality Directive after Brexit. This concern arose as a consequence of such protections applying to systems governed by the law of an EU Member State. (CLS's rules are governed by English law.) CLS has taken, and continues to take, all appropriate steps to address this risk and to ensure that CLS will at all times be well positioned with respect to all Brexit-related risks.

Cybersecurity and operational resilience

As a systemically important FMI, CLS seeks to continuously strengthen its cybersecurity posture, as well as support global efforts to enhance operational resilience in the broader financial markets. In all aspects of our engagement, we underscore the importance of internationally-harmonized standards and lexicons, as well as flexible, risk-based approaches, particularly given the dynamic nature of a cyber threat landscape that transcends sovereign borders.

In 2019, CLS continued to support sector-wide efforts to embed international guidance on cyber resilience for FMIs and operationalize the CPMI's strategy to reduce the risk of wholesale payments fraud related to endpoint security. We also participated in international working groups focused on key regulatory priorities, such as information-sharing, coordinated testing frameworks, and third-party risks.

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RTGS renewal initiatives

As a participant in the respective RTGS systems for each CLSSettlement-eligible currency, CLS may be impacted by domestic initiatives to enhance or renew existing infrastructure. Accordingly, we seek to collaborate with central bank payment system operators, both bilaterally and via participation in various RTGS working groups and fora, to offer our unique perspectives and recommend solutions to further mitigate settlement risk in the global FX market.

During the past year, we responded to consultations from the Bank of England and the Reserve Bank of Australia, in each case advocating for an internationally harmonized approach to implementing the ISO 20022 messaging standard. We also responded to a consultation related to Payment Canada's modernization program and advocated for legislative changes that would enable systemically important FMIs overseen by the Bank of Canada (such as CLS) to be eligible for direct connectivity to Lynx, the new RTGS system that will replace the current Large Value Transfer System.

Jurisdiction-specific requirements for FMIs

CLS continues to monitor and assess evolving jurisdiction-specific regulatory requirements for FMIs. Given our unique position as an international FMI, our engagement in this context focuses on the applicability of specific standards and regulation in the cross-border context. This is particularly true where jurisdiction-specific requirements could be duplicative, in which case, we seek to promote deference to cooperative arrangements such as the CLS Oversight Committee.

Cross-border recovery and resolution regimes

CLS monitors recovery- and resolution-related regulatory developments with the view that resolution authorities, and FMIs themselves, should strive to maximize the likelihood that an entity subject to resolution (or its successor entity) continues to participate in FMIs so long as this does not compromise the safe and orderly operation of the FMIs.

Where appropriate, CLS continues to provide comment on pertinent consultations relating to the implementation and enhancement of resolution regimes with respect to continuity of access to FMIs for a firm in resolution. In 2019, CLS conducted an exercise based on a hypothetical bank resolution scenario, which was designed to help identify potential areas for market-wide focus and consideration.

Board of Directors

Kenneth Harvey

Originally elected
December 2011
Affiliation Outside Director
Role Chairman (former Chief Technology & Services Officer, HSBC plc)

Ericka Leslie

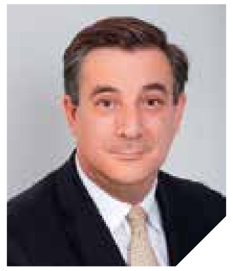
Originally elected April 2015
Affiliation Goldman Sachs
Role Deputy Chairman, Global Head of Operations and Platform Engineering for Global Markets

Thomas Berkery

Originally elected
October 2018
Affiliation Outside Director
Role Former Global Engagement Leader and
Audit Signing Partner – PwC

Vidya Bitianda

Originally elected May 2019
Affiliation Westpac Banking Corporation
Role General Manager, Risk Analytics & Insights



Vincent Bonamy

Originally elected May 2018
Affiliation HSBC – Global Markets
Role Managing Director, Head of Global Intermediary Services GFX and Commodities

Gerard Brady

Originally elected May 2018
Affiliation Morgan Stanley
Role Global Chief Information Security Officer

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Jennifer Buonopane

Originally elected April 2016
Affiliation State Street Corporation
Role Senior Managing Director & Chief Operating Officer – Global Markets

David Gary

Originally elected May 2017
Affiliation Deutsche Bank
Role Managing Director – Global Head of FX Trading North America

Peter Healey

Originally elected April 2015
Affiliation UBS
Role Managing Director – Global Head of Special Review Group, Group Internal Audit

Sheryl Kennedy

Originally elected May 2019
Affiliation Outside Director
Role Former Chief Executive Officer, Promontory Financial Group Canada, an IBM Company

Michael Lawrence

Originally elected May 2018
Affiliation Citi, Markets & Securities Services
Role Managing Director, Global CAO, Rates & Currencies Citi, Markets & Securities

Dominique Le Masson

Originally elected May 2017
Affiliation BNP Paribas Group
Role Head of Market Infrastructure Management

Board of Directors

Gilbert Lichter

Originally elected November 2014 (with term beginning 1 January 2015)
Affiliation Outside Director
Role Former Chief Executive Officer of EBA Clearing/Finance

Bruce Nolop

Originally elected November 2012
Affiliation Outside Director
Role Former Chief Financial Officer of E*Trade

Bryan Osmar

Originally elected May 2017
Affiliation Outside Director
Role Former Managing Director and Head of Market Infrastructure – Royal Bank of Canada

William Stenning

Originally elected May 2017
Affiliation Société Générale
Role Managing Director – Clearing, Regulatory & Strategic Affairs, Société Générale Corporate and Investment Bank

Edward Sterba

Originally elected May 2019
Affiliation Outside Director
Role Former Chief Technology Officer, HSBC

Fabrizio Tallei

Originally elected May 2017
Affiliation Intesa Sanpaolo S.p.A
Role Head of FX and International Money Market – Treasury

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David Thomas

Originally elected May 2017
Affiliation Royal Bank of Canada
Role Chief Executive Officer RBC Capital Markets, Europe

Jason Vitale

Originally elected May 2011
Affiliation Bank of New York Mellon
Role Global Head of Foreign Exchange

Eddie Wen

Originally elected May 2019
Affiliation J.P. Morgan
Role Managing Director, Global Head of Digital Markets

Ronnie Yam

Originally elected May 2017
Affiliation United Overseas Bank Ltd
Role Managing Director, Chief Operating Officer of Group Finance & Corporate Services

Company Secretaries

Philippe Weber

Originally appointed April 2002
Affiliation CLS Group Holdings AG (Attorney, Niederer Kraft & Frey, Zurich)
Role Company Secretary

Michael Preston

Originally appointed April 2015
Affiliation CLS Bank International
Role Company Secretary

Directors resigned in 2019

Akira Hoshino
Resigned 7 July 2019

Rick Sears
Resigned 7 May 2019

Robert Stolte
Resigned 31 January 2019

Sara Wardell-Smith
Resigned 31 January 2019

Executive Management Committee

Marc Bayle de Jessé

Chief Executive Officer

Duncan Barnard

Chief Internal Auditor

Michele Fleming

Chief Compliance Officer

John Hagon

Chief Operations Officer

Kathryn Herrington

Chief Administrative Officer

Deborah Hrvatin

Chief Risk Officer

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Dino Kos

Chief Regulatory Officer

Alan Marquard

Chief Business Development Officer

Trevor Suarez

Chief Financial Officer

Gaynor Wood

General Counsel

Statutory Auditor's report

To the General Meeting of CLS Group Holdings AG, Lucerne

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of CLS Group Holdings AG and its subsidiaries (the Group), which comprise the consolidated financial statements for the year ended 31 December 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 46 to 83) give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, 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.

Key Audit Matters

Intangible Assets

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter

The Group reported intangible assets of GBP167.8 million as at 31 December 2019. The most significant asset of the Group is the core settlement system which is necessary for the core operations and provision of the Group's services to its customers.

Accounting for intangible assets involves the application of judgment by the Group in relation to the timing of the transfer of assets in course of construction. CLS engage external contractors to assist with the development of software and only once assets are considered complete and ready for deployment are they transferred to assets in use and amortization commences. Our work was focused on this aspect of intangible asset accounting.

Our response

Testing the design, implementation, and operating effectiveness of controls over the capitalization of expenditures into assets in course of construction and the subsequent transfers to assets in use.

Testing on a sample basis the additions to assets in course of construction by vouching back to source documentation and the subsequent timing of the transfers to assets in use by obtaining third party reports confirming the project completion date and comparing to the commencement of amortization.

Challenging management's assessment of the timing of the transfers (and the continued carrying of aged assets in course of construction) using our knowledge of the business, program status and future strategy of the Group.

For further information on intangible assets refer to the following:
Note 2. Significant accounting policies, I. Intangible Assets
Note 3. Critical accounting judgments and key sources of estimation uncertainty
Note 9 to the consolidated financial statements, Intangible Assets

Other Information in the Annual Report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of the company, the remuneration report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. 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 in this regard.

Responsibility of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group'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 Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 Swiss law, ISAs and Swiss Auditing Standards 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 consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG AG

Stefan Biland	**Stefanie Hiltebrand**
Licensed Audit Expert Auditor in Charge	Licensed Audit Expert

Zurich, Switzerland
30 March 2020

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Consolidated accounts

Consolidated statement of profit or loss

For the year ended 31 December 2019 (All amounts stated in GBP000)

	Notes	2019	2018
Revenue	4	**207,775**	**206,053**
Operating expenses			
Operating expenses		(221,212)	(216,825)
Accelerated amortization of core settlement assets		(16,727)	(17,605)
(Loss)/profit from operations	5	**(30,164)**	**(28,377)**
Investment income	7	1,699	1,335
Interest expense		(480)	–
(Loss)/profit before tax		**(28,945)**	**(27,042)**
Tax credit for the period	8	665	8,538
Total (loss)/profit for the period		**(28,280)**	**(18,504)**
(Loss) from continuing operations, net of tax		(28,226)	(19,875)
(Loss)/profit from discontinued operations, net of tax	32	(54)	1,371
Attributable to:			
Equity holders of parent		(28,253)	(19,162)
Non-controlling interests	12	(27)	658
(Loss)/profit for the period		**(28,280)**	**(18,504)**

Notes from pages 52 to 83 form part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2019 (All amounts stated in GBP000)

	Notes	2019	2018
(Loss)/profit for the period		(28,280)	(18,504)
Exchange differences on translation of foreign operations		(235)	827
Exchange rate movements taken to the cash flow hedge reserve	16	(6,593)	6,315
Fair value movements taken to the OCI revaluation reserve		224	(20)
Total comprehensive income		(34,884)	(11,382)
Attributable to:			
Equity holders of parent		(34,884)	(11,382)
Non-controlling interests		–	–
Total comprehensive income		**(34,884)**	**(11,382)**

Consolidated statement of financial position

At 31 December 2019 (All amounts stated in GBP000)

	Notes	31 December 2019	31 December 2018
Non-current assets			
Intangible assets	9	167,845	165,507
Property, plant and equipment	10	7,671	9,287
Right of use assets	11	7,030	–
Other investments	13	3,405	3,431
Deferred tax asset	14	439	4,337
		186,390	**182,562**
Current assets			
Trade and other receivables	15	31,869	34,507
Derivative financial instruments	16	–	4,769
Current tax assets	21	4,113	–
Investments at fair value	19	123,636	128,289
Cash deposits	17	44,750	77,427
Cash and cash equivalents	18	26,781	25,158
Assets from discontinued operations	32	194	4,975
		231,343	**275,125**
Total assets		**417,733**	**457,687**
Current liabilities			
Trade and other payables	20	(50,264)	(56,880)
Current tax liabilities	21	(3,366)	(491)
Derivative financial instruments	16	(2,788)	–
Liabilities from discontinued operations	32	(69)	(673)
		(56,487)	**(58,044)**
Net current assets		**174,856**	**217,081**
Non-current liabilities			
Other liabilities	22	(4,530)	(7,043)
Deferred tax liabilities	14	(12,000)	(16,591)
Lease liabilities	23	(6,663)	–
		(23,193)	**(23,634)**
Total liabilities		**(79,680)**	**(81,678)**
Net assets		**338,053**	**376,009**

Notes from pages 52 to 83 form part of these consolidated financial statements.

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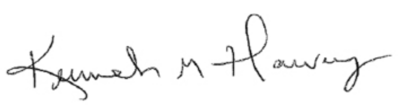
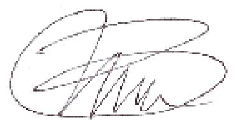
	Notes	31 December 2019	31 December 2018
Equity			
Share capital	24	202,582	202,582
Share premium account		116,104	116,104
Combined merger and consolidated reserves	25	116,631	116,631
Translation reserves		1,099	1,334
Cash flow hedge reserve	16	(3,305)	3,288
OCI revaluation reserve		204	(20)
Retained losses		(95,323)	(65,630)
Equity attributable to equity holders of the parent		**337,992**	**374,289**
Non-controlling interests	12	61	1,720
Total equity		**338,053**	**376,009**

The consolidated financial statements were approved by the Board of Directors on 23 March 2020 and signed on its behalf by:



Kenneth Harvey
CLS Group Holdings AG
Chairman
30 March 2020



Marc Bayle de Jessé
CLS Group Holdings AG
Chief Executive Officer
30 March 2020

Consolidated statement of changes in equity

For the year ended 31 December 2019 (All amounts stated in GBP000)

	Notes	Share capital	Share premium	Combined merger and consolidated reserves	Translation reserves	Cash flow hedge reserve	OCI reserve	Retained earnings	Total equity attributable to parent	Non-controlling interests	Total equity
Balance at 1 January 2018		**204,577**	**115,287**	**116,631**	**507**	**(3,027)**	**–**	**(46,468)**	**387,507**	**1,623**	**389,130**
Issue of shares		–	–	–	–	–	–	–	–	–	–
Redemption of shares		(1,995)	817	–	–	–	–	–	(1,178)	–	(1,178)
Loss for the year		–	–	–	–	–	–	(19,162)	(19,162)	658	(18,504)
Dividend: non-controlling interest		–	–	–	–	–	–	–	–	(561)	(561)
Other comprehensive income		–	–	–	827	6,315	(20)	–	7,122	–	7,122
Balance at 31 December 2018	24	**202,582**	**116,104**	**116,631**	**1,334**	**3,288**	**(20)**	**(65,630)**	**374,289**	**1,720**	**376,009**
Issue of shares		–	–	–	–	–	–	–	–	–	–
Redemption of shares		–	–	–	–	–	–	–	–	–	–
Loss for the year		–	–	–	–	–	–	(28,253)	(28,253)	(27)	(28,280)
Distributions paid		–	–	–	–	–	–	(1,440)	(1,440)	(1,632)	(3,072)
Other comprehensive income		–	–	–	(235)	(6,593)	224	–	(6,604)	–	(6,604)
Balance at 31 December 2019	24	**202,582**	**116,104**	**116,631**	**1,099**	**(3,305)**	**204**	**(95,323)**	**337,992**	**61**	**338,053**

Notes from pages 52 to 83 form part of these consolidated financial statements.

Consolidated cash flow statement

For the year ended 31 December 2019 (All amounts stated in GBP000)

	Notes	2019	2018
(Loss)/profit from operations		**(30,164)**	**(28,377)**
Adjustments for:			
Amortization of intangible assets		50,308	53,658
Depreciation of property, plant and equipment and right of use assets		6,805	3,511
Foreign exchange gains recognized in profit from operations		(7,072)	(2,673)
Operating cash flows before movements in working capital		**19,877**	**26,119**
(Increase) in receivables		(970)	(2,784)
(Decrease)/increase in payables		(3,010)	10,841
Operating lease payments		(2,775)	–
Gain on matured hedges		3,592	6,315
Cash generated from operations		**16,714**	**40,491**
Income taxes received/(paid)		3,412	(9,739)
Net cash inflow from operating activities		**20,126**	**30,752**
Net cash inflow from operating activities (continued)		19,990	28,520
Net cash inflow from operating activities (discontinued)		136	2,232
Investing activities:			
Interest received		1,587	1,292
Decrease/(increase) in cash deposits	18	32,677	151,701
Sale/(purchase) of FVTOCI investments		4,680	(131,603)
Purchases of intangible assets	9	(56,764)	(55,188)
Purchases of property, plant and equipment	10	(1,986)	(1,076)
Net cash (outflow) from investing activities		**(19,806)**	**(34,874)**
Net cash (outflow) from investing activities (continued)		(19,806)	(34,874)
Net cash (outflow) from investing activities (discontinued)		–	–
Financing activities:			
Redemption of shares		–	(1,179)
Dividend: non-controlling interests		(3,073)	(561)
Net cash inflow from financing activities		**(3,073)**	**(1,740)**
Net cash (outflow) from financing activities (continued)		(1,441)	(1,179)
Net cash (outflow) from financing activities (discontinued)		(1,632)	(561)
Net decrease in cash and cash equivalents		**(2,753)**	**(5,862)**
Cash and cash equivalents at beginning of year		**29,963**	**32,539**
Effect of foreign exchange rate changes		(353)	3,282
Cash and cash equivalents at end of year		**26,857**	**29,963**
Cash from discontinued operation		(76)	(4,805)
Cash and cash equivalents as presented on the consolidated statement of financial position		**26,781**	**25,158**

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

1. General information

Reporting entity

CLS Group Holdings AG is a Company limited by shares (Aktiengesellschaft) pursuant to articles 620 et seq. of the Swiss Code of Obligations and incorporated and registered in the Commercial Register of the Canton of Lucerne, Switzerland. The address of the registered office is c/o BDO AG Landenbergstrasse 34, 6002 Lucerne, Switzerland.

These consolidated financial statements comprise the Company and its subsidiaries (collectively the 'Group' and individually 'Group companies').

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in compliance with the requirements of Swiss Law. In 2004, the Group voluntarily adopted the IFRS and International Accounting Standards (IASs) endorsed by the International Accounting Standards Board (IASB).

The financial statements have been prepared on the historical cost basis, except for, when used, the inclusion of derivative financial instruments at fair value. The principal accounting policies adopted are set out in note 2 below.

Basis of preparation

The accounts have been prepared on a going concern basis and in accordance with the requirements of Swiss law, IFRS and the Company's articles of incorporation. These requirements include designing, implementing and maintaining the internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in circumstances.

Functional and presentation currency

These financial statements are presented in pounds sterling (GBP) because that is the currency of the primary economic environment in which the Group operates.

Unless otherwise stated all amounts are presented in rounded thousands (GBP000).

Risk report

CLS has established an Enterprise-wide Risk Management Framework (the 'ERM Framework'), which is reviewed and approved by the CLS Group Board, and remains subject to the CLS Group Board's oversight. The ERM Framework, covering Liquidity Risk, Operational Risk, Credit Risk, Model Risk, Information Security, Technology, Business Continuity, Crisis and Failure Management, General Business Risk, Communications and Training, Project Management, Third Party, Legal Risk, and Compliance Risk, supports a resilient approach for delivering on CLS's FMI mandate and enables CLS to undertake a systematic approach to identifying, managing, mitigating and reporting current, as well as emerging, risks across the organization. Under the ERM Framework, roles and responsibilities are described in order to foster transparency, accountability and ownership for risk oversight and management across the CLS Group Board, Risk Management Committee, the CEO, the EMC, the CRO, and CLS's Internal Audit division. Enterprise-wide risk-related matters are reported and escalated to the CRO and, as appropriate, the EMC and the Risk Committee. The Risk Committee, as appropriate, escalates such matters to the CLS Group Board for a corrective action discussion. The CLS Group Board and the Risk Committee also receive quarterly ERM reports.

The ERM Framework is supported by the policies and procedures for each individual risk and control function. It is supplemented by the CLS Risk Appetite Statement, which defines the risk and establishes the associated risk tolerances that CLS is prepared to accept and manage for CLS as a discrete entity, risks to settlement members, and broader systemic risks to the CLS ecosystem.

CLS Risk Appetite Statement tolerance levels have specified trigger levels, with a clear governance structure to ensure ownership, accountability and escalation. The CLS Group Board owns, oversees and approves the CLS Risk Appetite Statement, which is reviewed on an annual basis. The Risk Management Committee receives CLS Risk Appetite Statement exception reports and related corrective action plans from the CRO, and reviews and advises the EMC on risk assessment processes and relevant results. Please refer to note 30 for more information on the Financial Risk Management.

2. Significant accounting policies

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

A. Basis of consolidation

The Group accounts for business combinations using the acquisition method when control is transferred to the Group.

i. Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date where control ceases.

ii. Non-controlling interests (NCIs)

NCIs are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

iii. Transactions eliminated on consolidation

Intra-group balances and transactions and any unrealized income and expenses arising from intra-group transactions, are eliminated.

B. Foreign currencies

i. Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Foreign currency differences are generally recognized in profit or loss. Non-monetary items that are measured based on historical cost in a foreign currency are not translated.

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Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

2. Significant accounting policies (continued)

B. Foreign currencies (continued)

ii. Foreign operations

The assets and liabilities of foreign operations, including fair value adjustments arising on acquisition, are translated into pounds sterling at exchange rates at the reporting date. The income and expenses of foreign operations are translated into pounds sterling at the exchange rates at the dates of the transactions.

Foreign currency differences are recognized in Other Comprehensive Income (OCI) and accumulated in the translation reserve, except to the extent that the translation difference is allocated to Non-Controlling Interest (NCI). When a foreign operation is disposed of such that control is lost the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

C. Revenue recognition

i. Instruction processing charges, fees and other income

Revenue from contracts with customers, is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. Processing charges, fees and other income are recognized once the service has been delivered. It applies to all contracts with customers except leases, financial instruments and insurance contracts. The standard establishes a more systematic approach for revenue measurement and recognition by introducing a five-step model governing revenue recognition.

The five-step model includes:

1) identifying the contract with the customer;

2) identifying each of the performance obligations included in the contract;

3) determining the amount of consideration in the contract;

4) allocating the consideration to each of the identified performance obligations, and

5) recognizing revenue as each performance obligation is satisfied.

Processing charges, fees and other income are recognized once the service has been delivered.

D. Employee benefits

i. Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal obligation or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

ii. Pension costs

The Group operates a defined contribution pension scheme in the UK and USA. The costs relating to which are recognized in profit or loss in the period in which they are incurred.

iii. Deferred compensation

The Group has deferred compensation in place at the year end. Staff compensation may include awards in the form of deferred bonuses in cash. The vesting of deferred bonuses is dependent on future service. These deferred liabilities are discounted to present value using the appropriate discount rate.

Deferred bonuses are only payable once the conditions of the deferred arrangement have been met and will, at a minimum, require the employee to be in good standing at the payment date. If the level of benefit depends on the length of service, an obligation arises when the service is rendered. Any adjustments will be booked through the profit and loss in the period they arise.

E. Leasing

Leases for where CLS is the lessor requires CLS to recognise both:

- a lease liability, measured at the present value of remaining cash flows on the lease, and
- a right of use (ROU) asset, measured at the amount of the initial measurement of the lease liability, plus any lease payments made prior to commencement date, initial direct costs, and estimated costs of restoring the underlying asset to the condition required by the lease, less any lease incentives received.

Subsequently the lease liability will increase for the accrual of interest through the income statement, resulting in a constant rate of return throughout the life of the lease, and reduce when payments are made. The right of use asset will amortize to the income statement over the life of the lease.

As permitted by the standard, the CLS Group has applied IFRS 16 on a retrospective basis and to take advantage of the option not to restate comparative periods by applying the modified retrospective approach. CLS Group intends to take advantage of the following transition options available under the modified retrospective approach:

- To calculate the right of use asset equal to the lease liability, adjusted for prepaid or accrued payments.
- Apply the recognition exception for leases with a term not exceeding 12 months.
- Use hindsight in determining the lease term if the contract contains options to extend or terminate the lease.

F. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Investment income earned on the temporary investment of specified borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

G. Interest income

Interest income is accrued in line with the maturity of the instrument, by reference to the principal outstanding and at the effective interest rate applicable.

H. Taxation

Taxation expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

2. Significant accounting policies (continued)

i. Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years.

Taxable profit differs from net profit as reported in the profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date within the relevant tax jurisdiction.

Current tax assets and liabilities are offset only in the Statement of Financial Position if the entity has the legal right and intention to settle on a net basis.

ii. Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized 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 that affects neither the taxable profit nor the accounting profit.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which they can be used. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the profit or loss account, except when it relates to items charged or credited in OCI, in which case the deferred tax is also dealt with in OCI.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the relevant group company intends to settle its current tax assets and liabilities on a net basis.

I. Intangible assets

The Group holds copyright and contractual rights to certain bespoke software developed under contract with third parties for the exclusive use within its business.

The Group has identified the following assets:

Intangible asset	Description
Strategic Platforms	Enhanced developments including the CLSSettlement Service
Legacy CLSSettlement System	CLSSettlement system currently in use as part of the core settlement service. It includes copyrights and software which performs the core business operations
All other business systems	Ancillary business systems

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i. Recognition and measurement

The Group's internally-generated intangible assets are recognized only when the following conditions are met:

- It is an asset that has been created and can be identified;
- It is probable that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably.

Assets are initially classified as assets under construction until the asset is complete and ready to be brought into service. At that date it is classified into one of the asset groups described above.

ii. Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss as incurred.

iii. Amortization

Amortization is calculated to recognize the cost of intangible assets over their useful economic life (UEL). The Group has identified a UEL and amortization policy for each of its intangible assets.

In January 2018 the Board of CLS Group decided to proceed with replacing the CLSSettlement system resulting in a shortening of the estimated UEL of the CLSSettlement Service and upgrades and enhancements.

This change of UEL and amortization method is considered a change of estimate only and therefore has been applied prospectively from 1 January 2018. At 31 December 2019 the carrying value of the assets was the lower of historical amortized cost or recoverable value.

The following policies have been applied for each separately identified component of intangible assets:

Intangible asset component	Maximum asset life and amortization policy
Initial CLSSettlement service	20 years, 20% reducing balance
Upgrades and enhancements to the core service	10 years, straight line
STAR program	10 years, straight line
Other CLS services	5 years, straight line
All other business systems	5 years, straight line

Amortization methods, useful economic lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

2. Significant accounting policies (continued)

J. Financial instruments

The Group applies IFRS 9 Financial Instruments to the recognition, classification and measurement, and derecognition of financial assets and financial liabilities, the impairment of financial assets, and hedge accounting. The Group classifies non-derivative financial assets into the following categories: Fair value through other comprehensive income (FVTOCI) assets or amortized cost. The Group classifies non-derivative financial liabilities into the following categories: fair value through profit or loss (FVTPL) or other financial liabilities. The classification depends on the nature and purpose of the financial assets and financial liabilities and is determined at the time of initial recognition.

i. Non-derivative financial assets and liabilities – recognition

Financial assets and financial liabilities are recognized when a group entity becomes party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in the income statement.

Financial liabilities are recognized as FVTPL when the financial liability is either held for trading or it is designated as FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

ii. Non-derivative financial assets and liabilities – derecognition

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged or canceled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

iii. Non-derivative financial assets and liabilities – measurement

Investments at fair value

The Group holds debt investments that are initially measured at fair value and then classified as FVTOCI on the basis that:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Changes in fair value of FVTOCI debt investments are recognized directly in other comprehensive income, until the security is disposed of, at which time the cumulative gain or loss previously recognized in other comprehensive income is included in the profit for the period. Transaction costs directly attributable to the acquisition are included in the valuation.

FVTOCI equity investments

The Group holds hold a small number of investments in equity instruments that are not held for trading and do not have a quoted market price in an active market, CLS elects under IFRS 9 to measure these as FVTOCI.

Amortized cost

Amortized costs are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash), are initially recognized at cost including transaction costs directly attributable to the issue of the instrument and are measured at amortized cost less any impairment.

iv. Derivative financial instruments

Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract. They include swaps, forward-rate agreements, futures, options and combinations of these instruments and primarily affect the Group's expenses and derivative assets and liabilities. Notional amounts of the contracts are not recorded on the balance sheet. All derivative instruments are held at fair value through profit or loss. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative.

Hedge accounting

The Group applies hedge accounting to represent, to the maximum possible extent permitted under accounting standards, the economic effects of its currency risk management strategy. Derivatives are used to hedge exchange rate exposures. Where derivatives are held for risk management purposes, and when transactions meet the required criteria for documentation and hedge effectiveness, the Group applies cash flow hedge accounting.

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Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

2. Significant accounting policies (continued)

J. Financial instruments (continued)

Cash flow hedge accounting

For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedge is recognized initially in other comprehensive income, and then recycled to the income statement in the periods when the hedged item will affect profit or loss. Any ineffective portion of the gain or loss on the hedging instrument is recognized in the income statement immediately.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the hedged item is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognized in equity is immediately transferred to the income statement.

v. Impairment

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

For FVTOCI assets where the credit risk has not increased significantly since initial recognition, CLS will continue to recognize 12-month expected credit loss with interest revenue calculated based on gross carrying amount of the asset.

When an FVTOCI financial asset is considered to be impaired or there has been a significant increase in credit risk since initial recognition a lifetime expected loss is recognized in the income statement. The difference between cumulative fair value gains or losses and the cumulative amounts recognized in profit or loss is recognized in OCI until derecognition, when the amounts in OCI are reclassified to profit or loss.

vi. Non financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

For impairment testing, assets are grouped together in the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or Cash Generating Units.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

K. Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognized as the proceeds received, net of direct issue costs.

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

3. Critical accounting judgments and key sources of estimation uncertainty

The preparation of the Group's consolidated financial statements requires management to make estimates and judgments that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the reporting period. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

Assumptions and estimation uncertainties

The following estimates and judgments are considered important to the portrayal of the Group's financial condition:

- Tax: At the balance sheet date there are prior tax years for which management believes a provision is required. The provision has been estimated by management at an appropriate level calculated at the more likely outcome. This provision will be released if not expensed once the years in question are formally agreed and closed with relevant tax authorities.
- Deferred Tax: At the balance sheet date, management has reviewed the carrying value of the deferred tax asset using as its support the Group's projected five year plan. The forecasted income profile contained within the plan supports the value of the asset and therefore management is of the opinion that the value is appropriate. Deferred tax assets are described in note 14.
- Useful Economic Life (UEL): During the year, management has conducted a review of the estimated UEL of the internally generated intangible asset. Continued expenditure on application development maintains and enhances its future economic benefits and therefore management is of the opinion that the current estimated UEL can be maintained. Intangible assets are described in note 9.
- Transfer to cost: In addition, at the balance sheet date, management has continued its policy of reviewing the assets in the course of construction and deemed the balances within it suitable not to be amortized until that asset is fully operational and put into production. All these assets relate to software.
- Valuation of financial instruments: The valuation of financial instruments often involves a significant degree of judgment and complexity, in particular where valuation models make use of unobservable inputs (Level 3 assets and liabilities). Note 30 provides information on these instruments, including the related unrealized gains and losses recognized in the period, a description of significant valuation techniques and unobservable inputs, and a sensitivity analysis.

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4. Revenue

	2019	2018
Instruction processing charges	182,930	178,408
Annual account maintenance fees	8,445	8,302
CCP settlement	6,125	3,878
Liquidity usage fees	2,703	2,672
In/Out Swap program participant fees	1,386	1,402
Credit derivatives	1,579	1,500
Account opening fees	150	200
Cross Currency Swaps	882	622
Sundry income	3,575	2,079
Aggregation fees	–	6,990
Total revenue	**207,775**	**206,053**

A revenue breakdown by business and geographical segments is not shown.
The Group operates in a single global market and only has one class of business.

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All amounts in GBP000 unless stated otherwise

5. Profit from operations

The profit from operations has been arrived at after charging:

	Notes	2019	2018
Staff costs	6	90,542	88,923
IT service charges		39,807	36,918
Amortization of intangible assets	9	29,758	22,915
Depreciation of property, plant and equipment	10	6,805	3,511
Accelerated amortization of core settlement assets	9	16,727	17,605
Impairment of intangibles		4,800	13,136
Profit share arrangement		–	367
Traiana service charges		82	1,453
Foreign exchange loss		331	373
Foreign exchange loss on forward contracts		148	(1,252)
Telecom costs		18,097	15,322
Professional service costs		18,127	16,696
Establishment costs		3,007	5,760
Other		9,958	12,725
Auditor's remuneration for audit services (see below)		318	286

Traiana provides operational assistance for the delivery of the aggregation settlement service. CLS Aggregation Services pays a fixed fee per annum for receiving these services.

The analysis of auditor's remuneration is as follows:

	2019	2018
Fees payable to the Company's auditors for the audit of the Company's annual accounts		
– Current year	284	245
– Prior year	18	21
Audit of the Company's subsidiaries pursuant to legislation		
– Current year	16	20
– Prior year	–	–
Total audit fees	**318**	**286**
Fees payable to the Company's auditors and their associates for other services to the Group:		
Tax services	265	259
Other services	–	17
Total non-audit fees	**265**	**276**
Total fees	**583**	**562**

KPMG AG was appointed auditor for the Group at the annual general meeting on 3 May 2017 for three years.

6. Staff costs

The average monthly number of permanent persons employed by the Group (including Directors), by area, was:

Number of staff	2019	2018
Service delivery and technology	152	149
Risk and control	196	156
Corporate	61	69
Total	**409**	**374**

Total aggregate remuneration comprised:

	2019	2018
Salaries	69,222	69,348
Temporary staff	11,580	10,215
Social security costs	5,465	5,425
Pension costs	4,275	3,935
Total	**90,542**	**88,923**

Further analysis of Directors' remuneration is included in note 28.

7. Investment income

	2019	2018
Interest income on investments	1,699	1,335

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8. Tax

	2019	2018
Current tax:		
UK corporation tax		
– Current period	–	(421)
– Adjustments in respect of previous periods	911	144
	911	**(277)**
Non-UK corporation tax		
– Current period	(1,066)	4,457
	(1,066)	**4,457**
Current tax credit/(charge) for the period	**(155)**	**4,180**
Deferred tax:		
Relating to the change in tax rates	318	(243)
Relating to origination and reversal of temporary differences	1,603	4,193
Adjustments recognized in the period for deferred tax of prior periods	(1,101)	408
Deferred tax credit/(charge) for the period	**820**	**4,358**
Total tax credit/(charge) for the period recognized in the income statement	**665**	**8,538**

Non-UK tax relates to USA and Japan.

Taxes are calculated at the substantively enacted tax rates applicable in the different jurisdictions that the Group operates.

The charge for the year can be reconciled to the profit per the profit and loss as follows:

	2019	2018
(Loss)/profit before tax	(28,945)	(27,042)
UK statutory tax rate	19%	19%
At UK statutory income tax rate credit/(cost)	5,500	5,138
Current tax affecting items:		
Permanent disallowable expenses and non-taxable income	(383)	(568)
Adjustments in respect of current income tax of previous periods	468	122
Deferred tax expense relating to changes in the tax rates	(340)	(233)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(687)	4,589
Deferred tax affecting items:		
Distribution income not taxable	764	409
Foreign exchange rate movement	218	558
Differences on which no deferred tax is recognized	(16)	(1,477)
Over provided deferred tax in prior years	(4,859)	-
Total tax credit/(charge) for the period	**665**	**8,538**

9. Intangible assets

	Assets in course of construction	Settlement Assets	Non-settlement Assets	Total
Cost				
Opening balance 1 January 2018	65,200	293,322	2,511	361,033
Additions	57,334	–	–	57,334
Transfers	(71,741)	62,485	9,256	–
Foreign exchange	–	–	–	–
Closing balance 31 December 2018	**50,793**	**355,807**	**11,767**	**418,367**
Additions	53,623	–	–	53,623
Transfers	(44,242)	39,946	4,296	–
Disposals	–	–	(2,511)	(2,511)
Closing balance 31 December 2019	**60,174**	**395,753**	**13,552**	**469,479**
Accumulated amortization				
Opening balance 1 January 2018	–	196,755	2,447	199,202
Charge for the year	–	21,431	1,484	22,915
Accelerated amortization of core settlement assets	–	17,605	–	17,605
Impairment during the year	–	13,136	–	13,136
Foreign exchange	–	–	2	2
Closing balance 31 December 2018	**–**	**248,927**	**3,933**	**252,860**
Charge for the year	–	27,166	2,592	29,758
Accelerated amortization of core settlement assets	–	16,727	–	16,727
Impairment during the year	–	–	4,800	4,800
Disposals	–	–	(2,511)	(2,511)
Closing balance 31 December 2019	**–**	**292,820**	**8,814**	**301,634**
Net book value				
31 December 2019	**60,174**	**102,933**	**4,738**	**167,845**
31 December 2018	50,793	106,880	7,834	165,507

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10. Property, plant and equipment

	Leasehold improvements	Computer equipment	Fixtures and fittings	Total
Cost				
Opening balance 1 January 2018	11,912	12,576	451	24,939
Additions	–	1,076	–	1,076
Disposals	–	–	–	–
Closing balance 31 December 2018	**11,912**	**13,652**	**451**	**26,015**
Additions	–	1,986	–	1,986
Disposals	–	–	–	–
Closing balance 31 December 2019	**11,912**	**15,638**	**451**	**28,001**
Accumulated depreciation				
Opening balance 1 January 2018	4,428	8,444	345	13,217
Charge for the year	1,480	2,013	18	3,511
Disposals	–	–	–	–
Closing balance 31 December 2018	**5,908**	**10,457**	**363**	**16,728**
Charge for the year	1,477	2,107	18	3,602
Disposals	–	–	–	–
Closing balance 31 December 2019	**7,385**	**12,564**	**381**	**20,330**
Net book value				
31 December 2019	**4,527**	**3,074**	**70**	**7,671**
31 December 2018	6,004	3,195	88	9,287

11. Right of use assets

	Property	Office Equipment	Total
Cost			
Opening balance 1 January 2019	–	–	–
Recognition of IFRS 16	8,987	579	9,566
Lease modification	601	–	601
Additions	–	66	66
Closing balance 31 December 2019	**9,588**	**645**	**10,233**
Accumulated depreciation			
Opening balance 1 January 2019	–	–	–
Charge for the year	3,035	168	3,203
Closing balance 31 December 2019	**3,035**	**168**	**3,203**
Net book value			
31 December 2019	**6,553**	**477**	**7,030**
31 December 2018	–	–	–

IFRS 16 Lease Accounting replaced IAS 17 Leases which was applied using the ‘modified approach’ from the 1 January 2019. This change has resulted in CLS bringing onto its balance sheet the assets which it has the right to use and depreciate over the estimated lease term. Lease liabilities (note 23) have also been recognized as the present value of any minimum lease payments.

Notes to the consolidated financial statements

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12. Subsidiaries

Details of investments in which the Group or the Company holds 50% or more of the nominal value of any class of share capital are as follows:

Name of company	Holding	Proportion of voting rights and shares held	Nature of business
CLS UK Intermediate Holdings Ltd. (incorporated in the UK)	Ordinary shares	100%	Provision of CLS Group corporate services
CLS Services Ltd. (incorporated in the UK)	Ordinary shares	100%	Provision of operational support of the CLS system
CLS Bank International (incorporated in the US)	Common stock	100%	Foreign exchange settlement risk and liquidity management
CLS US Services[1] (incorporated in the US)	Common stock	100%	Provision of operational support of the CLS system
CLS Processing Solutions Ltd.[1] (incorporated in the UK)	Ordinary shares	100%	Non-settlement products that CLS offers
CLS Assets UK Ltd.[1] (incorporated in the UK)	Ordinary shares	100%	Software and IP holding company which licences its assets to other CLS Group companies
CLS Aggregation Services LLC[2] (incorporated in the US)	Common units	51%	Aggregation of foreign exchange trades prior to settlement

CLS Bank International, CLS Services Ltd., CLS US Services, CLS Processing Solutions Ltd. and CLS Assets UK Ltd. are wholly-owned subsidiaries of CLS UK Intermediate Holdings Ltd.

CLS Aggregation Services LLC is a subsidiary, part owned by CLS Bank International (51%) and Traiana Inc., (a subsidiary of NEX PLC) (49%), a company incorporated in the US.

The following table summarizes information regarding CLS Aggregation Services LLC, before any group eliminations.

	2019	2018
Current assets	194	4,975
Current liabilities	(69)	(673)
Net assets	**125**	**4,302**
Carrying amount of NCI	**61**	**1,720**

[1]Not operational as at 31 December 2019.

[2]As at 30 November 2018 CLS Aggregation Services ceased trading and is classified as a discontinued operation.

	2019	2018
Revenue	–	6,990
(Loss)/profit	(54)	1,371
Other comprehensive income (OCI)	–	–
Total comprehensive income	**(54)**	**1,371**
(Loss)/profit allocated to NCI	**(27)**	**658**
OCI allocated to NCI	**–**	**–**
Cash flows from operating activities	(136)	2,563
Distribution paid	(4,593)	(1,137)
Net (decrease)/increase in cash and cash equivalents	**(4,729)**	**1,426**

13. Other investments

These include investments in equity which do not have a quoted price in an active market. As such, they are valued using different techniques in accordance with the Group's valuation policy:

	2019	2018
Investment in R3	3,120	3,120
Investment in SWIFT	285	311
Balance at 31 December 2019	**3,405**	**3,431**

Investment in R3 LLC

CLS UK Intermediate Holdings Ltd. held 27,790 shares in R3 at 31 December 2019 representing less than 2% of the entity's total share capital. This investment is not required to be accounted for under the equity method of accounting as the Company does not have significant influence. The investment is held on the Group balance sheet at FVTOCI in accordance with IFRS 9.

The shares do not have a quoted market price in an active market and therefore techniques used to value the investment have been used which are in line with the Group's valuation policy.

Balance at 31 December 2018	**3,120**
Acquisitions	–
FV movement	–
Foreign exchange movement	–
Balance at 31 December 2019	**3,120**

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Investment in SWIFT

CLS Bank International owns 66 shares in SWIFT which it purchased between April 2003 and April 2012. These shares were included in the balance sheet of the Group as an investment at a cost of EUR133,402. This investment is not required to be accounted for under the equity method of accounting as the Company does not have significant influence. The investment is held on the Group balance sheet at FVTOCI in accordance with IFRS 9.

The shares do not have a quoted market price in an active market and therefore techniques used to value the investment have been used which are in line with the Group's valuation policy.

Balance at 31 December 2018	**311**
FV movement	–
Foreign exchange movement	(26)
Balance at 31 December 2019	**285**

The fair value of the investment has been determined using the nominal value per share calculated annually and approved, by the board of SWIFT. The last available price determined in June 2019 was EUR 5,390 per share. The Group does not intend to dispose of this investment.

Every three years SWIFT reallocates its share capital to its members based on their proportion of usage of its service. If this results in a buy-back of shares from CLS Bank International, then these would be transferred at a price that is triennially determined by the Board of SWIFT.

14. Deferred tax asset and liabilities

	Asset/(liability) recognized on				
	Trading losses	**Tax depreciation**	**Accruals**	**Other**	**Total**
Balance at 1 January 2018	**–**	**(18,590)**	**1,139**	**584**	**(16,867)**
Foreign exchange movement	561	2,156	72	119	2,908
(Charge)/credit to income in the year	11,021	(10,903)	309	1,278	1,705
Balance at 31 December 2018	**11,582**	**(27,337)**	**1,520**	**1,981**	**(12,254)**
Foreign exchange movement	110	1,067	–	–	1,177
(Charge)/credit to income in the year	615	2,316	(1,520)	(1,895)	(484)
Balance at 31 December 2019	**12,307**	**(23,954)**	**–**	**86**	**(11,561)**

The above table shows the net deferred asset and liability posting at the year end.

15. Trade and other receivables

	At 31 December 2019	At 31 December 2018
Pre-payments and accrued income	15,428	17,358
Trade receivables	14,486	15,244
Other receivables	524	1,035
VAT recoverable	1,431	870
Total	**31,869**	**34,507**

16. Derivative financial instruments

The Group uses currency derivatives to mitigate exposure to significant foreign currency cash flows. For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedge is recognized initially in other comprehensive income, and then recycled to the income statement in the periods when the hedged item will affect profit or loss. Any ineffective portion of the gain or loss on the hedging instrument is recognized in the income statement immediately. Transactions relating to these hedging instruments are expected to be incurred in 2020 and early 2021.

At the balance sheet date, the Group had the following commitments to financial instruments used for risk management purposes.

	At 31 December 2019		At 31 December 2018	
	Notional contract amount	**Fair value £'000**	**Notional contract amount**	**Fair value £'000**
Forward foreign currency contracts not in hedging relationships	$10m	(257)	$10m	894
Forward foreign currency contracts in hedging relationships	$103m	(2,531)	$72m	3,875
Closing balance at 31 December	**$113m**	**(2,788)**	**$82m**	**4,769**

The maximum length of time over which the Group hedges exposure to the variability in future cash flows for forecast transactions is 18 months (2018: 18 months).

Gains and losses transferred from the cash flow hedging reserve to the income statement included a GBP3,400,628 gain (31 December 2018: GBP919 loss) transferred to administration and general expenses including taxation.

The amount is allocated as follows: Bonus expense GBP383,059 gain (31 December 2018: GBP1,534,000 gain); payroll expense GBP1,508,785 gain (31 December 2018: GBP1,226,000); supplier payments GBP1,508,785 gain (31 December 2018: GBP1,226,000). Hedge ineffectiveness was GBPnil (2018 GBPnil).

Further details of derivative financial instruments are provided in note 30.

17. Cash deposits

Cash deposits are amounts held in money market deposit accounts. All deposits mature within 12 months of the date of deposit.

18. Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term money market deposits held by the Group with a maturity of three months or less. The carrying amount of these assets approximates to their fair value because they are short-term in nature.

19. Investments at fair value

All investments held as FVTOCI are short-dated investment grade securities.

	At 31 December 2019	At 31 December 2018
Investments held as FVTOCI	123,636	128,289
Total	**123,636**	**128,289**

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20. Trade and other payables

	At 31 December 2019	At 31 December 2018
Accruals	(35,290)	(40,285)
Deferred income	(3,168)	(7,941)
Trade payables	(2,713)	(732)
Taxation and social security costs	(6,614)	(2,356)
Other payables	(2,479)	(5,105)
Payable to Founding Aggregation Participants of CLS Aggregation Services LLC	–	(461)
Total	**(50,264)**	**(56,880)**

Trade and other payables principally comprise accruals relating to trade purchases for the CLSSettlement system.

The Directors consider that the carrying amount of trade payables approximates to their fair value because they are short term in nature.

Under the terms of the Founding Aggregation Participants Agreement of CLS Aggregation Services LLC (CLSAS), CLSAS will pay to its Founding Aggregation Participants (FAPs) a 20% share of profit above a minimum threshold of accumulated profit. The FAPs are shareholders of CLS Group Holdings, AG.

21. Current tax assets/(liabilities)

	At 31 December 2019	At 31 December 2018
UK Corporation tax	–	–
US Federal tax	(3,366)	(3,704)
Total tax liabilities	**(3,366)**	**(3,704)**
UK Corporation tax	1,874	340
US City tax	601	1,397
US Federal tax	1,638	1,476
Total tax assets	**4,113**	**3,213**
Net tax assets	**747**	**(491)**

The Directors consider that the carrying amount of tax assets and tax liabilities approximates to their fair value because they are short-term in nature.

22. Other liabilities

	At 31 December 2019	At 31 December 2018
Deferred compensation	4,530	(7,043)
Total	**4,530**	**(7,043)**

Deferred compensation is recognized as employee services are received. It vests and is paid over a three-year-period.

23. Lease liabilities

	31 December 2019	At 31 December 2018
Lease liabilities – Office equipment	490	–
Lease liabilities – Property	6,173	–
Total lease liabilities	**6,663**	**–**

24. Share capital

Authorized	No. ordinary shares CHF1,400 each	Total nominal value CHF000
31 December 2019	**350,997**	**491,396**

Authorized	No. ordinary shares CHF1,400 each	Total nominal value CHF000
31 December 2018	350,997	491,396

Allotted and fully paid	No. ordinary shares CHF1,400 each	Total nominal value CHF000	Total Nominal value GBP000
31 December 2019	**288,514**	**403,920**	**202,582**

Allotted and fully paid	No. ordinary shares CHF1,400 each	Total nominal value CHF000	Total Nominal value GBP000
31 December 2018	288,514	403,920	202,582

CLS Group Holdings AG has one class of ordinary share which carries no right to fixed income.

CLS Group Holdings AG issued 13,543 Genussscheine certificates. Under IFRS 9, these are recognized as equity instruments and measured at fair value, which has been calculated to be immaterial. The holders of Genussscheine certificates are entitled to a pro rata share of a potential dividend and the right to receive a certain return on their investment in the event of liquidation. Based on the decision of the shareholders meeting 2 May 2017 (article 3b of the Articles of Association) and the resolution of the Board of Directors on 31 January 2018, the issued share capital was increased by CHF2,070,600 to CHF408,601,220 on 28 February 2018.

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25. Merger and consolidated reserves

a. CLS Group Holdings AG (CLS AG) was established in April 2002, as a new Swiss incorporated holding company of CLS Group. At the reorganization date, all existing institutional shareholders of CLS UK Intermediate Holdings Ltd. (CLS UK), the pre-reorganization UK incorporated holding entity of the CLS Group, were offered new shares in CLS AG in exchange for their existing shares in CLS UK.

b. The consolidated net assets of CLS UK at April 2002 (the reorganization date) were GBP105.6 million, represented by combined share capital and premium of GBP216.6 million and retained losses of GBP111.0 million.

c. The nominal value of the share capital offered by CLS AG in exchange for CLS UK was CHF236 million (GBP99.9 million).

d. Post reorganization, the consolidated net assets and retained losses of CLS AG remained the same, i.e. GBP105.6 million and GBP111.0 million creating a difference of GBP116.6 million. This difference is recorded as a merger and consolidated reserve for the Company.

The table below details this information.

	Pre-merger	Post-merger
As April 2002	CLS UK Intermediate Holdings Ltd	CLS Group Holdings AG
Share capital	205.6	99.9
Share premium	11.0	–
Merger and consolidation reserve	–	116.7
Retained losses	(111.0)	(111.0)
Total equity	**105.6**	**105.6**

	Merger reserve	Consolidated reserve	Total
Balance at 1 January and 31 December 2019	**5,686**	**110,945**	**116,631**

CLS Group has opted to utilize an exemption available under IFRS1 (First-Time Adoption of IFRS) in respect of not applying IFRS3 Business Combinations to the Group reconstruction which took place in 2002. Under this exemption, the Group can continue to show the reconstruction as a uniting of interests (i.e. as a merger) and need not retrospectively apply IFRS3.

26. Financial commitments

Financial commitments are defined as those items which are considered material and outside normal purchase commitments that are contracted for, but not provided for, at the balance sheet date.

Financial commitments are as follows:

	31 December 2019	31 December 2018
Contracted for but not provided for:		
– Services agreement	160,678	186,040
– Acquisition of intangibles	19,550	37,325
– Other	27,163	6,981
Total	**207,391**	**230,346**

27. Contingent liabilities

There are no contingent liabilities at 31 December 2019 (2018: nil).

28. Related party transactions

Related parties

No single shareholder has overall control as resolutions are generally taken by majority and operate under a one shareholder one vote system. At 31 December 2019, the largest individual shareholder had 4.8% (2018: 4.8%) of total share capital.

Related party transactions

Transactions between the Group and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The remuneration of the Directors of the Swiss holding company (CLS Group Holdings AG) is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. It includes the total emoluments for services payable by any Group company for the period that they were Directors of CLS Group Holdings AG.

	31 December 2019	31 December 2018
Short-term employee benefits	1,993	2,392
Total	1,993	**2,392**

The Founding Aggregation Participants of CLS Aggregation Services LLC are entitled to a 20% share of profits over a minimum accumulated threshold. These participants are shareholders of CLS Group AG.

29. Controlling party

In the opinion of the Directors there is no one controlling party of the Group. The Company accounts of CLS Group Holdings AG (a company incorporated in Switzerland) are available at its registered office c/o BDO AG, Landenbergstrasse 34, 6002 Lucerne, Switzerland.

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30. Treasury and capital risk management

The Group's principal financial instruments, other than derivatives, comprise cash and short-term deposits, investments trade receivables and trade payables, which represent the Group's maximum risk exposure to financial assets.

The Group's activities expose it to market risk (including currency risk and interest rate risk), credit risk, liquidity risk and capital risk. The Group uses foreign exchange forward contracts to hedge these exposures.

Treasury and capital risk management is carried out by the Finance division to reduce financial risk and to ensure sufficient liquidity is available to meet its operational needs and to invest in cash assets. Finance works closely with the all the CLS divisions to ensure its understanding of underlying business requirements. The Group's Treasury and Investment policy is approved by the Board and is reviewed by the AFC on an annual basis.

Details of significant accounting policies and methods adopted, including the criteria for recognition of financial instruments, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the consolidated financial statements.

1. Market risk

Market risk is the risk of loss of income or market value due to fluctuations in factors such as interest rates, foreign exchange rates, equity and commodity prices, or changes in volatility or correlations of such factors.

I. Foreign currency risk

The Group's foreign exchange risk is comprised of structural foreign exchange exposures from its overseas operations, primarily in the US and to a lesser extent in Switzerland, Japan and Hong Kong. To reduce exposure to currency fluctuations the Group has a policy which allows the purchasing of forward exchange contracts and applying cash flow hedge (see note 16) accounting or holding foreign currency short-term deposits when taking into account an analysis of the future currency forecasts.

II. Interest rate risk

Interest rate risk is the risk to earnings and capital arising from exposure to adverse movements in interest rates. The material sources of interest rate risk are repricing risk, yield curve risk, basis risk and optionality risk. The Group manages this risk by projecting future cash flows for short-, medium- and long-term planning. Separately, subject to normal operational requirements, the Group aims to optimize its returns from yields by entering into short-term investment positions with banks.

This exposes the Group to cash flow interest rate risk as cash and short-term deposits are affected by market rates.

2. Credit risk

Credit risk arises from the risk of loss of principal or income on the failure of an obligor or counterparty to meet their contractual obligations. The Group is exposed to low credit risk as cash and deposits are invested with banks with high credit ratings by the public rating agencies. Further, the Group has risk management limits in place to ensure there is no material counterparty concentration risk; the limits are assigned and monitored for adherence by the 2nd Line of Defense Risk Management team.

30. Treasury and capital risk management (continued)

3. Liquidity risk

The risk that the Group is unable to meet its contractual or contingent obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets. The Group maintains significant cash reserves and does not consider itself to be exposed to liquidity risk within its business.

4. Capital risk

The risk that the Group has an insufficient level or composition of capital to support its normal business activities and to meet its regulatory capital requirements under normal operating environments or stressed conditions (both actual and as defined for internal planning or regulatory testing purposes).

CLS has developed a Recovery and Orderly Wind-Down Plan, endorsed by the CLS Bank Board and CLS Group Board, in recognition that the failure of the Settlement Service could result in systemic disruptions in the financial markets. The CLS Recovery and Orderly Wind-Down Plan focuses on the continuity of the Settlement Service and CLSClearedFX during severe idiosyncratic and systemic stress events. Under this plan CLS Bank holds liquid net assets funded by equity at a sufficient level to cover the costs of recovery (LNAFE) following a significant loss and the subsequent orderly wind-down of the Settlement Service and CLSClearedFX. The amount of LNAFE is equal to six months of current operating expenses and is also sufficient to fund the recovery and orderly winddown of CLS Bank's business. Furthermore, CLS Group in aggregate holds an additional capital and liquidity buffer as approved by the CLS Group Board.

Fair value of financial assets and financial liabilities

Set out below is a comparison by category of book values and fair values of the Group's financial assets and financial liabilities:

	31 December 2019		31 December 2018	
	Book value	**Fair value**	**Book value**	**Fair value**
Financial assets				
1. Other investments	3,405	3,405	3,431	3,431
2. Loans and receivables:				
Trade and other receivables	31,869	31,869	34,194	34,194
3. Derivative financial instruments	–	–	4,769	4,769
4. FVTOCI investments	123,636	123,636	128,289	128,289
5. Deposits, cash and cash equivalents	71,531	71,531	102,585	102,585
Total financial assets	**230,441**	**230,441**	**273,268**	**273,268**
Financial liabilities				
6. Financial liabilities at amortized cost:				
Trade and other payables	(50,264)	(50,264)	(64,809)	(64,809)
7. Derivative financial instruments	(2,788)	(2,788)	–	–
8. Other liabilities	(4,530)	(4,530)	(7,039)	(7,039)
Total financial liabilities	**(57,582)**	**(57,582)**	**(71,848)**	**(71,848)**

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

30. Treasury and capital risk management (continued)

Fair value of financial assets and financial liabilities (continued)

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

CLS has one material investment categorized as level 3, which is the investment R3. Given the recent purchase of the asset, management have taken cost to be suitable proxy of fair value.

	Fair value hierarchy as at 31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial assets/(liability)				
Unquoted equities (Note 13)	–	–	3,405	3,405
FVTOCI investments	26,879	96,757	–	123,636
Derivative financial instruments	–	(2,788)	–	(2,788)
Amortized cost instruments			31,869	31,869

	Fair value hierarchy as at 31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial assets				
Unquoted equities (Note 13)	–	–	3,431	3,431
FVTOCI investments	122,804	5,485	–	128,289
Derivative financial instruments	–	4,769	–	4,769
Amortized cost instruments	–	–	34,194	34,194

30. Treasury and capital risk management (continued)

Fair value through profit and loss

Derivative financial instruments at fair value through profit or loss represent forward foreign currency contracts with a notional value of USD113 million (2018: USD82 million).

I. Interest rate risk profile

Set out below is an analysis of the interest risk profile of the Group's financial assets (excluding trade debtors and other receivables) by currency:

	Cash at bank*	Deposits less than 3 months	Quoted commercial paper investments	Total
As at 31 December 2019				
Pound sterling	18,252	27,500	123,636	169,388
US dollar	6,198	17,250	–	23,448
Swiss franc	1,948	–	–	1,948
Other currencies	383	–	–	383
Total deposits, cash and cash equivalents	**26,781**	**44,750**	**123,636**	**195,167**
Fixed rate assets	–	44,750	123,636	168,386
Floating rate assets	20,583	–	–	20,583
Balances for which no interest is paid	6,198	–	–	6,198
Total deposits, cash and cash equivalents	**26,781**	**44,750**	**123,636**	**195,167**
As at 31 December 2018				
Pound sterling	19,547	61,500	128,289	209,336
US dollar	3,134	15,927	–	19,061
Swiss franc	1,841	–	–	1,841
Other currencies	636	–	–	636
Total deposits, cash and cash equivalents	**25,158**	**77,427**	**128,289**	**230,874**
Fixed rate assets	–	77,427	128,289	205,716
Floating rate assets	22,024	–	–	22,024
Balances for which no interest is paid	3,134	–	–	3,134
Total deposits, cash and cash equivalents	**25,158**	**77,427**	**128,289**	**230,874**

The effective interest rate on the average daily closing balances is 0.82% (2018: 0.54%).

*Excluding cash held in the discontinued operation CLS Aggregation Services.

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30. Treasury and capital risk management (continued)

Fair value through profit and loss (continued)

II. Interest rate sensitivity on cash balances

At the date of reporting, if interest rates had been either:

- 15 basis points higher or lower and all other variables had been constant then the effective interest rates would have been 0.97% or 0.62% (2018: 0.69% or 0.39%). Profit for the year ending 31 December 2019 (assuming the same closing balance values for one year) would increase or decrease by GBP292k (2018: increase or decrease by GBP352k)
- 20 basis points higher or lower and all other variables had been constant then the effective interest rates would have been 1.02% or 0.62% (2018: 0.74% or 0.34%). Profit for the year ending 31 December 2019 (assuming the same closing balance values for one year) would increase or decrease by GBP398k (2018: increase or decrease by GBP470k).

III. Foreign currency sensitivity

The Group's main sensitivity to changes in exchange rates is on its bank balances and investments held in foreign currency in order to finance its overseas operations, particularly USD and CHF. In 2019, GBP strengthened 2.5% against the USD and strengthened 1.3% against the CHF. This led to an unrealized loss on exchange of GBP0.6 million (2018 GBP1.3 million unrealized gain) on GBP/USD and a loss of GBP25k (2018: GBP20k) on GBP/CHF respectively.

The following table details the gains that would have been made following a 25% weakening in GBP against CHF and USD from the year-end rate.

	At 31 December 2019	At 31 December 2018
US Dollar	7,142	9,596
Swiss Franc	624	3,067
Total	**7,766**	**12,663**

31. Capital management

The Group has processes and controls to monitor and manage its liquidity and capital to ensure that entities in the Group will be able to continue as going concerns. The liquidity structure of the Group consists cash, cash equivalents, deposits and FVTOCI investments (as described in notes 17, 18 and 19) and equity attributable to the equity holders of the parent, comprising issued capital, reserves and retained earnings as described in notes 24 to 25.

CLS Bank International (a wholly-owned subsidiary of CLS Group Holdings AG) is regulated by the Federal Reserve Bank of New York and is subject to its equity capital requirements. No breaches were reported to the regulator in either year.

The Executive Management Committee reviews the capital of the Group on a monthly basis as part of its stated objectives. It is additionally reviewed by the Board at least annually. These objectives ensure that the funding profile of the Group is managed effectively as a going concern and in compliance with supervisory targets. These targets were achieved in both the current and prior years.

32. Discontinued operations

The Group discontinued operations is its US subsidiary; CLS Aggregation Services LLC which ceased operating on the 30th November 2018. The company is expected to be dissolved in H1 2020.

The following table analyzes performance and position relating to the discontinued operations for the period from 1 January to 31 December 2019.

All amounts in GBP 000s unless otherwise stated.

Revenues	
Total revenues	–
Expenses	(86)
Total expenses	**(86)**
Loss before tax	(86)
Tax (charge)/credit for the period	32
Loss for the period	**(54)**
Assets	
Other debtors	117
Cash	77
Liabilities	
Accruals and other liabilities	(69)
Total net assets	**125**
Total equity	**125**

33. Post balance sheet events

Subsequent events were evaluated through to March 30, 2020 being the date that the financial statements were available for issue by the directors and signed on their behalf by the Chief Executive Officer and the Chairman. The following item was noted:

The Board of Directors and Management have assessed the impact of the ongoing COVID-19 situation on the group's business noting settlement activity has significantly increased in March 2020 compared to prior periods. Based on this assessment, significant impacts, if any, of these subsequent events on the group's liquidity, the valuation of its assets, the completeness of its liabilities and its ability to continue as a going concern until at least a year from the issuance of the financial statements for the year ended 31 December 2019 have been assessed as being not significantly material from a financial perspective based upon currently available information.

34. Standards issued but not yet adopted

Certain new standards, revisions and interpretations of existing standards have been published that have to be applied in future financial periods, but are not yet adopted by the Group. These changes are not expected to have any significant impact on the Group's consolidated financial statements.

Five year summary

Unaudited		2019	2018	2017	2016	2015
Revenue for the year	GBPm	207.8	206.1	197.5	201.2	195.6
Operating expenses (Reported basis)	GBPm	237.9	234.4	172.9	164.1*	152.0
(Loss)/profit from operations	GBPm	(30.2)	(28.4)	24.6	37.1*	43.6
Total (loss)/profit for the year (Reported basis)	GBPm	(28.3)	(18.5)	15.8	41.6*	30.2*
Total assets at year end	GBPm	417.7	457.7	469.3	459.9	406.2
Total equity	GBPm	338.1	376.0	389.1	380.1*	335.1*
Capital expenditure	GBPm	55.6	58.4	42.2	25.4	33.9
Daily average settled values	USDtr	5.9	5.9	5.2	4.8	4.8
Daily average billable volume	Number of sides	1,007,000	891,000	779,000	818,000	856,000
Average revenue per instruction	GBP	0.70	0.77	0.86	0.83	0.79
Daily average aggregation volumes	Number of sides	–	208,831	225,193	247,166	294,245
Average monthly number of employees in year	No.	387	374	341	343	341
Number of shareholders at year end	No.	79	79	80	79	78
Number of members at year end	No.					
Average revenue per USD million settled	GBP	0.12	0.12	0.13	0.14	0.14

*Numbers are on a restated basis.

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We don’t either.