trusted market solutions

CLS Group Holdings AG

Annual Report & Consolidated Accounts 31 December 2017

We help our clients navigate the changing marketplace – reducing risk and creating efficiencies. Our extensive network and deep market intelligence enable our specialists to lead the development of standardized solutions to real market problems.

Contents

Consolidated accounts

We are leveraging our collective insight into common market challenges to develop a broader range of forward-looking solutions that reduce risk and create efficiency.

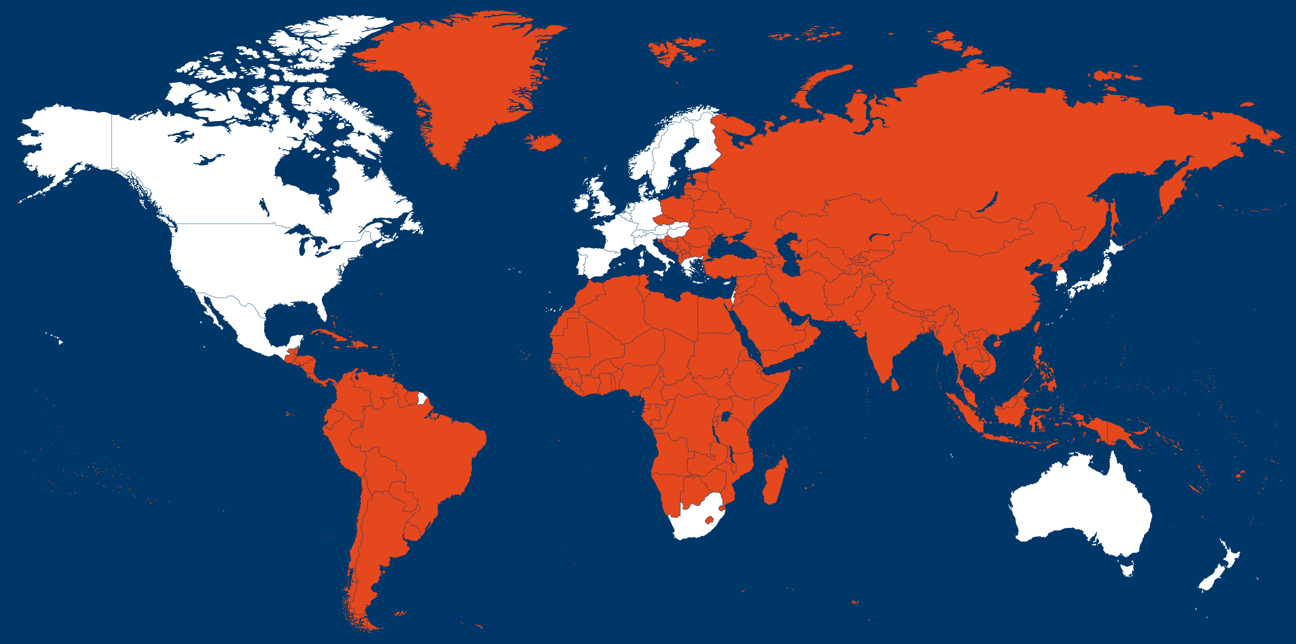
5.2
USD trillion
Daily average settled value

Members
67 settlement members

Growth 24,000+
third party clients

We're proud to be the world's leading provider of FX settlement services. Launching in 2002, we 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 60 of the world's most important financial institutions. With more than 24,000 third-party clients also using our services, we settle USD5.2 trillion of payment instructions on an average day.



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

24,000+ third-party clients

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

2017 results summary

The CLS Group – at a glance

		2017	2016
Revenue for the year	GBP million	**197.5**	201.2
Operating expenses	GBP million	**172.9**	164.1*
Profit from operations	GBP million	**24.6**	37.1*
Total profit for the year	GBP million	**15.8**	41.6*
Total assets at year end	GBP million	**469.3**	459.8
Total equity	GBP million	**389.1**	380.1*
Capital expenditure	GBP million	**42.2**	25.3

		2017	2016
Daily average settled value**	USD trillion	**5.2**	4.8
Daily average billable volume***	Number of sides	**779,000**	818,000
Average revenue per instruction	GBP	**0.86**	0.83
Average revenue per USD million settled	GBP	**0.13**	0.14
Peak value day (settled)	USD trillion	**12.0**	10.6
Peak volume day (settled)	Number of sides	**2,171,000**	2,621,000
Average monthly number of employees in year		**341**	343
Number of shareholders at year end		**80**	79
Number of settlement members at year end		**67**	66

42.2
GBP million
capital expenditure

469.3
GBP million
total assets at year end

* Numbers are on a restated basis.
** 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.

Our strategy

Core

Further strengthen the resilience and robustness of our core business through ongoing infrastructure investment and technological innovation

Optimization

Create an efficient, resourceful and cost-disciplined organization focused on sustainable returns through continuous improvement

Growth

Deliver excellence to clients through a suite of solutions in FX and beyond

People

Foster a client-focused culture that enables delivery of our strategy

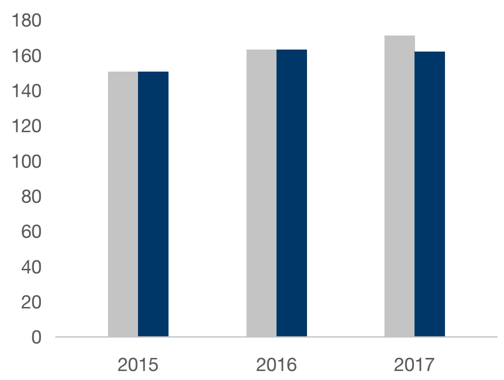
Regulation and control

Collaborate with regulators, central banks and the wider ecosystem to further reduce risk and enable efficiency across financial markets

Performance trends

Operating expenses

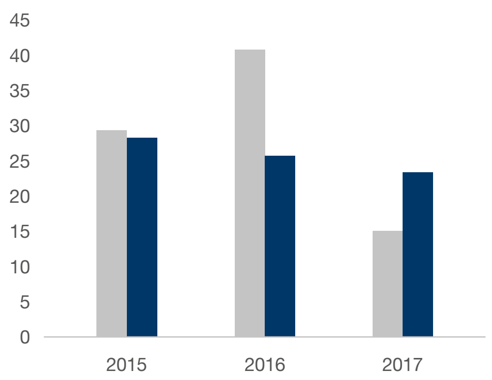
GBP
million



Reported expenses
Underlying expenses*

Profit attributable to CLS

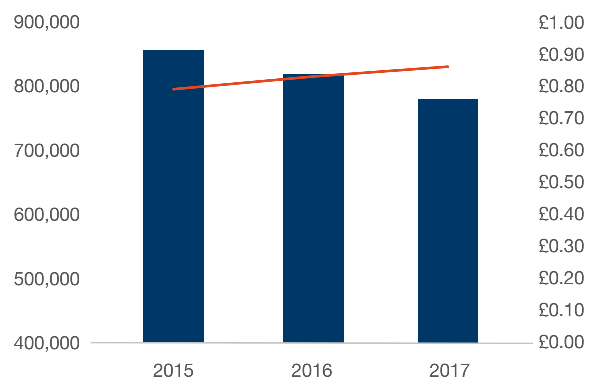
GBP
million



Reported profit
Underlying profit*

Average daily billable volumes

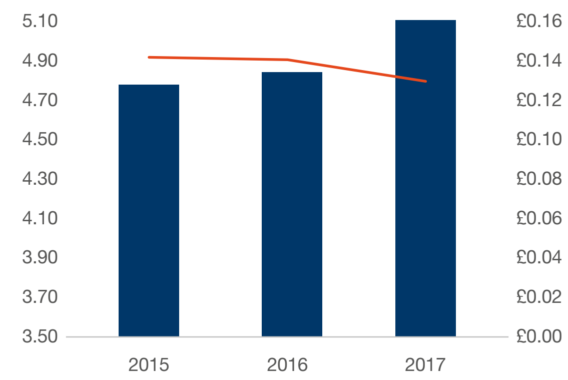
Instructions



Average daily billable volumes
Average revenue per instruction

Average daily settled value

Settled values
USD trillion



Average daily settled value
Average revenue per USDm settled

Revenue

Down 2% year-on-year to GBP198 million.

Operating expenses

There was a 5% increase in 2017 compared to 2016 as a result of spend on new initiatives.

Underlying costs decreased by 1% year-on-year.

Profit from operations

GBP24.6 million – decrease of 34% in 2017 compared to 2016.

Profit for the period

GBP15.8 million (2016 GBP41.6 million (restated basis)).

Input volumes

Daily average volumes in the core service decreased by 4.8% in 2017 compared to 2016.

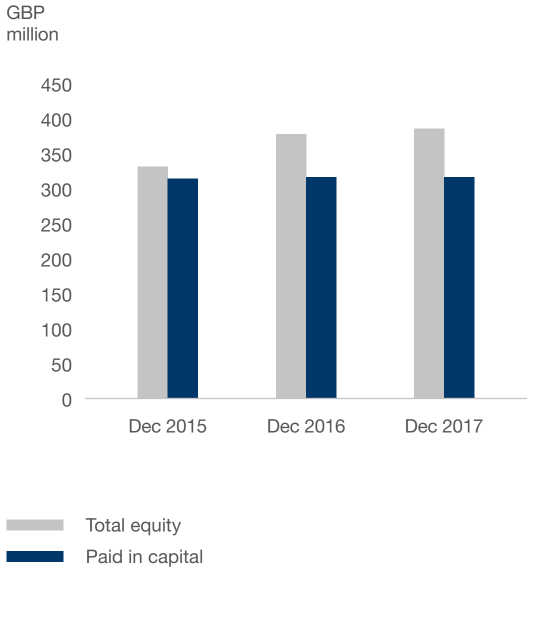
Settlement values

Average daily settled values reached USD5.2 trillion in 2017, an increase of 8.3% compared to 2016.

15.8
GBP million
total profit for the period

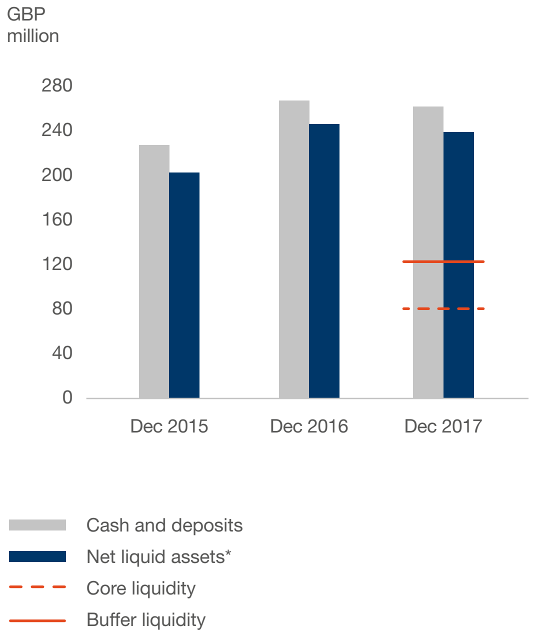
*Underlying is defined in the Chief Financial Officer's report on page 27.

Total equity and paid in capital

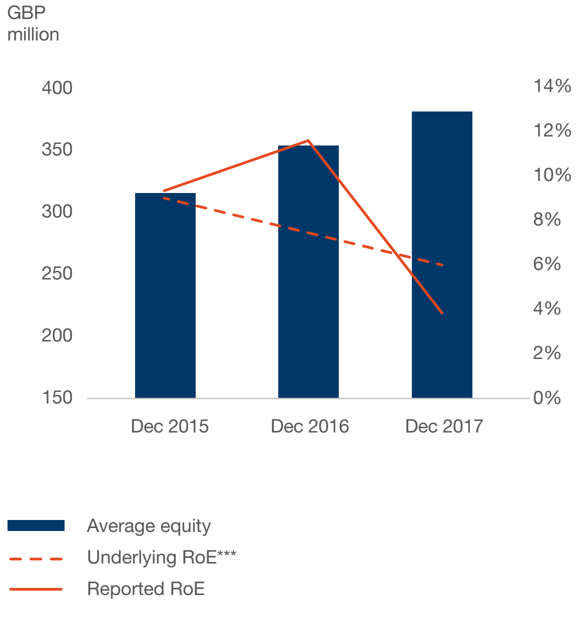


Investment in CLS system

Cash and deposits/net liquid assets*



Return on average equity (Pre NCI)**



Total equity and paid in capital

Total equity increased from GBP380.1 million (restated basis) at the end of 2016 to GBP389.1 million at the end of 2017.

CLS continues to be well capitalized with further strengthening of the balance sheet.

Investment in CLS system

Our investment in the CLS system continues to grow year-on-year.

Cash and deposits

Deposits, cash and cash equivalents were GBP261.7 million by the end of 2017.

Cash and deposits were down GBP5.6 million in 2017 compared to 2016.

Return on average equity

Underlying ROE of 6.0% in 2017 compared to 7.4% in 2016.

* Net liquid assets are calculated as net current assets less net current liabilities.
** NCI: Non Controlling Interest.
***Underlying ROE: excludes the P&L impact of US tax reforms, restatement of tax balances, the exploratory phases of new initiatives and matches FX gains on forward contracts with the corresponding USD cost in the same accounting period.

Highlights 2017

We lead

- triReduce CLS FX eliminates USD4 trillion in gross notional value in 2017 and wins 'Best New Technology Product – post trade' at the FOW International Awards
- CLS announces major new innovations for the FX market with a focus on settlement, processing and data services

We protect

- Absa Bank joins as 67th settlement member
- Nippon Life becomes first NBFI in Japan to settle currency trades via CLS
- CLS introduces alternative models for membership – affiliated and non-shareholder settlement memberships

We collaborate

- Fund management institutions can access CLSSettlement in Korea for the first time
- FX Global Code published and established a publish register
- CLS signs Statement of Commitment to FX Global Code

We deliver

- CLS Aggregation expands to support the aggregation of non-CLS currencies
- CLS extends payment netting service to over 125 currencies at go-live

Chairman's statement

Kenneth Harvey
Chairman

"2017 and 2018 are periods of significant investment in our growth initiatives."

CLS had a strong year. Our results met or exceeded our expectations. As we move into the third year of flat tariffs, our company produced considerable profit on modestly improved values.

The main settlement service (CLSSettlement) was delivered with the exceptional quality the market demands. We improved market share despite limited room for growth given our market position. Overall market FX volumes in our core currencies continued the low growth trajectory we have witnessed since the financial crisis.

We remain committed to strong capital resources in all our operating subsidiaries. Our internal levels of capital reserves are managed well in excess of any current or proposed regulation, which we believe is appropriate for a critical market utility.

As previously highlighted, 2017 and 2018 are periods of significant investment in our growth initiatives. Collectively, these growth initiatives will deliver a far more comprehensive FX post trade service. All of these services are designed to deliver enhanced risk, capital and liquidity management at a value you have come to expect. CLSNow, our same day gross PvP settlement service, will be the most innovative option added to CLSSettlement since the service went live. CLSNet, our bilateral payment netting service that targets non-CLS currencies, is currently in alpha testing. CLSClearedFX, a new service for cleared deliverable FX products, is in acceptance testing at two of the most innovative global clearing houses. Our FX data services products were launched in 2017 and have been well received. As these products come online, it is easy to envision the value delivered by our data services growing considerably.

We will experience a reduction in our net profit and ROE for several years as these solutions require considerable investment while building revenue. We are consciously launching new products at price points that reflect the scale we expect to achieve at margins appropriate for a financial market infrastructure. The adoption rate on new products in these critical areas is rightly subject to a rigorous business case and acceptance testing with each client.

197.5
GBP million
Revenue for the period

> “CLS is evolving to meet the challenges of the market and, as a critical market infrastructure, leading the development of trusted market solutions.”

Both the Board and Executive Management Committee believe the right approach is sustained investment in growth, while ensuring we balance this against the resource, investment and regulatory requirements of CLSSettlement so that it continues to deliver the high quality service our shareholders and settlement members expect. A representative example of this in practice is our legal entity review, where we are exploring the creation of a new organizational structure which ensures we deploy the right level of resource and capital investment to CLSSettlement, while also delivering on our commitment to release even more solutions that meet our clients' needs.

As Chairman I would also like to use this opportunity to thank our departing Board members, all three of whom have had long standing positions at CLS. Sir John Gieve, who has served as Chairman of the Risk Management Committee, Paul Riordan, who previously served as Chairman of the Nominating and Governance Committee and is currently Deputy Chairman of the Risk Management Committee, and David Hudson, who until recently served as the Chairman of the Technology and Operations Committee, will all retire in May 2018. All three individuals, as senior representatives of the wholesale financial market and CLS, have made invaluable contributions to the organization over many years. I thank them for their leadership and stewardship and wish them every success in their future endeavors.

CLS is evolving to meet the challenges of the market and, as a critical market infrastructure, leading the development of trusted market solutions. In 2017 we laid the foundations for an exciting new range of products. I confidently look to the Executive Management Committee with anticipation as we bring multiple products to market in 2018 that will make the trading process faster, easier, safer and more cost effective for the broadest number of market participants.

Kenneth M Harvey

Kenneth Harvey
Chairman of the Board

Chief Executive Officer's report

David Puth
Chief Executive Officer

"Recognizing the opportunity to deliver more for our clients, we advanced on our growth strategy to expand our product portfolio."

2017 was a year of great progress for CLS. Our clients continued to navigate the complexities of technological innovation, balance sheet management and cost control. In response, we remained committed to empowering their success by delivering products that meet their settlement, processing and data needs. The outlook across global markets, while positive, remains uncertain, and we at CLS continue to adapt.

As highlighted in our Interim Financial Report, 2017 was a pivotal year for CLS. Recognizing the opportunity to deliver more for our clients, we advanced on our growth strategy to expand our product portfolio. This in turn is opening up new opportunities to increase participation, with both the buy and sell-side. We continued to deliver this long-term investment program throughout 2017, focused on building the foundations required to deliver an enhanced product portfolio.

Balancing our clients' needs today with our plans for future product development is central to our long-term success. CLSSettlement remains at the heart of our strategy, and as we continue to deliver the secure and stable settlement service that our clients expect, we will build our business and product portfolio to meet their changing needs.

As the leading payment-versus-payment FX settlement service, CLSSettlement had a record year achieving both the highest value transaction day ever at USD12.0 trillion as well as an all-time high of average daily value of trades settled for the full year of USD5.2 trillion, an increase of 8% compared to the same period last year. While the average daily volume of transactions decreased by 5%, the overall underlying trend for CLSSettlement was one of robust performance, demonstrating the value of reduced risk, improved efficiency and the increased liquidity CLSSettlement provides to clients every day.

12.0
USD trillion
Peak value day (settled)

Innovation for results:
Our focus is on expanding our client base and building a broad portfolio of products and services

> “In 2017 CLS maintained a strong financial position with a focus on operational excellence and ongoing investment.”

Within the settlement space, we continued to work with central counterparties to facilitate the settlement of cleared products involving FX. CLSClearedFX will be open to multiple counterparties. It will apply to a range of FX products and cross currency swaps providing capital, margin, leverage, liquidity and operational benefits to industry participants. Subject to trialing and regulatory approval we expect counterparties to be using the service during 2018.

The development of CLSNow, our same day payment-versus-payment gross settlement service, has also made strong progress. This product has the potential to materially change how the FX market operates and to expand the same-day market through the exchange of liquidity across currencies with PvP settlement.

CLSNow will offer same-day settlement for trades on a gross basis during times when the opening times for both currencies' real time gross settlement systems overlap. We expect the service to go live within a year, again subject to trialing and regulatory approvals.

Within the processing product line, we are in the final stages of bringing CLSNet*, our distributed ledger technology-enabled bilateral netting service, to market. This is a significant milestone for the FX market overall. We will employ a phased approach to implementation, with participants having the option of submitting payments over existing SWIFT based channels, or connecting directly to a permissioned distributed ledger governed by CLS.

The Aggregation Service continued to perform steadily throughout the year. In June we announced that trade aggregation will now extend to the offshore Chinese renminbi, Russian ruble, Turkish lira and Polish zloty. Launched as a joint venture with NEX, the expansion of the service will provide operational efficiencies and risk mitigation benefits to a broader section of the market.

2017 was a year of sustained growth for the FX compression service – triReduce CLS FX. By 31 December, an additional six banks joined the service and nearly USD4 trillion in gross notional value was eliminated over the course of the year. This is a result of the network effect of increased interest by participants in terms of both participation and submission rates.

In addition, clients are now able to both compress trades and offset exposure with new trades where required. This enhancement has created additional value for clients, enabling significant risk reduction and effective management of leverage ratios. The success of the service and its contribution to the smooth and efficient running of the FX market was recognized when triReduce CLS FX won the 'Best New Technology Product – post trade' at the FOW International Awards at the end of 2017.

From a data perspective we continued to deliver new solutions and build our presence within the data community. We launched two new products – FX intraday spot volume, pricing and order flow data sets – and joined the Financial Information Services Association, a forum that has been serving the industry for over 25 years.

We will continue to use our data to support our clients' reporting requirements and provide the insight they need to improve trading strategies and decision-making regarding FX risk management.

* New product launches subject to regulatory approval.

Participation expansion

We remain focused on developing our relationships across both the buy and sell-side. The Sales team's efforts to increase third-party participation continues at pace with over 24,000 third parties now accessing CLSSettlement. Notably, following the launch of our affiliate membership category last year, we already have four letters of intent to join using the new category, and we expect the affiliate members to be fully on board in 2018. As we continue to develop new products and services, we anticipate a further increase in, and diversification of, our client base.

Investment in the future

The successful delivery of CLSSettlement remains at the core of our strategy and is the enabler to the delivery of our ambitious growth plan. This is most evident in the continuous investment we have made over the years to ensure we deliver the robust and resilient service you have come to expect.

Given the importance of CLSSettlement, we are now planning the delivery of a program to migrate the service to a best-in-class, multi-session capable technology platform, consistent with that which is required of a Systemically Important Financial Market Infrastructure. The Unified Services Platform, or USP, will form the foundation for our future enhanced product portfolio.

All of this aligns with our broader growth strategy, where we have deployed a proportion of our available capital to invest in new products.

The investments we are making are essential in ensuring a strong financial position and, longterm, a sustainable future for CLS. I am exceedingly proud of the progress that we have made at CLS in 2017 and equally confident in the plan that we have for future growth. I thank you, our shareholders and our clients, as I thank our exceptional team for the support that you have provided to enable the continued evolution of the company.

David Puth
Chief Executive Officer

Chief Financial Officer's report

Trevor Suarez
Chief Financial Officer

"...we continue to hold capital well in excess of minimum regulatory requirements."

6.0%
underlying ROE

From a financial perspective, our results for 2017 represent another year of robust underlying profitability complemented by investment in our infrastructure and in new growth initiatives.

The 2017 reported profit after tax of GBP16 million, which compares unfavorably to GBP42 million in 2016, due to a large year-on-year movement arising from a restatement of our 2016 results. Further details are disclosed in note 30 of the financial statements, and reflect a revaluation of our US deferred tax balances, which under International Financial Reporting Standards (IFRS) requires a different GBP:USD exchange rate and method to be used than adopted in previous years. This has materially increased profits in 2016, which were largely reversed in 2017, due to the movement in exchange rates.

Our results are better assessed on an 'underlying' basis, as a more comparable measure of relative performance. Underlying profit excludes the cost of the exploratory phases of new initiatives and the net P&L impact arising from the recent US tax reforms which offset the impact of the restatement. It also adjusts for mark to market ('MTM') gains on forward FX contracts reported in 2016, but relating to the hedging of 2017 USD expenditure.

The positive impact of US tax reforms noted arises from the revaluation of our USD denominated deferred tax liabilities. Though this is one-off in nature, we anticipate a small recurring P&L benefit each year due to a reduction in US federal tax rates.

On this underlying basis, 2017 profit of GBP23 million is robust, slightly down year-on-year compared to 2016 (GBP26 million). Underlying expenses are similar year-on-year, while Return on Equity (ROE) at 6.0% vs. 7.4% in 2016, is in line with our expectations, and reflects our investment decisions.

Operating performance

Business activity for CLSSettlement in 2017 saw a significant increase in average daily billable values of 8% year-on-year. In volume terms, represented by average daily billable instructions received, we experienced a 5% decrease year-on-year. Likewise the Aggregation business saw average daily instructions decrease by 9%, compared to 2016. We consistently monitor our business activity relative to other market sources, which indicates that trends experienced by CLS are similar to the rest of the market. Due to this lower volume, revenues in 2017 were marginally down compared to the prior year.

“In 2018, we will continue to develop and strengthen our infrastructure and product propostition, leveraging our robust financial foundation as we invest a proportion of our capital to protect and develop shareholder value.”

As communicated to our members in the latter part of last year, I am pleased to state that our tariff charges will once again remain unchanged in 2018. This will be the third year running in which we will maintain flat pricing for settlement members, while delivering on all of our financial goals. In addition, we continued to progress our strategic growth program through the development of new products and services, and maintain ongoing investment in the CLSSettlement infrastructure.

Balance sheet and capital expenditure

Our balance sheet remains strong with net assets of GBP389 million, an increase of GBP9 million compared to 31 December 2016, and we continue to hold capital well in excess of minimum regulatory requirements. In contrast to prior years cash and deposits decreased by GBP6 million, which reflects the significant capital expenditure required to support mandatory infrastructure changes and planned investment to support our growth objectives.

Outlook

In 2018, we will continue to develop and strengthen our infrastructure and product proposition, leveraging our robust financial foundation as we invest a proportion of our capital to protect and develop shareholder value.

As a result of this investment we will use absolute profit as our lead financial measure of financial strength, and will continue to monitor ROE. Given one-off distorting impacts, we will also continue to evaluate our financial results on both a reported statutory basis and an underlying basis as more comparable measures.

Overall, in 2017 we maintained a strong financial position with a focus on operational excellence and ongoing investment. We will continue this strategy for the benefit of both new and existing clients and shareholders.

Trevor Suarez
Chief Financial Officer

Directors' report

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 2017. 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 NEX Traiana Inc. provides the Group's aggregation services). 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 profit after interest and tax of GBP15.8 million, compared to GBP41.6 million as restated in 2016. Net assets of GBP389 million showed an increase of GBP9 million compared to 2016.

No dividend is recommended for the year (2016: GBP nil).

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 2018 budget year and long-term business plans, that sufficient funds will be available in the business for the foreseeable future.

Strategy

In 2017 CLS continued to expand its business by adding a new settlement member and further increasing third party activity. We also identified significant areas of opportunity for CLS to provide a broader range of post-trade services to global financial markets. This new strategy will use our efforts to date as a foundation to expand our reach far beyond core FX settlement, including trade processing and data analytics services.

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.

An appropriate set of risk metrics, the Risk Appetite Statement and various risk policies were reviewed by the Risk Management Committee and approved by the Board, which also receives a quarterly risk report from the Chief Risk Officer with the agreed metrics.

> "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."

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 Martin Ingell, has direct access to the Chairman Kenneth Harvey and to the AFC. 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 external auditor of the Group and reviews the findings of the external 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 45. 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 8, 2018.

By order of the Board.

Kenneth Harvey
CLS Group Holdings AG
Chairman
29 March 2018

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. 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[1] available on the Group's website.

[1]See Principle 2: Governance of the CLS Disclosure Framework related to the PFMIs published in 2014 by the Committee on Payment and Market Infrastructures and the Technical Committee of the International Organization of Securities Commissions (CPMI-IOSCO).

Governance statement

> "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."

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 eight meetings in 2017, 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 2017, the Board was comprised of 23 Directors. CLS shareholder institutions are represented by 17 Directors, with five Outside Directors[2] and the CEO serving as the single Executive Director.

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 both the Audit and Finance Committee and the Risk Management Committee must be 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. Given the complex business relationships, global constituents, regulatory requirements and responsibilities related to its position as a FMI, the size of the Board is deemed satisfactory, as it provides robust resources and the appropriate skillsets to ensure the Board fulfills its oversight responsibilities.

[2]An Outside Director is a Non-Executive Director with no current link to the management of the CLS Group or its shareholders.

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 Chairman and Outside Directors:

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 USD550,000 (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 USD180,000 (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 is charged with (i) overseeing CLS controls; both its Internal Audit division and the relationship with the external 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.

Board Strategy Committee

While the responsibility for the Group's strategic vision and its implementation lies with the Board, the Board Strategy Committee 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.

Governance statement (continued)

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 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 Committee oversees the board and committee self-evaluation, director induction and education.

Risk Management Committee

The Risk Management Committee 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 Risk Management Committee also assists the Board in (i) setting the risk appetite of the Group and (ii) the proper oversight of the risk management function of CLS Bank International.

Technology and Operations Committee

The Technology and Operations Committee oversees the technology and operational aspects of the CLS settlement service, including strategic or significant enhancements or modifications to the CLS core system and support systems. The Technology and Operations Committee also supports and guides the management of strategic technology relationships, including CLS core platforms, contingency policies and procedures. The Committee shares oversight of cybersecurity with the Risk Management Committee.

CLS Group Subsidiaries

CLS Group Holdings AG, a Swiss corporation, is the parent holding company for the Group and is owned by 80 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 NEX Traiana Inc. provides the Group's aggregation services. 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 fulfill 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.

CLS Group Holdings Board and Committee Composition 2017

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 2017	13	8	3	8	8	8	8
*Kenneth Harvey (Chairman)	• Chair		•	• Chair	• (3)		•
Rick Sears (Deputy Chair)	• Deputy Chair		• (3)	•	•		
Vidya Bittianda (5)	• (5)					• (5)	
Frederic Boillereau (4)	• (4)		• (4)			• (4)	
Mirco Brisighelli (3)	• (3)	• (3)				• (3)	
Jennifer Buonopane	•						•
John Davidson (3)	• (3)		• (3)			• (3)	
David Gary (5)	• (5)					• (5)	
*Sir John Gieve	•		• (3)	•		• Chair	
Gerard Gil (2)	• (2)	• (2)					
Peter Healey	•	•					• (3)
Akira Hoshino (5)	• (5)					• (5)	
David Hudson	•			• (7)			• Chair (8)
Hirochika Iwadare (3)	• (3)		• (3)				
Dominique Le Masson (5)	• (5)		• (5)				
Ericka Leslie	•	• (3)	• (6)	• (10)			• Chair (9)
*Gilbert Lichter	•	•			•	• (3)	
Gillian Lungley	•						•
Bruce MacLaren (3)	• (3)	• (3)				• (3)	
*Bruce Nolop	•	• Chair		•			
*Bryan Osmar (5)	• (5)					• (5)	
David Puth (CEO)	•		•	•			
Paul Riordan	•			• (3)	• Chair (3)	•	
William Stenning (5)	• (5)		• (5)				
Leslie Tay (1)	• (1)					• (1)	
Fabrizio Tallei (5)	• (5)	• (5)					
David Thomas (5)	• (5)						• (5)
Jason Vitale	•		• Chair	•	•		
Sara Wardell-Smith	•			• (5)	• Chair (5)		
Ronnie Yam (5)	• (5)	• (5)					

• Denotes Board/Committee membership

Asterisk (*) indicates Outside (Independent) Director
(1) Resigned 2 April 2017
(2) Resigned 31 March 2017
(3) Resigned 2 May 2017
(4) Resigned 7 February 2017
(5) Elected 2 May 2017
(6) Resigned 14 September 2017
(7) Resigned 14 September 2017
(8) Resigned as Chairman but remained on Committee 14 September 2017
(9) Elected Chairman 14 September 2017
(10) Elected 14 September 2017

Regulatory developments

> "In all aspects of our regulatory engagement, we emphasize our unique and critical role in mitigating settlement risk for the FX market."

We seek to proactively engage on regulatory and legislative developments in multiple jurisdictions, including participating in industry dialog on key issues and submitting comments in response to relevant consultation papers. In all aspects of our regulatory engagement, we emphasize our unique and critical role in mitigating settlement risk for the FX market. Over the past year, we have been particularly focused on the evolving regulatory standards for cybersecurity and emerging technologies, as well as the development of effective cross-border recovery and resolution regimes and jurisdiction-specific requirements for FMIs (including requirements potentially impacted by the UK's forthcoming exit from the European Union).

Regulatory engagement on emerging issues and innovative financial technology

We have been actively engaging with regulators, vendors, banks, and other FMIs on cybersecurity and cyber risk. Over the past year, this included informal discussions and assessments of new and evolving regulatory requirements, as well as formal comments in response to newly proposed standards. Specifically, in response to the US federal agencies' joint advance notice of proposed rulemaking (ANPR) on enhanced cyber risk management standards, we emphasized the need for a flexible, risk-based approach, in line with existing regulatory guidance and requirements in the US, as well as globally. According to the ANPR, the US agencies plan to develop more detailed proposals, which will be issued for further feedback and comment before they are finalized. Similarly, our response to the Committee on Payments and Market Infrastructure's (CPMI) proposal for a strategy to reduce the risk of wholesale payments fraud related to endpoint security underscored the importance of a principles-based approach that complements existing guidance, and explained that prescriptive requirements were neither feasible nor appropriate given the unique characteristics, functions, and capabilities of the various payment systems and messaging networks. The CPMI plans to issue additional guidance to operationalize its proposed strategy in 2018.

We continued to engage with authorities and RTGS operators in several jurisdictions in connection with their ongoing initiatives to develop next generation services in light of evolving technological capabilities. We have also been engaging with regulators, members, and other industry-participants on the regulatory aspects of new and emerging technology.

During the year, we organized and attended a meeting of the FMI Working Group, established in collaboration with several European FMIs to discuss important issues of mutual concern. We also participated in monthly meetings of the Post-Trade Distributed Ledger (PTDL) Group, a newly created international organization intended to foster collaboration between FMIs, financial institutions, regulatory authorities, and central banks in pursuit of improving understanding of, and assessing and recommending appropriate regulatory standards and frameworks for, the use of DLT in the post-trade sector. In 2018, we plan to continue our proactive engagement with other FMIs, financial institutions, and the greater ecosystem through these forums. In particular, we will coordinate with UK-designated FMIs to discuss shared legal concerns relating to Brexit.

Jurisdiction-specific engagement on regulatory requirements for FMIs

Over the past year, we have been actively engaged on evolving jurisdiction-specific regulatory requirements for FMIs, via both informal engagement and formal comment letters.

Given our unique position as an international FMI, our jurisdiction-specific engagement focused on applicability of specific standards and regulations in a cross-border context. This is particularly true where jurisdiction-specific requirements could be duplicative given the unique nature of our cooperative oversight arrangements under the CLS Oversight Committee (OC).

For example, our comments in response to the Bank of England's (BoE) consultation on levying fees for FMI supervision acknowledged the BoE's authority to levy such fees, but cautioned that in doing so, the BoE would set a precedent amongst other central banks which, in turn, could result in a significant financial burden adversely impacting an FMI's ability to mitigate systemic risk. Accordingly, we recommended an exemption for FMIs subject to international cooperative oversight arrangements that include the BoE.

Continuing to proactively engage with global standard-setting bodies as well as individual regulatory authorities on efforts to develop effective cross-border recovery and resolution regimes

We continued to monitor and engage on recovery and resolution related developments with the strong view that resolution authorities, and FMIs themselves, should strive to maximize the likelihood that an entity subject to resolution (or its successor entity) continue to participate in FMIs so long as this does not compromise safe and orderly FMI operations. We firmly believe that providing FMIs with advance notice of resolution action is critical for maximizing the likelihood of continued participation.

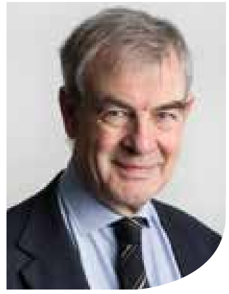
At a global level, we continued to engage with the Financial Stability Board (FSB) on implementation of the Key Attributes as applicable to FMIs. We submitted comments in response to the FSB's consultative report on continuity of access to FMIs for firms in resolution and attended an FSB industry roundtable in Basel to discuss the consultation in detail. We are in the process of updating our Member Resolution Playbook to reflect the FSB's final guidance that was issued in July, in addition to a related Member Checklist.

In Hong Kong, we continued to engage with regulatory authorities as they finalized a new cross-sectoral resolution regime covering financial institutions as well as FMIs. Our engagement focused on specific issues related to FMI resolution, including cooperation and coordination with an FMI's primary regulator, as well as comments requesting clarification on the relationship between the new resolution-related legislation and existing finality legislation.

Board of Directors

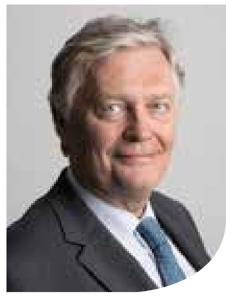
Kenneth Harvey

Originally elected December 2011
Affiliation Outside Director
Role Chairman of the Board (formerly Chief Technology & Services Officer, HSBC plc)



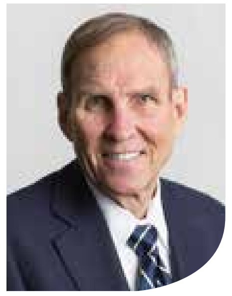
Sir John Gieve

Originally elected December 2011
Affiliation Outside Director
Role Former Deputy Governor – Financial Stability, Bank of England



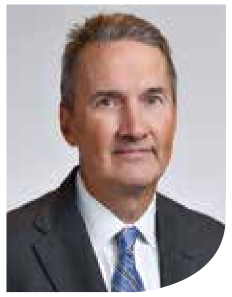
Gilbert Lichter

Originally elected November 2014 (with term beginning 1 January 2015)
Affiliation Outside Director
Role Formerly 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

Jennifer Buonopane

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

Vidya Bittianda

Originally elected May 2017
Affiliation ANZ Banking Group Limited
Role Group General Manager – Risk Metrics

David Gary

Originally elected May 2017
Affiliation Deutsche Bank
Role Managing Director – Global Head of Non-Market Risk for FX Business

Peter Healey

Originally elected April 2015
Affiliation UBS
Role Managing Director, Global Head of IB Macro & CRA, Group Internal Audit

Akira Hoshino

Originally elected May 2017
Affiliation The Bank of Tokyo – Mitsubishi UFJ
Role Senior Fellow & General Manager, Global Markets Trading Division

David Hudson

Originally elected April 2013
Affiliation JP Morgan Chase
Role Global Head of Markets Execution

Dominique Le Masson

Originally elected May 2017
Affiliation BNP Paribas Group
Role Senior Coordinator for European Market Infrastructures

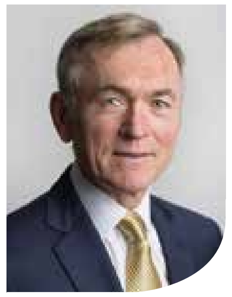
Board of Directors

Ericka Leslie

Originally elected April 2015
Affiliation Goldman Sachs
Role Global Head of Capital Markets Operations

Gillian Lungley

Originally elected April 2016
Affiliation Credit Suisse
Role Managing Director, IT and Operations, Global Head of Trade Validation, Derivatives Clearing, Asset Protection



David Puth

Originally elected November 2012
Affiliation CLS Group
Role Chief Executive Officer

Paul Riordan

Originally elected April 2009
Affiliation National Australia Bank Ltd.
Role Executive General Manager Enterprise Risk & Chief Credit Officer

Rick Sears

Originally elected May 2011
Affiliation Barclays
Role Managing Director and Business Manager – Macro

William Stenning

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

Fabrizio Tallei

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

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 Chief Operating Officer, Foreign Exchange & Head of Client Execution Services

Sara Wardell-Smith

Originally elected April 2016
Affiliation Wells Fargo N.A.
Role Executive Vice President, Head of Americas – Financial Institutions Group

Ronnie Yam

Originally elected May 2017
Affiliation United Overseas Bank Ltd
Role Regional Chief Financial Officer, Managing Director

Directors resigned January 2017 – May 2017

Frederic Boillereau
Resigned February 7, 2017

Mirco Brisighelli
Resigned May 2, 2017

John Davidson
Resigned May 2, 2017

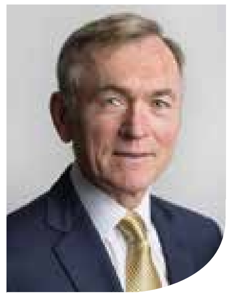
Gérard Gil
Resigned March 31, 2017

Hirochika Iwadare
Resigned May 2, 2017

Bruce MacLaren
Resigned May 2, 2017

Leslie Tay
Resigned April 2, 2017

Executive Management Committee



David Puth

Chief Executive Officer

Michele Fleming

Chief Compliance Officer

John Hagon

Chief Operations Officer

Kathryn Herrington

Chief Human Resources and Communications Officer

Rachael Hoey

Head of Asia

Martin Ingell

Chief Internal Auditor

Dino Kos

Chief Regulatory Officer

Alan Marquard

Chief Strategy and Development Officer

Naresh Nagia

Chief Risk Officer

Trevor Suarez

Chief Financial Officer

Tom Zschach

Chief Information Officer

Gaynor Wood

General Counsel

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

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 statement of financial position as at December 31, 2017 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2017, 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

- **Uncertain tax positions**
- **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.

Uncertain tax positions

Key Audit Matter

The Group reported a tax charge of GBP9.8 million for year-ended 31 December 2017 and had tax liabilities of GBP8.7 million as at the year-end.

We regard much of the Group's taxation calculation of these income statement and balance sheet amounts as routine and posing a low risk from a misstatement perspective. However, certain aspects of the Group's tax calculation involve judgement and estimation in relation to recognition and measurement of taxation provisions. In particular, the Group carries several provisions in respect of uncertain tax positions in its US trading subsidiary.

Our response

Our audit procedures included, amongst others:

- Using our tax specialists to assess the appropriateness of the Group's approach to accounting for income taxes, including evaluation the current and deferred income tax charges and balances reported.
- Using our tax specialists to assess the Group's approach to provisioning for uncertain tax positions in the US trading subsidiary, and challenging management's assessment using our knowledge of the business, past performance and tax filings.
- Challenging the appropriateness and validity of tax strategies and arrangements to the determination of the tax charge.
- Assessing the completeness and accuracy of the disclosures made in the financial statements, including the presentation of tax provisions between current and deferred.

For further information on uncertain tax positions refer to the following:

- Note 2. Significant accounting policies, H. Taxation
- Note 3. Critical accounting judgements and key sources of estimation uncertainty
- Note 8 and 13 to the consolidated financial statements

Intangible assets

Key Audit Matter

The Group reported intangible assets of GBP161.8 million as at 31 December 2017. Of this amount, GBP65.2 million was reported as being in the course of construction and thus not subject to amortization.

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 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

Our audit procedures included, amongst others:

- Testing the design, implementation, and operating effectiveness of controls over the capitalisation of expenditures into assets under 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 judgements and key sources of estimation uncertainty
- Note 9 to the consolidated financial statements

Statutory Auditor's Report (continued)

To the General Meeting of CLS Group Holdings AG, Lucerne

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 standalone financial statements of the Company and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information 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 and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, 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 management 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 by management.
- 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 Company'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 to 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 paragraph 1 item 3 CO and 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

Christoph Gröbli	Simon Ryder
Licensed Audit Expert Auditor in Charge	Licensed Audit Expert

Zurich, Switzerland
29 March 2018

Consolidated accounts

Consolidated statement of profit or loss

For the year ended 31 December 2017 (All amounts stated in GBP000)

	Notes	2017	2016 Restated*
Revenue	4	**197,528**	**201,170**
Operating expenses		(172,898)	(164,095)
Profit from operations	5	**24,630**	**37,075**
Investment income	7	886	983
Profit before tax		**25,516**	**38,058**
Tax (charge)/credit for the period	8	(9,764)	3,541
Profit for the period		**15,752**	**41,599**
Attributable to:			
Equity holders of parent		15,193	40,901
Non-controlling interests	11	559	698
Profit for the period		**15,752**	**41,599**

All of the above relates to continuing operations.

Notes from pages 60 to 95 form part of these consolidated financial statements.

*See note 30 for details regarding the restatement.

Consolidated statement of comprehensive income

For the year ended 31 December 2017 (All amounts stated in GBP000)

	Notes	2017	2016 Restated*
Profit for the period		15,752	41,599
Net gains/(losses) from changes in fair value			
Net losses transferred to net profit			
Exchange differences on translation of foreign operations		(767)	1,328
Exchange rate movements taken to the cash flow hedge reserve	15	(3,027)	–
Total comprehensive income		**11,958**	**42,927**
Attributable to:			
Equity holders of parent		11,757	41,589
Non-controlling interests		201	1,338
Total comprehensive income		**11,958**	**42,927**

*See note 30 for details regarding the restatement.

Consolidated statement of financial position

At 31 December 2017 (All amounts stated in GBP000)

	Notes	31 December 2017	31 December 2016 Restated*
Non-current assets			
Intangible assets	9	161,831	143,069
Property, plant and equipment	10	11,722	10,878
Available for sale investments	12	117	114
Deferred tax asset	13	2,092	2,658
		175,762	**156,719**
Current assets			
Trade and other receivables	14	31,848	26,020
Current tax assets	19	–	2,460
Derivative financial instruments	15	–	7,360
Cash deposits	16	229,128	77,920
Cash and cash equivalents	17	32,539	189,367
		293,515	**303,127**
Total assets		**469,277**	**459,846**
Current liabilities			
Trade and other payables	18	(41,987)	(43,780)
Current tax liabilities	19	(8,669)	(9,434)
Derivative financial instruments		(3,830)	
		(54,486)	**(53,214)**
Net current assets		**239,029**	**249,913**
Non-current liabilities			
Other liabilities	20	(6,702)	(4,893)
Deferred tax liabilities	13	(18,959)	(21,642)
		(25,661)	**(26,535)**
Total liabilities		**(80,147)**	**(79,749)**
Net assets		**389,130**	**380,097**

Notes from pages 60 to 95 form part of these consolidated financial statements.

	Notes	31 December 2017	31 December 2016 Restated*
Equity			
Share capital	21	204,577	204,577
Share premium account		115,287	115,287
Combined merger and consolidated reserves	22	116,631	116,631
Translation reserves		507	916
Cash flow hedge reserve	15	(3,027)	
Retained losses		(46,468)	(61,661)
Equity attributable to equity holders of the parent		**387,507**	**375,750**
Non-controlling interests	11	1,623	4,347
Total equity		**389,130**	**380,097**

The consolidated financial statements were approved by the Board of Directors on 29 March 2018 and signed on its behalf by

David Puth

Chief Executive Officer

29 March 2018

*See note 30 for details regarding the restatement.

*See note 30 for details regarding the restatement.

Consolidated statement of changes in equity

For the year ended 31 December 2017 (All amounts stated in GBP000)

	Notes	Share capital	Share premium	Combined merger and consolidated reserves	Translation reserves	Cash flow hedge reserve	Retained earnings*	Total equity attributable to parent*	Non-controlling interests	Total equity*
Balance at 1 January 2016	30	**203,114**	**114,667**	**116,631**	**228**	**–**	**(102,562)**	**332,078**	**3,009**	**335,087**
Issue of shares		1,463	620	–	–	–	–	2,083	–	2,083
Profit for the year		–	–	–	–	–	40,901	40,901	698	41,599
Other comprehensive income		–	–	–	688	–	–	688	640	1,328
Balance at 31 December 2016	30	**204,577**	**115,287**	**116,631**	**916**	**–**	**(61,661)**	**375,750**	**4,347**	**380,097**
Issue of shares		–	–	–	–	–	–	–	–	–
Profit for the year		–	–	–	–	–	15,193	15,193	559	15,752
Dividend: non-controlling interest		–	–	–	–	–	–	–	(2,925)	(2,925)
Other comprehensive income		–	–	–	(409)	(3,027)	–	(3,436)	(358)	(3,794)
Balance at 31 December 2017	21	**204,577**	**115,287**	**116,631**	**507**	**(3,027)**	**(46,468)**	**387,507**	**1,623**	**389,130**

Notes from pages 60 to 95 form part of these consolidated financial statements.

*See note 30 for details regarding the restatement.

Consolidated cash flow statement

For the year ended 31 December 2017 (All amounts stated in GBP000)

	Notes	2017	2016 Restated*
Profit from operations		**24,630**	**37,075**
Adjustments for:			
Amortization of intangible assets		19,537	17,601
Depreciation of property, plant and equipment		3,016	3,237
Foreign exchange gains recognized in profit from operations		(1,599)	(7,164)
Operating cash flows before movements in working capital		**45,584**	**50,749**
Increase in receivables		(5,548)	(5,425)
Increase in payables		1,790	7,969
Gain on matured hedges		5,510	5,340
Cash generated from operations		**47,336**	**58,633**
Income taxes paid		(6,266)	(3,590)
Net cash inflow from operating activities		**41,070**	**55,043**
Investing activities:			
Interest received		606	1,156
Increase in cash deposits	16	(151,208)	(61,888)
Purchases of intangible assets	9	(38,357)	(23,877)
Purchases of property, plant and equipment	10	(3,860)	(1,503)
Net cash (outflow)/inflow from investing activities		**(192,819)**	**(86,112)**
Financing activities:			
Issue of shares	21	–	2,083
Dividend: non-controlling interest		(2,925)	
Net cash inflow from financing activities		**(2,925)**	**2,083**
Net decrease in cash and cash equivalents		**(154,674)**	**(28,986)**
Cash and cash equivalents at beginning of year		**189,367**	**210,986**
Effect of foreign exchange rate changes		(2,154)	7,367
Cash and cash equivalents at end of year		**32,539**	**189,367**

*See note 30 for details regarding the restatement.

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 of 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 Bank 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, Vendor Management, Legal Risk, and Compliance Risk, supports a resilient approach for delivering on the CLS Vision Statement and enables the CLS group 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, CEO, EMC, management committees, the CRO, and CLS Bank's Internal Audit division. Enterprise-wide risk-related matters are reported and escalated to the CRO and, as appropriate, the EMC and Risk Management Committee. The Risk Management Committee, as appropriate, escalates such matters to the CLS Group Board for a corrective action discussion. The CLS Group Board and the Risk Management Committee also receive quarterly ERM reports.

The ERM Framework is documented through the ERM Framework policy, which 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 group 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 28 for more information on the Group's 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 ('NCI')

NCI 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.

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 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 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.

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 Company 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

At inception of an arrangement, the Group determines whether an arrangement is or contains a lease.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant 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 on a time basis, by reference to the principal outstanding and at the applicable interest rate.

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.

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.

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

2. Significant accounting policies (continued)

H. Taxation (continued)

ii. Deferred tax (continued)

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 held during 2016 and 2017:

Intangible asset	Description
Initial CLS Settlement Service	Copyrights, contractual rights to and know-how of software which performs the core business operations
CLS non-core asset	Enhancement and development of the CLS Aggregation system
Upgrades and enhancements to the core service	Enhancement and development of the Initial CLS Settlement Service
Strategic Architecture (STAR) program	Enhanced development including new functionalities of CLS Settlement Service
All other business systems	Ancillary business systems

i. Recognition and measurement

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

a) the technical feasibility of completing the intangible asset so that it will be available for sale or use

b) the intention to complete the intangible asset and use or sell it

c) ability to use or sell the intangible asset

d) intangible asset will generate future economic benefits

e) the availability of adequate, technical, financial and other resource to complete the development

f) the availability to measure the expenditure of assets during construction

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 benefit 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 write off the cost of intangible assets less their estimated residual values over their useful economic life (UEL). The Group has identified a UEL and amortization policy for each of its intangible assets.

Effective 1 January 2014 the following policies have been applied for each separately identified component of intangible assets:

Intangible asset component	Maximum asset life and amortization policy
Initial CLS settlement service	20 years, 20% reducing balance
CLS non-core asset	39 months, straight line
Upgrades and enhancements to the core service	10 years, straight line
STAR program	10 years, straight line
All other business systems	5 years, straight line

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

J. Property, plant and equipment

i. Recognition and measurement

Items of property plant and equipment are initially measured at cost and are recognized only if it is probable that future economic benefit associated with the expenditure will flow to the Group.

ii. Subsequent expenditure

Subsequent expenditure is capitalized only if it is probable that the future economic benefit associated with the expenditure will flow to the Group.

iii. Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives and is recognized in the profit or loss statement.

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

2. Significant accounting policies (continued)

J. Property, plant and equipment (continued)

iii. Depreciation (continued)

The estimated useful lives of property, plant and equipment for the current and comparative periods are as follows:

Asset	Life
Computer equipment	4 years
Fixtures and fittings	4 years
Leasehold improvements	Length of lease (up to 10 years)

K. Financial instruments

The Group classified non-derivative financial assets into the following categories: available for sale assets (AFS), loans and receivables.

The Group classified 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 a 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 or
- it is a derivative that is not designated and effective as a hedging instrument.

ii. Non-derivative financial assets and liabilities – derecognition

Derecognition of financial assets

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 cancelled 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 Available for sale investments

Investments are classified as available for sale and are initially measured at fair value. Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at cost. Changes in fair value of available for sale investments are recognized directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the profit for the period. Transaction costs directly attributable to the acquisition are included in the valuation.

Loans and receivables

Loans and receivables 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.

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

2. Significant accounting policies (continued)

K. Financial instruments (continued)

iii. Non-derivative financial assets and liabilities – measurement (continued)

Financial liabilities at Fair Value Through Profit or Loss

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the income statement. Fair value is determined in the manner described in note 28.

Any transaction costs attributable to financial liabilities at fair value through profit or loss are immediately recognized in the profit or loss.

Other financial liabilities

Other financial liabilities (including borrowings and trade, and other payables) are initially recognized at cost including transaction costs directly attributable to the issue of the liability and are subsequently measured at amortized cost using the appropriate interest rate.

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 foreign 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,

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.

L. Impairment

i. Financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as available for sale ('AFS'), a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization.

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.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

2. Significant accounting policies (continued)

ii. 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 ('CGUs').

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.

M. 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.

O. Future accounting developments

There have been, and are expected to be, a number of significant changes to the Group's financial reporting after 2017 as a result of amended or new accounting standards that have been or will be issued by the IASB. The most significant of these are as follows:

IFRS 9 – Financial instruments

IFRS 9 Financial Instruments which will replace IAS 39 Financial Instruments: Recognition and Measurement is effective for periods beginning on or after 1 January 2018. IFRS 9, in particular the impairment requirements, will lead to significant changes in the accounting for some financial instruments. CLS has performed an assessment on the impacts of IFRS 9 and does not expect to be significantly impacted due to the types of financial instruments it holds (cash, a small equity investment and forward rate agreements)

CLS will provide detailed transitional disclosures in accordance with the amended requirements of IFRS 9.

Impairment

IFRS 9 introduces a revised impairment model which will require entities to recognize expected credit losses based on unbiased forward-looking information. This replaces the existing IAS 39 incurred loss model which only recognizes impairment if there is objective evidence that a loss is already incurred and would measure the loss at the most probable outcome. The IFRS 9 impairment model will be applicable to all financial assets at amortized cost, lease receivables, debt financial assets at fair value through other comprehensive income, loan commitments and financial guarantee contracts.

Classification and measurement

IFRS 9 will require financial assets to be classified on the basis of two criteria:

1) The business model within which financial assets are managed, and;

2) Their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest').

Financial assets will be measured at amortized cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest.

Financial assets will be measured at fair value through other comprehensive income if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and their contractual cash flows represent solely payments of principal and interest.

Other financial assets are measured at fair value through profit and loss. There is an option to make an irrevocable election for non-traded equity investments to be measured at fair value through other comprehensive income, in which case dividends are recognized in profit or loss, but gains or losses are not reclassified to profit or loss upon derecognition, and impairment is not recognized in the income statement.

The accounting for financial liabilities is largely unchanged, except for financial liabilities designated at fair value through profit and loss. Gains and losses on such financial liabilities arising from changes in CLS's own credit risk will be presented in other comprehensive income rather than in profit and loss. There is no subsequent reclassification of realized gains or losses on own credit to profit and loss statement.

Hedge accounting

IFRS 9 contains revised requirements on hedge accounting, which are more closely aligned with an entity's risk management strategies and risk management objectives. The new rules would replace the current quantitative effectiveness test with a simpler version, and requires that an economic relationship exist between the hedged item and the hedging instrument. Under the new rules, voluntary hedge de-designations would not be allowed.

Adoption of the IFRS 9 hedge accounting requirements is optional.

Based on analysis performed, CLS expects to continue applying IAS 39 hedge accounting, although it will implement the amended IFRS 7 hedge accounting disclosure requirements.

IFRS 15 – Revenue from Contracts with Customers

In 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers which will replace IAS 18 Revenue and IAS 11 Construction Contracts. 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 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.

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In April 2016, the IASB issued clarifying amendments to IFRS 15 which provide additional application guidance but did not change the underlying principles of the standard. Adoption of the standard on 1 January 2018 is not expected to have a significant impact.

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 Leases, which will replace IAS 17 Leases. IFRS 16 will apply to all leases with the exception of licenses of intellectual property, rights held by licensing agreement within the scope of IAS 38 Intangible Assets, service concession arrangements, leases of biological assets within the scope of IAS 41 Agriculture, and leases of minerals, oil, natural gas and similar non-regenerative resources. IFRS 16 will not result in a significant change to lessor accounting; however for lessee accounting there will no longer be a distinction between operating and finance leases. Instead lessees will be required to recognize both a right of use asset and lease liability on balance sheet for all leases. As a result

CLS will observe an increase in liabilities and assets for transactions currently accounted for as operating leases as at 1 January 2019 (the effective date of IFRS 16). A scope exemption will apply to short-term and low-value leases.

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 several prior tax years for which management believes a provision is required. The provisions have been estimated by management at an appropriate level calculated at the more likely outcome. These provisions 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 13.

- Accounting policies, changes in accounting estimates and errors: At the balance sheet date, management undertook a review of the Group's deferred tax balances in CLS Bank International and concluded that these had been incorrectly accounted for. Management have amended this error and restated the accounts retrospectively. More details can be found in note 30.

These are the amounts that are provided for in respect of the estimate useful life of intangible asset:

- 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.

4. Revenue

	2017	2016
Instruction processing charges	173,712	177,322
Annual account maintenance fees	7,900	7,763
Liquidity usage fees	2,721	2,611
Aggregation fees	8,073	9,258
In/Out Swap program participant fees	1,368	1,358
Credit derivatives	1,550	1,443
Account opening fees	800	450
Cross Currency Swaps	419	297
Sundry income	985	668
Total revenue	**197,528**	**201,170**

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	2017	2016*
Staff costs	6	77,458	69,094
IT service charges		28,712	30,862
Amortization of intangible assets	9	19,537	17,601
Depreciation of property, plant and equipment	10	3,016	3,237
Profit share arrangement	18	259	415
Traiana service charges		1,786	2,836
Foreign exchange loss		469	8,622
Foreign exchange gain on forward contracts		(5,510)	(11,057)
Telecom costs		15,879	14,258
Professional service costs		12,842	10,092
Establishment costs		6,923	6,584
Other		10,571	11,542
Auditors' remuneration for audit services (see below)		240	220

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 auditors' remuneration is as follows:

	2017	2016
Fees payable to the Company's auditors for the audit of the Company's annual accounts		
– Current year	220	180
– Prior year		
Audit of the Company's subsidiaries pursuant to legislation		
– Current year	20	40
– Prior year		
Total audit fees	**240**	**220**
Fees payable to the Company's auditors and their associates for other services to the Group:		
Tax services	196	235
Other services	39	11
Total non-audit fees	**235**	**246**
Total fees	**475**	**466**

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

*The amounts are after a restatement disclosed in note 30.

6. Staff costs

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

Number of staff	2017	2016
Service delivery and technology	191	190
Risk and control	110	113
Corporate	40	40
Total	**341**	**343**

Total aggregate remuneration comprised:

	2017	2016
Salaries	62,341	56,970
Temporary staff	7,090	4,451
Social security costs	4,428	4,235
Pension costs	3,599	3,438
Total	**77,458**	**69,094**

Further analysis of Directors' remuneration is included in note 5.

7. Investment income

	2017	2016
Interest income on bank deposits	886	983

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8. Tax

	2017	2016*
Current tax:		
UK corporation tax		
– Current period	(523)	(3,136)
– Adjustments in respect of previous periods	(103)	(72)
	(626)	**(3,208)**
Non-UK corporation tax		
– Current period	(4,974)	1,648
	(4,974)	**1,648**
Current tax charge for the period	**(5,600)**	**(1,560)**
Deferred tax:		
Relating to the change in tax rates from 20% to 19%	87	
Relating to origination and reversal of temporary differences	(4,636)	5,101
Adjustments recognized in the period for deferred tax of prior periods	3	
Deferred tax charge for the period	**(4,546)**	**5,101**
Total tax (charge)/credit for the period recognized in the income statement	**(10,146)**	**3,541**

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 amounts are after a restatement disclosed in note 30.

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

	2017	2016*
Profit before tax	25,516	38,058
UK statutory tax rate	19.25%	20%
At UK statutory income tax rate	(4,912)	(7,611)
Current tax affecting items:		
Permanent disallowable expenses and non-taxable income	(103)	(2,918)
Adjustments in respect of current income tax of previous periods	(98)	(51)
Effect of different tax rates (marginal relief)		(262)
Deferred tax expense relating to changes in the tax rates	78	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	(5,840)	12,905
Deferred tax affecting items:		
Dividend income not taxable	–	1,920
Foreign exchange rate movement	(16)	(442)
Differences on which no deferred tax is recognized	385	
Total tax charge for the period	**(10,146)**	**3,541**

*The amounts are after a restatement disclosed in note 30.

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

9. Intangible assets

	Assets in course of construction	Core Assets	Non-core Assets	Total
Cost				
Opening balance 1 January 2016	44,687	251,638	2,297	298,622
Additions	23,840	–	–	23,840
Transfers	(36,814)	36,814	–	–
Foreign exchange	–	–	452	452
Closing balance 31 December 2016	**31,713**	**288,452**	**2,749**	**322,914**
Additions	38,357	–	–	38,357
Transfers	(4,870)	4,870	–	–
Foreign exchange	–	–	(238)	(238)
Closing balance 31 December 2017	**65,200**	**293,322**	**2,511**	**361,033**
Accumulated amortization				
Opening balance 1 January 2016	–	161,186	825	162,011
Charge for the year	–	16,826	775	17,601
Foreign exchange	–	–	233	29
Closing balance 31 December 2016	**–**	**178,012**	**1,833**	**179,845**
Charge for the year	–	18,743	794	19,537
Foreign exchange	–	–	(180)	(180)
Closing balance 31 December 2017	**–**	**196,755**	**2,447**	**199,202**
Net book value				
31 December 2017	**65,200**	**96,567**	**64**	**161,831**
31 December 2016	31,713	110,440	916	143,069

10. Property, plant and equipment

	Leasehold improvements	Computer equipment	Fixtures and fittings	Total
Cost				
Opening balance 1 January 2016	9,913	11,501	453	21,867
Additions	59	1,388	–	1,447
Disposals	–	(2,233)	(2)	(2,235)
Closing balance 31 December 2016	**9,972**	**10,656**	**451**	**21,079**
Additions	1,940	1,920	–	3,860
Disposals	–	–	–	–
Closing balance 31 December 2017	**11,912**	**12,576**	**451**	**24,939**
Accumulated depreciation				
Opening balance 1 January 2016	2,372	6,550	277	9,199
Charge for the year	1,044	2,156	37	3,237
Disposals	–	(2,233)	(2)	(2,235)
Closing balance 31 December 2016	**3,416**	**6,473**	**312**	**10,201**
Charge for the year	1,012	1,971	33	3,016
Disposals	–	–	–	–
Closing balance 31 December 2017	**4,428**	**8,444**	**345**	**13,217**
Net book value				
31 December 2017	**7,484**	**4,132**	**106**	**11,722**
31 December 2016	6,556	4,183	139	10,878

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

11. 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 and technical management of the CLS system
CLS Bank International (incorporated in the US)	Common stock	100%	Foreign exchange settlement, risk and liquidity management. Regulatory and central bank relations
CLS Aggregation Services LLC (incorporated in the US)	Common units	51%	Aggregation of foreign exchange trades prior to settlement

CLS Bank International and CLS Services 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 summarises information regarding CLS Aggregation Services LLC, before any group eliminations.

	2017	2016
Non-current assets	64	916
Current assets	3,901	8,540
Current liabilities	(543)	(568)
Net assets	**3,422**	**8,888**
Carrying amount of NCI	**1,623**	**4,347**
Revenue	8,073	9,258
Profit	1,141	1,459
Other comprehensive income ('OCI')	(359)	1,328
Total comprehensive income	**(782)**	**2,787**
Profit allocated to NCI	**559**	**698**
OCI allocated to NCI	**(359)**	**640**

	2017	2016
Cash flows from operating activities	1,350	2,427
Dividends paid	(5,877)	–
Net increase in cash and cash equivalents	**(4,527)**	**2,427**

12. Available for sale investments

Investment in SWIFT

CLS Bank International owns 66 shares in SWIFT which it purchased between April 2003 and April 2012. These shares are included in the balance sheet of the Group as an investment at a cost of EUR133,402.

	31 December 2017	31 December 2016
Opening balance at 1 January	114	98
Exchange differences	3	16
Closing balance at 31 December	**117**	**114**

This investment is an equity investment that does not have a quoted market price in an active market and whose fair value cannot be reliably measured. As a result, this investment is held at cost. 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. The last available price determined in June 2017 was EUR4,665 per share.

The Group held no trading investments, no held-to-maturity investments or loans receivable carried at amortized cost in either the current or prior year.

The Group's investment in SWIFT will be impacted by IFRS 9 primarily through an upward valuation of the shareholdings to its estimated market value. The impact of this upwards valuation is expected to be GBP157,000.

Further information about these investments is available in note 28.

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

13. Deferred tax asset and liabilities

	Asset/(liability) recognized on				
	Trading losses	Tax depreciation*	Accruals	Other	Total*
Balance at 1 January 2016	**4,465**	**(24,584)**	**2,481**	**2,512**	**(15,126)**
Foreign exchange movement	862	(6,794)	359	509	(5,034)
(Charge)/credit to income in the year	(1,840)	2,245	778	23	1,206
Balance at 31 December 2016	**3,487**	**(29,103)**	**3,618**	**3,044**	**(18,984)**
Foreign exchange movement	(194)	4,843	(125)	(176)	4,348
(Charge)/credit to income in the year	(3,293)	5,670	(2,354)	(2,285)	(2,261)
Balance at 31 December 2017	**–**	**(18,590)**	**1,139**	**584**	**(16,867)**

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

14. Trade and other receivables

	At 31 December 2017	At 31 December 2016
Pre-payments and accrued income	15,871	24,905
Other receivables	644	655
VAT recoverable	748	442
Trade receivables	14,585	18
Total	**31,848**	**26,020**

*The amounts are after a restatement disclosed in note 30.

15. 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 2017 and early 2018.

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

	At 31 December 2017		At 31 December 2016	
	Notional contract amount	Fair value £'000	Notional contract amount	Fair value £'000
Forward foreign currency contracts not in hedging relationships	$11m	415	$86m	7,360
Forward foreign currency contracts in hedging relationships	$107m	3,415		–
Closing balance at 31 December	**$118m**	**3,830**		**7,360**

The maximum length of time over which the Group hedges exposure to the variability in future cash flows for forecast transactions is 18 months (2016: 0 months).

Gains and losses transferred from the cash flow hedging reserve to the income statement included a GBP2,801,000 loss (31 December 2016: GBPNil) transferred to administration and general expenses including taxation. The amount is allocated as follows: Bonus expense GBP887,000 (31 December 2016: GBPNil); payroll expense GBP895,000 (31 December 2016: GBPNil); supplier payments GBP895,000 (31 December 2016: GBPNil). Hedge ineffectiveness was GBP249,000 (2016 GBPNil).

Further details of derivative financial instruments are provided in note 28.

16. Cash deposits

Cash deposits are amounts held in money market deposit accounts with a maturity date of greater than three months at the date of deposit. All deposits mature within 12 months of the date of deposit.

17. 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.

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18. Trade and other payables

	At 31 December 2017	At 31 December 2016
Accruals	(27,537)	(26,061)
Deferred income	(8,578)	(8,442)
Trade payables	(789)	(4,049)
Taxation and social security costs	(2,131)	(2,459)
Other payables	(2,569)	(2,354)
Payable to Founding Aggregation Participants of CLS Aggregation Services LLC	(383)	(415)
Total	**(41,987)**	**(43,780)**

Trade and other payables principally comprise amounts outstanding for trade purchases accruals and deferred income included ongoing costs relating to the core system. The average credit period taken for trade purchases was 3 days (2016: 16 days).

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 ('FAP's) a 20% share of profit above a minimum threshold of accumulated profit. The FAPs are shareholders of CLS Group Holdings, AG.

19. Current tax (liabilities)/assets

	At 31 December 2017	At 31 December 2016
UK Corporation tax	(68)	(1,282)
US Federal tax	(10,930)	(8,152)
Total tax liabilities	**(10,998)**	**(9,434)**
UK Corporation tax	278	–
US City tax	1,339	408
US Federal tax	712	2,052
Total tax assets	**2,329**	**2,460**
Net tax liabilities	**(8,669)**	**6,974**

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.

20. Other liabilities

	At 31 December 2017	At 31 December 2016
Deferred compensation	(6,702)	(4,893)
Total	**(6,702)**	**(4,893)**

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

21. Share capital

Authorized	**No. ordinary shares CHF 1,400 each**	**Total nominal value CHF000**
31 December 2017	**350,997**	**491,396**

Authorized	**No. ordinary shares CHF 1,400 each**	**Total nominal value CHF000**
31 December 2016	350,997	491,396

Allotted and fully paid	**No. ordinary shares CHF 1,400 each**	**Total nominal value CHF000**	**Total Nominal value GBP000**
31 December 2017	**290,379**	**406,350**	**204,577**

Allotted and fully paid	**No. ordinary shares CHF 1,400 each**	**Total nominal value CHF000**	**Total Nominal value GBP000**
31 December 2016	290,379	406,530	204,577

No new shares were issued in 2017.

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

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 IAS 39, 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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22. 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 2017	**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.

23. Operating lease arrangements

Operating lease payments represent rentals payable by the Group, for its office properties and equipment. Leases are negotiated for an average term of eight to ten years and rentals are fixed for an average of seven years.

The Group as a lessee;

	2017	2016
Minimum lease payments under operating leases recognized in the Profit or Loss for the year	**4,414**	**4,324**

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	31 December 2017	31 December 2016
– not later than one year	2,691	3,747
– later than one year but not later than five years	8,894	11,836
– later than five years	1,469	2,654
Total	**13,054**	**18,237**

24. 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 2017	31 December 2016
Contracted for but not provided for:		
– Services agreement	240,591	228,473
– Acquisition of intangibles	34,910	52,150
– Other	7,884	7,771
Total	**283,385**	**288,394**

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All amounts in GBP000 unless stated otherwise

25. Contingent liabilities

There are no contingent liabilities at 31 December 2017.

26. 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 2017, the largest individual shareholder had 4.8% (2016: 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 2017	31 December 2016
Short-term employee benefits	2,803	3,073
Total	**2,803**	**3,073**

As described in note 11 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 the Company.

The non-core intangible asset described in note 9 is designed and developed by Traiana Inc., who hold a 49% investment in CLS Aggregation Services LLC. During the year the Group invested GBPNil (2016: GBPNil) in the development of this asset.

27. 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.

28. Treasury and capital risk management

The Group's principal financial instruments, other than derivatives, comprise cash and short-term deposits, 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 Audit and Finance Committee ('AFC') of 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 15) 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 public credit ratings 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 independent Risk Management.

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.

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

28. Financial risk report (continued)

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, 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 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. 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 Holdings and CLS Bank hold 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 2017		31 December 2016	
	Book value	Fair value	Book value	Fair value
Financial assets				
1. Available for sale investments	117	117	114	114
2. Loans and receivables:				
Trade and other receivables	31,848	31,848	26,020	26,020
3. Derivative financial instruments	–	–	7,360	7,360
4. Deposits, cash and cash equivalents	261,667	261,667	267,287	267,287
Total financial assets	**293,632**	**293,632**	**300,781**	**300,781**
Financial liabilities				
5. Financial liabilities at amortized cost:				
Trade and other payables	(42,000)	(42,000)	(43,780)	(43,780)
6. Derivative financial instruments	(3,830)	(3,830)	–	–
7. Other liabilities	(6,915)	(6,915)	(4,893)	(4,893)
Total financial liabilities	**(52,745)**	**(52,745)**	**(48,673)**	**(48,673)**

28. Financial risk report (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).

	Fair value hierarchy as at 31 December 2017			
	Level 1	Level 2	Level 3	Total
Financial assets				
Unquoted equities (Note 12)	–	–	117	117
Derivative financial instruments	–	(3,830)	–	(3,830)

	Fair value hierarchy as at 31 December 2016			
	Level 1	Level 2	Level 3	Total
Financial assets				
Unquoted equities (Note 12)	–	–	114	114
Financial liabilities				
Derivative financial instruments	–	7,360	–	7,360

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

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 USD143 million (2016: USD86 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	Deposits over 3 months but less than 12 months	Total
As at 31 December 2017				
Pound sterling	22,740	143,500	55,000	221,240
US dollar	7,716	26,701	3,702	38,119
Swiss franc	1,821	–	–	1,821
Other currencies	487	–	–	487
Total deposits, cash and cash equivalents	**32,764**	**170,201**	**58,702**	**261,667**
Fixed rate assets	–	170,201	58,702	228,903
Floating rate assets	25,048	–	–	25,048
Balances for which no interest is paid	7,716	–	–	7,716
Total deposits, cash and cash equivalents	**32,764**	**170,201**	**58,702**	**261,667**
As at 31 December 2016				
Pound sterling	31,017	136,000	69,000	236,017
US dollar	13,975	3,244	8,920	26,139
Swiss franc	4,496	–	–	4,496
Other currencies	635	–	–	635
Total deposits, cash and cash equivalents	**50,123**	**139,244**	**77,920**	**267,287**
Fixed rate assets	–	139,244	77,920	217,164
Floating rate assets	36,149	–	–	36,149
Balances for which no interest is paid	13,975	–	–	13,975
Total deposits, cash and cash equivalents	**50,124**	**139,244**	**77,920**	**267,288**

The effective interest rate on the average daily closing balances is 0.33% (2016: 0.40%).

28. Financial risk report (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 0.48% or 0.18% (2016: 0.55% or 0.25%). Profit for the year ending 31 December 2017 (assuming the same closing balance values for 1 year) would increase or decrease by GBP392k (2016: increase or decrease by GBP401k)
- 20 basis points higher or lower and all other variables had been constant then the effective interest rates would have been 0.53% or 0.13% (2016: 0.60% or 0.20%). Profit for the year ending 31 December 2017 (assuming the same closing balance values for 1 year) would increase or decrease by GBP523k (2016: increase or decrease by GBP534k).

III. Foreign currency sensitivity

The Group's main sensitivity to changes in exchange rates is on its bank balances and deposits held in foreign currency in order to finance its overseas operations, particularly USD and CHF. In 2017, GBP strenghtened 8.7% against the USD and strengthened 5.4% against the CHF. This led to an unrealized loss on exchange of GBP3.6 million (2016 GBP4.3 million) on GBP/USD and a loss of GBP100k (2016: GBP700k) on GBP/CHF respectively.

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

	At 31 December 2017	At 31 December 2016
US Dollar	11,243	13,016
Swiss Franc	463	2,165
Total	**11,706**	**15,181**

29. 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 and deposits (as described in notes 16 and 17) and equity attributable to the equity holders of the parent, comprising issued capital, reserves and retained earnings as described in notes 21 to 22.

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.

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

30. Prior year restatement

In February 2018, management undertook a review of the Group's deferred tax balances in CLS Bank International and concluded that these had been incorrectly accounted for by including foreign exchange movements between GBP:USD as temporary difference within deferred tax.

The error has been corrected by restating each of the affected financial statements line items for the prior periods as follows:

	Retained losses	Total equity
Balance at 01.01.2016 (as previously presented)	**(103,769)**	**335,087**
Impacts of error correction for periods before 01.01.2016	1,207	1,207
Opening balance as at 01.01.2016 (restated)	**(102,562)**	**335,087**
Impacts of error correction on total comprehensive income (2016)	9,254	9,254
Balance as at 31.12.2016 (restated)	**(61,661)**	**380,097**

31. Post balance sheet events

In March 2017 CLS reached an agreement to repurchase GBP1.95 million of its own shares pending fulfillment of conditions from shareholders ineligible for CLS membership.

Subsequent events were evaluated through to March 29 2018, being the date that the financial statements were available for issue by the directors and signed on their behalf by the Chief Executive Officer.

1. Project Convergence

In January 2018, Board approval was obtained for CLS Bank to replace the core FX asset with the new Unified Services Platform in 2020. This approval revises the remaining estimated useful life of the asset for 3 years from the start of 2018 and will result in accelerated amortization over the period 2018 – 2020.

2. Launch of CLSNet

In January 2018 CLS obtained regulatory approval to a new product, CLSNet during the first quarter of 2018. As part of the launch, founding members will receive up to two year's service at no charge. These founding contracts will be onerous and the expected cost of the two year free period will be provided for.

3. New shareholder

In March 2018 Banco Monex became a shareholder of CLS Group Holdings AG.

32. Standards issued but not yet adopted

At the date of authorization of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

Standard	Effective date, description and impact
IFRS 9 Financial instruments	In November 2009 the IASB issued IFRS 9 'Financial Instruments' (IFRS 9) covering the classification and measurement of financial assets which introduces new requirements for classifying and measuring financial assets. In October 2010, the IASB reissued IFRS 9, which incorporated new requirements on the accounting for financial liabilities. In July 2014, the IASB issued IFRS 9 as a complete standard. The Standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The Group is not materially impacted by the adoption of IFRS 9.
IFRS 15 Revenue from Contracts with Customers	In May 2014, the IASB issued 'Revenue from Contracts with Customers' (IFRS 15). IFRS 15 establishes a single, comprehensive framework for revenue recognition. The core principle of IFRS 15 is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also includes disclosure requirements to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash fl arising from contracts with customers. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018. The Group is not materially impacted by the adoption of IFRS 15.
IFRS 16 Leases	FRS 16 was issued in January 2016 and applies to annual reporting periods beginning on or after 1 January 2019. IFRS 16 specifies how an entity reporting under IFRS will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The objective of IFRS 16's disclosures is for information to be provided in the notes that, together with information provided in the statement of financial position, statement of profit or loss and statement of cash flows, gives a basis for users to assess the effect that leases have. CLS Group Holdings AG intends to comply with this standard within the timescale specified.

Five year summary

		2017	2016	2015	2014	2013	2012
Revenue for the year	GBPm	197.5	201.2	195.6	183.3	172.9	159.3
Operating expenses (Reported basis)	GBPm	172.9	164.1*	152.0	151.1	148.7	142.4
Profit/(loss) from operations	GBPm	24.6	37.1*	43.6	32.2	24.2	16.9
Total profit for the year (Reported basis)	GBPm	15.8	41.6*	30.2*	19.8	14.6	14.0
Total assets at year end	GBPm	469.3	459.9	406.2	354.7	356.7	174.7
Total equity	GBPm	389.1	380.1*	335.1*	300.5	278.5	98.8
Capital expenditure	GBPm	42.2	25.4	33.9	40.0	45.7	49.2
ROE		4.1%	10.9%	9.0%	6.9%	7.7%	15.6%
Daily average settled values	USDtr	5.2	4.8	4.8	5.11	4.99	4.69
Daily average billable volume	Number of sides	779,000	818,000	856,000	801,000	801,000	689,000
Average revenue per instruction	GBP	0.86	0.83	0.79	0.79	0.73	0.78
Daily average aggregation volumes	Number of sides	225,193	247,166	294,245	360,000	392,000	332,000
Average monthly number of employees in year	No.	341	343	341	355	338	328
Number of shareholders at year end	No.	80	79	78	76	75	74
Number of members at year end	No.	67	66	64	62	63	62

*Numbers are on a restated basis.

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