trusted market solutions

CLS Group Holdings AG

Annual Report & Consolidated Accounts 31 December 2018

“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

“CLS’s strategy remains unchanged. This is both in terms of new product development, as well as continued growth in CLSSettlement, and we shall continue along the same path. We are further embedding our settlement, processing and data business lines: launching new products that will deliver significant value for our clients.

Assuring increased uptake in these products, combined with investment in our Unified Services Platform, are the key areas of focus for 2019 and beyond.”

Kenneth Harvey
Interim Chief Executive Officer

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

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

We have earned the trust of our members – over 70 of the world's most important financial institutions. With more than 25,000 third-party clients also using our services, we settle USD5.9 trillion of value 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

25,000

23

members of CLS oversight committee

+

third-party clients

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

Operational highlights

We lead

We launched additional data products to enable better FX risk management and smarter business decisions:

> CLSReporting

> FX Forecast data

We protect

We expanded the reach of CLSSettlement:

> Mitsui & Co was the first Japanese corporate to settle currency trades via CLSSettlement

> First Japanese funds joined CLSSettlement

> Banco Monex joined as CLS's 70th settlement member and the first from Mexico

We collaborate

We partnered across the industry to deliver standardized solutions that enhance operations for all our clients:

> FX forward compression service expanded to third parties

> CLSClearedFX went live with LCH

We deliver

We launched relevant solutions to real problems:

> CLSNet went live with Goldman Sachs and Morgan Stanley

> CLSTradeMonitor went live with asset managers

Financial highlights

		2018	2017
Revenue for the year	GBP million	**206.1**	197.5
Operating expenses	GBP million	**234.4**	172.9
(Loss)/profit from operations	GBP million	**(28.4)**	24.6
Total (loss)/profit for the year	GBP million	**(18.5)**	15.8
Total equity	GBP million	**376.0**	389.1
Capital expenditure	GBP million	**58.4**	42.2
Daily average settled value*	USD trillion	**5.9**	5.2
Daily average billable volume**	Number of sides	**891,000**	779,000
Average revenue per USD million settled	GBP	**0.12**	0.13
Peak value day (settled)	USD trillion	**12.7**	12.0
Peak volume day (settled)	Number of sides	**2,392,000**	2,171,000
Number of shareholders at year end		**79**	80
Number of settlement members at year end		**71**	67

457.7

GBP million

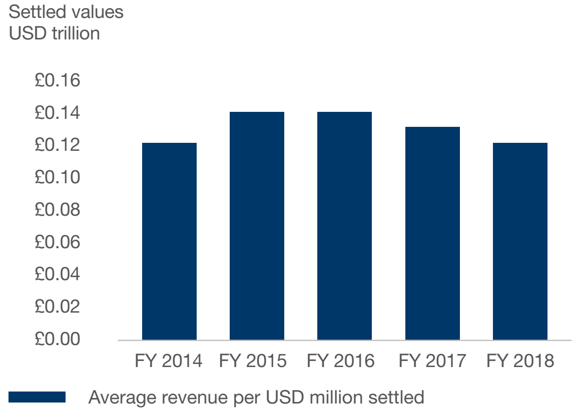
Total assets at year end

*Settled value is a measure of the value of trades settled by CLS.

**Billable volume is a measure of the number of input instructions sent to CLS.

Performance trends

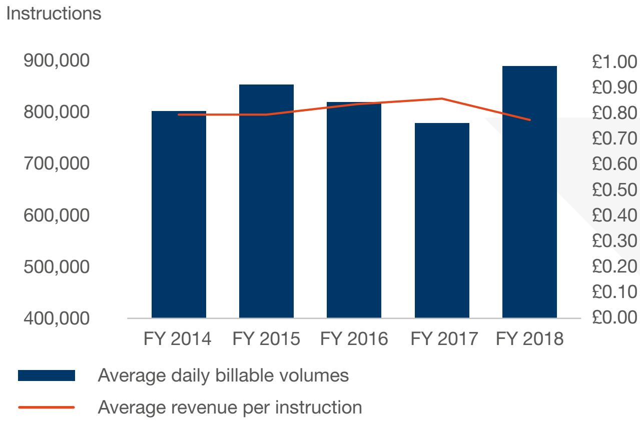
Average revenue per USD million settled



Average price

Average price per USD million settled decreased 9% in 2018 compared to 2017.

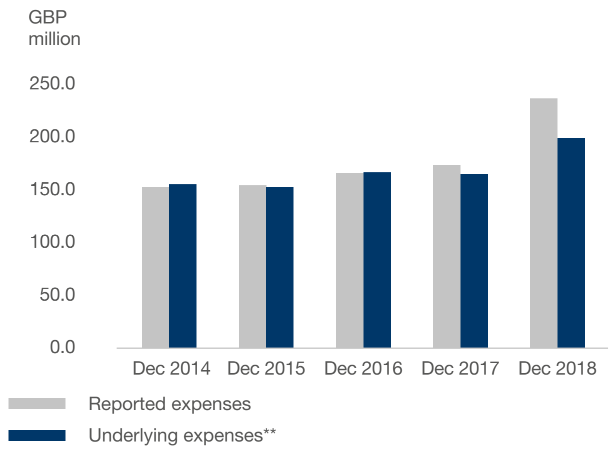
Average daily billable volume



Settlement values

Average daily settled values reached USD5.9 trillion in 2018, an increase of 12.6% compared to 2017.

Operating expenses

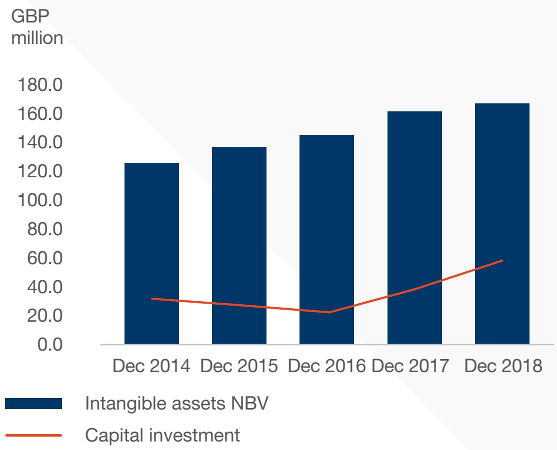


Operating expenses

There was a 36% increase in reported costs in 2018 compared to 2017 as a result of increased spend on new initiatives and accelerated amortization.

Underlying costs increased by 21% year-on-year.

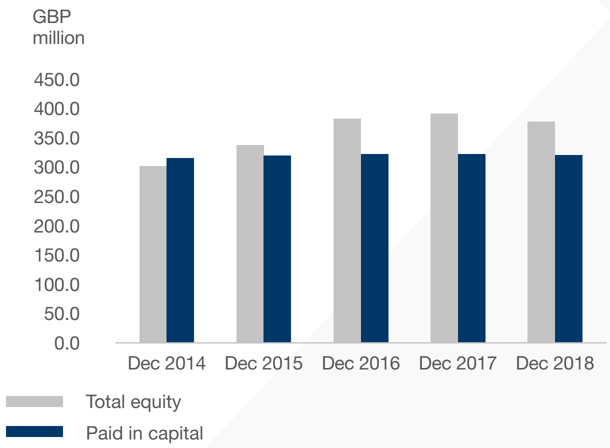
Investment in CLS system



Investment in CLS

Record levels of investment in CLSSettlement.

Total equity and paid in capital

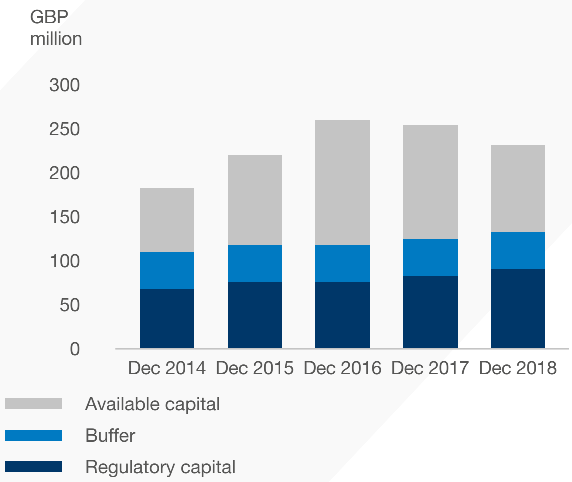


Total equity and paid in capital

Total equity decreased from GBP389.1 million at the end of 2017 to GBP376.0 million at the end of 2018.

CLS continues to be well capitalized.

Cash and investment balances



Capital resources

Cash and investment balances were GBP235.7 million at the end of 2018.

Cash and deposits were down GBP26.0 million in 2018 compared to 2017 due to continued investment in CLS strategic initiatives.

Co-Deputy Chairmen's statement

Bryan Osmar
Co-Deputy Chairman

Rick Sears
Co-Deputy Chairman

206.1
GBP million
Revenue for the period

"Investment has always been central to our approach to ensure the reliability and high quality expected of a financial market infrastructure."

At CLS we remain committed to our core mission and unique role of contributing to the safe functioning and stability of financial markets.

As the market evolves through structural change, regulatory reform and new technology, we must also ensure we leverage our experience and substantial market intelligence to address the market's wider settlement, processing and data needs. This has not, and will not, change.

As you will read in further detail in this report, our focus has been twofold: continue to invest in our infrastructure as well as develop and enhance our products. This will ensure we deliver rigorous, forward-looking solutions that reduce risk and create efficiencies for our clients.

Investment has always been central to our approach to ensure the reliability and high quality expected of a financial market infrastructure. 2018 marked the second year of Convergence: a multi-year project to modernize the underlying technology for the settlement business line and the largest investment in our infrastructure since launch.

This, combined with our investment in new products, will continue to have some adverse medium-term impact on our financials.

We are launching these products at price points that reflect the scale we expect to achieve and at margins appropriate for a financial market infrastructure. This, alongside client adoption rates, that are rightly subject to a rigorous business case and acceptance testing, means that it may take several years for these products to achieve an adequate financial return. Therefore the challenge will remain for a number of years to come until these essential investment programs are completed. It will ensure both the resilience of the settlement business line and deliver a more comprehensive suite of FX post trade services.

In the long run this will ensure both the resilience of the settlement business line and a more comprehensive suite of FX post trade services.

We have maintained strong capital resources. At GBP235.7 million, our levels of capital are over 2.5 times in excess of minimum requirements as set out by our regulators.

> "We will continue to evolve to address distinct market challenges, using our expertise and connectivity to deliver ambitious solutions that meet our clients' needs."

Following David Puth's departure in late 2018, Kenneth Harvey has assumed the role of Interim Chief Executive Officer (CEO). While Ken serves in this position, we will jointly execute his responsibilities as Chairman. Ken's breadth of experience and in-depth knowledge of CLS makes him ideally suited to lead the organization as Interim Chief Executive Officer until a suitable long-term successor is found. Under Ken, the overall strategy does not change. Both the CLS Group Board and Executive Management Committee remain committed to delivering sustained growth, while balancing the resource, investment and regulatory requirements of our settlement business line. At the forefront of our strategy is the delivery of a high quality service our shareholders and settlement members expect, and this will remain our key area of focus throughout 2019.

As Co-Chairmen, we would also like to use this opportunity to thank our departing board members Gillian Lungley, Paul Riordan, Vidya Bittianda and of course David Puth, who served as CEO and board member for over six years. All have made invaluable contributions to the organization during their time on the Board. We thank them for their leadership and stewardship, and wish them every success in their future endeavors. We would also like to welcome Thomas Berkery, who was elected to the Board as a new Independent (Outside) Director on 16 October 2018 and is a member of the Audit and Finance Committee.

We will continue to evolve to address distinct market challenges, using our expertise and connectivity to deliver ambitious solutions that meet our clients' needs. Following the launch of both CLSClearedFX and CLSNet in 2018, the focus will be on driving participation, while investing in our long-term future and the appropriate governance to support our growth ambitions and regulatory requirements. While there is still much to do, there is also significant opportunity for CLS to continue to build its position as a provider of trusted market solutions.

Bryan Osmar
CLS Group Holdings AG
Co-Deputy Chairman
27 March 2019

Richard Sears
CLS Group Holdings AG
Co-Deputy Chairman
27 March 2019

Interim Chief Executive Officer's report

Kenneth Harvey
Interim Chief
Executive Officer

58.4
GBP million
Capital expenditure

As acting Interim CEO, the last few months have personally been an extraordinary opportunity for me to get into the detail of our operations, working across the organization to gain an even deeper understanding of our position today and to define our collective focus for 2019 and beyond.

The most significant takeaway has been confirmation of the caliber of people across the organization. It is an honor to work with such a talented group of individuals who are so dedicated to making CLS successful and ensuring the stability and safety of the FX market.

To build on Rick and Bryan's message, CLS's strategy remains unchanged and 2018 has been a successful year. This is both in terms of new product development, as well as continued growth in CLSSettlement, and we shall continue along the same path. We are further embedding our settlement, processing and data business lines: launching new products that will deliver significant value for our clients. Assuring increased uptake in these products, combined with investment in our unified services platform, remain the key areas of focus for 2019 and beyond.

Settlement

Within the settlement business line, market growth and increased participation continued to be underlying themes. While overall activity eased off somewhat in the second half of the year, average daily traded volumes grew to USD1.74 trillion, up 9.4% compared to last year.

In addition to our third year of robust FX activity, our sales efforts led to a record 2.5% increase in new business in CLSSettlement. As we enter the fourth year of stable tariffs, combined with increased activity, the cost of using our settlement service has decreased significantly. Our charges, which reduce the unit price of each transaction as business activity increases, are now at their lowest level since 2013. We also saw a considerable uptake of new products, leading to a revenue contribution of GBP6 million over the year.

Third-party participation continued to grow, bringing the total number of third parties to over 25,000. Third-party clients now account for 22% of the total traded volume in CLSSettlement. As the broader third-party market becomes increasingly aware of the risks associated with FX settlement outside of CLS, we are confident that participation will continue to grow.

Brexit remained a key priority throughout 2018. Our Brexit team has worked closely with legislators, regulators and settlement members to safeguard continued access to CLSSettlement for all current participants. We are addressing, as necessary, all legal and regulatory implications in light of legislative developments and will ensure we are appropriately positioned to respond to any outcomes that affect our members, shareholders and employees. While we fell short of a pan-European solution, our work with each of the impacted countries has proved fruitful. We remain confident that CLS is well positioned with respect to all Brexit-related risks.

Other notable milestones in 2018 included welcoming Banco Monex as our first Mexican bank to participate directly in CLSSettlement, as well as three new affiliate settlement members, NatWest Markets, Santander UK and Barclays UK. In Japan we saw the first corporate, Mitsui & Co, settle its FX transactions in CLSSettlement via a third-party service provider, Sumitomo Mitsui Banking Corporation. And in July the first Japanese-domiciled funds were introduced to CLSSettlement by Fidelity International and The Master Trust Bank of Japan (MTBJ) – the start of a coordinated industry-wide effort to onboard the Japanese buy-side community to CLSSettlement over the next few years.

In addition to the continued growth of CLSSettlement, we successfully launched CLSClearedFX, the first payment-vs-payment (PvP) settlement service specifically designed for cleared FX products. LCH was the first central counterparty (CCP) to go live with the service for FX options trades in five CLS-eligible currencies (USD, EUR, GBP, CHF and AUD). This service is open to multiple CCPs and applies to a range of FX products.
We will work constructively with other CCPs to further expand the service.

As global regulation and national changes to monetary policy come into force, liquidity management is an increasingly important factor across the industry. Our same-day gross PvP settlement service, CLSNow, is being developed to address many of those concerns. CLSNow has the potential to materially expand the same-day market through the exchange of liquidity across currencies with PvP settlement, which enables better daily management of liquidity and the exchange of liquidity in a crisis/stress scenario. More than five clients have now signed up to the service and we expect it to go live in 2019.

The reliability, quality and resilience of settlement lies at the heart of what we do. Our focus is to not only support our clients today, but also protect them for the future. Outside of our operating expenses, investment in our settlement platform is our single biggest cost – and rightly so. As a systemically important financial market infrastructure, we must ensure our settlement business line operates to the highest of standards.

As highlighted in previous Annual and Interim Financial Reports, we are well into our eight-year program to modernize every platform in the company. Our Convergence program is the final step in the complete rewrite of the underlying technology platform supporting our settlement product suite with new, proven technologies. The program will improve efficiency and strengthen the resilience of our FX settlement solutions.

This Unified Services Platform (USP) is completely new from the ground up supporting CLSSettlement, CLSClearedFX and CLSNow. Not only will it be optimized with multi-session capability, USP will enable us to deliver new services, and enhancements to existing services, in a more timely and cost-effective manner, and to the highest level of industry standards. We expect to be fully operational in 2020, following an extended period of trialing and testing.

Once live, USP will enable us to lead the market by enabling continuous settlement. As member banks and central bank systems evolve to extended hours and real time settlement in the coming decade, CLS will be ready to connect the ecosystem.

Processing

On 20 November CLSNet, our standardized, automated bilateral payment netting service for buy-side and sell-side institutions, went live with two clients – Goldman Sachs and Morgan Stanley. As the first global FX market enterprise application running on blockchain in production, CLSNet provides mitigation risk for trades not settling in CLSSettlement by standardizing and automating post-trade matching and netting processes. It brings a bilateral payment netting service to approximately 120 currencies, optimizing intraday liquidity, improving operational efficiency, and reducing risk.

In December, three further clients – Bank of China (Hong Kong), Bank of America (BAML) and Intesa Sanpaolo – joined CLSNet, demonstrating growing confidence in the service. Given the need for stability, interoperability and connectivity at scale, we will continue to invest in enhancements to the service to ensure increased uptake over the coming 12–18 months.

As highlighted in the Interim Financial Report 2018, CLSTradeMonitor went live in mid-2018. By delivering a real-time consolidated view of the match status details for all trades submitted to CLS, it enables participating institutions to drive process efficiencies, such as enabling real-time awareness of currency and counterparty exposures and reducing operational and credit risk

CLSTradeMonitor now has 17 clients live on the service.

> "...the delivery of our strategy remains our most important priority. The adverse short-term impact on our financial position can be accommodated and is absolutely required to ensure we deliver long-term resilient solutions that our clients and the market expect."

Since we began our collaboration with TriOptima in 2015 to deliver the award-winning triReduce CLS FX service, the service has gone from strength to strength. As the FX derivative compression solution for the global FX markets, it is becoming an increasingly critical post-trade exposure management tool. The service is supported by major dealers and saw a material increase in uptake during 2018, with a total notional reduced of over USD5.3 trillion for the year. July was a record month for the service, with a record of USD1.2 trillion notional reduced through compression.

In addition to the continued accelerated organic growth of the service, 2018 saw a number of additional enhancements to the service. This has included offsetting methodology, enabling clients to either compress trades or offset exposures with new, incremental trades, straight though processing, using Thomson Reuters Trade Notification (TRTN) service, and expansion of the service to third-party participants via their third-party service provider. I look forward to the service expanding further as we continue to onboard new clients.

In October of 2018, we jointly decided with Traiana to discontinue the CLS Aggregation Service (CLSAS). This service was created to address operational and capacity challenges experienced by banks during the rise of e-FX and resulting high frequency trading. The market has since matured, and our clients have invested heavily in building increasingly robust internal infrastructures. As a result, the need for trade aggregation has declined and by ceasing operations we will apply greater focus to solutions that address the most relevant and challenging market issues.

Data

The ability to recognize and react to market changes is critical to our clients' success. They rely on robust transaction data to gain insight into market trends. We are continuing to enhance our data solutions in order to provide clients with insight that improves their trading strategies, helps them make smarter business decisions, and enhances FX risk management.

We expanded the CLSMarketData product suite, launching FX Forecast data in February. We also launched CLSReporting, an end-of-day FX matched instructions report that provides an enhanced view of overall FX trade activity. Data required for reporting under MiFID II will be available in each report, allowing our clients to address their transactional reporting requirements more effectively. In addition, the report enables originators and counterparties to efficiently exchange their trade details.

As we roll out our suite of data products, we will further explore opportunities to use our data to support our clients' reporting requirements and provide the insight they need to improve trading strategies and decision-making for FX risk management, investment, resilience and regulation.

Looking ahead

As Trevor details in his CFO report, the investment in both new products and replatforming, though planned, does impact our medium-term financial position. This impact is not only due to the investment itself, but also the accelerated amortization charges of the current CLSSettlement platforms, which will distort our profitability for a number of accounting periods. In addition, to ensure the platform is fit for purpose and meets the high standards expected of a financial market infrastructure, we will be running both the current and new platform in parallel for nine months, effectively doubling our operating expenditure for that period. However, our capital position remains, and will remain, well in excess of regulatory requirements.

To reiterate our messages from previous reports and the statements from Rick, Bryan and Trevor, the delivery of our strategy remains our most important priority. The adverse short-term impact on our financial position can be accommodated and is absolutely required to ensure we deliver long-term resilient solutions that our clients and the market expect. We look forward to delivering an even higher standard of excellence every day, as one would expect from a provider of trusted market solutions.

Kenneth Harvey
Interim Chief Executive Officer

Chief Financial Officer's report

Trevor Suarez
Chief Financial Officer

235.7
GBP million
Cash and investments

> "...we are progressing well through what is our largest single investment program since we began operations in 2002."

I would echo Bryan, Rick and Ken's observations that we remain committed to our long-term strategy: delivering an exceptional service while investing in our infrastructure and new products to meet the needs of our clients today and in the future. This has led to record levels of investment, which over the medium term impacts our profitability, resulting in a reported loss in 2018 of GBP 18.5 million.

Providing more context to the investment activity, we are progressing well through what is our largest single investment program since we began operations in 2002. The multi-year Convergence program, which replaces and modernizes our current technology platform supporting CLSSettlement, is expected to go live in late 2020.

The accelerated amortization of the legacy infrastructure being replaced by Convergence is the single largest item affecting our profitability this year. This has had an adverse impact on the statement of profit and loss (P&L) by bringing forward a charge which otherwise would have been reported in future years.

Combined with this, is the investment in new products, which will take several years to achieve full financial maturity, and as a result we will continue to see a dip in short-term profitability. Additionally, given the projected long pay back on our investment in CLSNet, for accounting reasons, we have decided to expense to the P&L statement the carrying value previously held on the balance sheet. Irrespective of this accounting adjustment, CLSNet continues to be a key strategic initiative for us.

All of these items impact our results when compared to the previous year and as highlighted in my prior CFO statement, we expect this to continue until 2020, by when we will complete the transition of the current platform supporting CLSSettlement to the new Unified Services Platform. Upon completion, we will have some of the most robust and sophisticated technology in the financial market infrastructure space.

Given the above, our financial results are better assessed on an 'underlying' basis. This basis removes both positive and negative distorting impacts and provides year–on-year comparability.

On this comparable basis, our results show a underlying profit for the year after tax of GBP4.7 million, though down on the equivalent GBP23.5 million, for the same period last year.

Looking more closely at our revenues, and in line with projections, CLSSettlement revenues remained broadly comparable to last year. Activity, in the form of traded volumes settled through CLSSettlement continued to show strong year-on-year growth. As a consequence of our pricing methodology, our members have benefited materially from a reduced unit price for each transaction processed and settled through CLS.

In fact, since 2015, the average price for each USD million settled across the CLS membership has fallen by over 17%.

Outside of CLSSettlement, 2018 included for the first time almost GBP6 million of revenues from new products.

Additionally, as Ken references, we jointly decided with Traiana to discontinue the CLS Aggregation Service. In 2018 the financial impact is minimal, and we expect this to be the case going forward from a total profitability perspective, though individual lines in the income statement will be impacted.

With respect to operating expenses, we have materially increased our investment in governance and control-related initiatives across the organization, reflecting our own heightened demand, coupled with changes in regulatory and industry-wide requirements. While some of this cost increase is one-off in nature, a proportion will be recurring into future years. Operating expenses in 2018 also include, for the first time, the running cost of CLSNet and some pre-launch costs for CLSNow.

We are also exposed to the impact of foreign exchange translation of USD expenses into GBP. We manage this risk activity and achieve rate certainty through a hedging program, but in 2018, compared to the prior year, we recorded an adverse foreign exchange impact adding to the overall year-on-year cost growth.

With respect to tax, our results this year, as noted in my half year report, include a provision release which is no longer required.

Turning to our balance sheet, our two largest assets are intangible assets, and Cash and Investments. The former largely represents the cumulative value of our investment in CLSSettlement service. We have already started to see the value of the legacy system supporting the CLSSettlement service reduce sharply through accelerated amortization charges, which will then be replaced by the new Unified Services Platform post Convergence.

Cash and Investments, represents our other major asset on the balance sheet. We continue to hold prudent levels of working capital and during 2018, after careful evaluation, we appointed a leading third party asset manager to manage a proportion of our funds, leveraging their market expertise, governed by tight risk limits and liquidity parameters.

In addition to Convergence, our use of capital in 2018 reflects further investment in our data and processing business lines as well as investment in Governance and Control activities. This is fully aligned with our strategic and business goals and as expected has led to near term reduction in the absolute level of capital we hold. This trend will continue through to 2020 until we complete our major multi-year investment program.

However, at all times we maintained, and will continue to maintain levels of capital in the form of Cash and Investments, well above minimum regulatory requirements, and above the additional prudent buffer capital we have opted to hold.

In closing, in 2018 we continued with the significant progress in delivering our long-term strategy. Though our reported financial results have been adversely impacted, we have anticipated this, planned for it and operate with the underpinning strength of our balance sheet, which enables us to maintain momentum in achieving our long term goals.

Trevor Suarez
Chief Financial Officer

Our people

Kathryn Herrington
Chief Administrative Officer

Providing exceptional risk mitigation and operational services to the global foreign exchange market starts with our people.

At CLS we focus on attracting, developing and retaining a high-performing workforce supported by strong leadership through our recruitment, reward, talent development and employee engagement practices. Attracting the most talented and high-performing individuals ensures that our organization has the diversity of skills, behaviors, backgrounds and experience it needs to succeed.

In addition to a robust program of learning and development, we continually strive to be an employer of choice – one that attracts and retains the best talent, collaborates effectively and innovates for the successful delivery of our vision and strategy. Our cohesive engagement strategy and strong employee value proposition is also underpinned by diversity, employee wellbeing and corporate social responsibility (CSR).

We are committed to promoting diversity, preventing discrimination and providing a supportive and inclusive working environment for everyone. Activities to support this in 2018 included a series of anti-harassment workshops for employees, diversity and inclusion workshops and a number of initiatives to highlight events such as Black History month, International Women's Day and Pride.

Health@CLS, our employee wellbeing program, runs a range of activities and events throughout the year, all with the aim of fostering a healthy and psychologically safe working environment. As well as encouraging healthy behavior, the program provides employees with a support framework for anything related to physical, mental, environmental and social health.

At CLS we also support the local communities in which we operate – CSR is becoming an increasingly integral part of our organizational culture. As part of our CSR program all employees are supported to spend time away from the office, actively volunteering for charitable causes. Additionally we select charities in our local communities to partner with each year, focusing our employee fundraising activities where most needed.

As CLS continues to evolve as an organization, we are taking an even more strategic approach to our people agenda, coordinating activity across all regions and aligning processes to our vision and values. We believe we can maximize CLS's potential as an ongoing driver of positive change for our colleagues as well as our clients.

Kathryn Herrington
Chief Administrative Officer

Directors' report

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

12.7
USD trillion
Peak value day
(settled)

The Directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the year ending 31 December 2018. 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[1], a Delaware limited liability company that is a majority-owned subsidiary of CLS Bank and a joint venture with Traiana, Inc., a NEX Group company, provided 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.

[1]CLS Aggregation Services LLC is in the process of being liquidated.

Financial results and dividends

The Group achieved a loss after tax of GBP18.5 million, compared to a profit of GBP15.8 million in 2017. Net assets of GBP showed a decrease of GBP compared to 2017. No dividend is recommended for the year (2017: 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 2019 budget year and long-term business plans, that sufficient funds will be available in the business for the foreseeable future.

Strategy

In 2018 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 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 our 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.

Internal controls

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

The Chief Internal Auditor Duncan Barnard, has direct access to the Co-Deputy Chairmen, Bryan Osmar and Rick Sears 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 and ensuring we continue to meet regulatory expectations. The Board receives a quarterly update of regulatory developments that impacts CLS and/or its settlement members. A description of the relevant regulatory developments follows.

Governance

Principle 2 of the CPMI-IOSCO 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 22. 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 38 to 41.

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 7 May, 2019. By order of the Board.

Bryan Osmar
CLS Group Holdings AG
Co-Deputy Chairman
27 March 2019

Richard Sears
CLS Group Holdings AG
Co-Deputy Chairman
27 March 2019

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 CLS's PFMI Disclosure, available on the Group's website.

Governance statement

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 Interim 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 ten meetings in 2018, 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 Interim Chief Executive Officer regarding business matters for the Group.

Board leadership and composition

As of 31 December 2018, the Board was comprised of 22 Directors. CLS shareholder institutions are represented by 17 Non-Executive Directors, with five Outside Directors 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 the Audit and Finance Committee, the Nominating and Governance Committee and the Risk Management Committee are Outside Directors.

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

The Nominating and Governance Committee and Board regularly consider and assess the size of the Board and whether it supports the Board's oversight responsibilities. 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.

Board Remuneration

Only the Outside Directors[2], 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

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

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 USD600,000 (or its equivalent in a different currency), and

2. Each Outside Director, who is required to spend up to 20% of his or her time on Group matters, receives an annual stipend of USD200,000 (or its equivalent in a different currency). As an exceptional matter, certain stipends are grossed up to account for relevant foreign taxes.

3. Outside Directors serving on more than one Committee receive an additional USD10,000 for each additional committee exceeding the one committee requirement. Outside Directors who serve as Chairman of a committee receive an additional USD35,000. This does not include any additional compensation by Mr. Harvey as Interim Chief Executive Officer or Mr. Osmar as Co-Deputy Chairman.

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 overseeing CLS controls, both its Internal Audit division and the relationship with the external auditor, and 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.

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.

Governance statement (continued)

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.

The Committee shares oversight of cybersecurity with the Technology and Operations Committee.

Technology and Operations Committee

The Technology and Operations Committee oversees the technology and operational aspects of the CLSSettlement 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 79 Shareholders, each of whom (with limited exceptions) is a settlement member or an affiliate of a settlement member of CLS Bank, a US Edge Act corporation. CLS Bank provides FX-related settlement services, and CLS Aggregation Services LLC, a Delaware limited liability company that is a majority-owned subsidiary of CLS Bank and a joint venture with Traiana, Inc. (a NEX Group company) 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 Edge Act corporations, bank holding companies and Designated Financial Market Utility (DFMU) 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 the Bank of England.

CLS Group Holdings Board and Committee Composition 2018

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 2018	10	20	6	8	9	8	8
Kenneth Harvey* (Chairman & Interim CEO) (1)	●		●	●			●
Rick Sears (Co-Deputy Chairman) (2)	●			Co-Chair	●		
Bryan Osmar* (Co-Deputy Chairman) (2)	●			Co-Chair		Chair (3)	
Thomas Berkery* (4)	●	●					
Vidya Bittianda (5)	●					●	
Vincent Bonamy (6)	●		●			●	
Gerald Brady (6)	●						●
Jennifer Buonopane	●						●
Sir John Gieve (7)	●			●		Chair	
David Gary	●					●	
Peter Healey	●	●					
Akira Hoshino	●					●	
David Hudson (7)	●						●
Michael Lawrence (6)	●					●	
Dominique Le Masson	●		●				
Ericka Leslie	●			●			Chair
Gilbert Lichter*	●	●		●	Chair		
Gillian Lungley (8)	●						●
Bruce Nolop*	●	Chair		●			
David Puth (9)	●		●	●			
Paul Riordan (7)	●					●	
William Stenning	●		●	●			
Robert Stolte (6) (10)	●						●
Fabrizio Tallei	●	●					
David Thomas	●				●		●
Jason Vitale	●		Chair	●	●		
Sara Wardell-Smith (10)	●				●		
Ronnie Yam	●	●					

● Denotes Board/Committee membership

Asterisk (*) indicates Outside (Independent) Director

(1) Elected as Interim CEO 6 September 2018
(2) Elected as Co-Deputy Chairman 6 September 2018
(3) Elected as Chairman 9 May 2018
(4) Elected 16 October 2018
(5) Resigned 27 April 2018
(6) Elected 8 May 2018
(7) Resigned 7 May 2018
(8) Resigned 22 November 2018
(9) Resigned 30 November 2018
(10) Resigned 31 January 2019

Regulatory developments

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

Cybersecurity and operational resilience

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

In 2018, CLS continued to support sector-wide efforts to embed international guidance on cyber resilience for FMIs and operationalize the CPMI's newly issued strategy to reduce the risk of wholesale payments fraud related to endpoint security. We also participated in informal discussions around key regulatory priorities, such as information-sharing, coordinated testing frameworks, and third party risks.

RTGS renewal initiatives

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

During the past year, we responded to consultations from Sveriges Riksbank and the Federal Reserve Board, in each case proposing that their respective RTGS systems extend operating hours to 24 hours a day on all business days, which would increase the overlapping hours with RTGS systems in other jurisdictions and, in turn, support the elimination of current risks associated with non-PvP settlement for intraday transfers between those systems. In response to the Bank of England's consultation on a common messaging standard, CLS expressed support for an internationally-harmonized approach to the adoption of ISO 20022 in CHAPS. We also responded to two consultations related to Payment Canada's modernization program and advocated for legislative changes that would enable systemically important FMIs overseen by the Bank of Canada (such as CLS) to be eligible for direct connectivity to Lynx, the new RTGS system that will replace the current Large Value Transfer System.

Jurisdiction-specific requirements for FMIs

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

Brexit

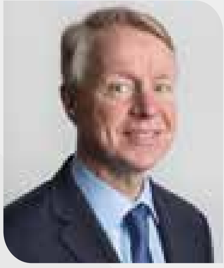
Following the decision by the United Kingdom to leave the European Union, CLS formed a dedicated cross-divisional team tasked with identifying and proactively addressing potential Brexit-related issues that could impact CLS or its participants, including legal and regulatory issues. In particular, CLS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

Cross-border recovery and resolution regimes

CLS monitors recovery- and resolution-related regulatory 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) continues 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 (subject to appropriate confidentiality provisions) is critical for maximizing the likelihood of continued participation, and we continue to advocate this position in different fora, as appropriate.

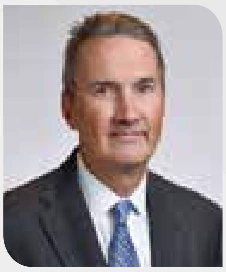
At a global level, we engaged with the Financial Stability Board (FSB) on implementation of the Key Attributes as applicable to FMIs, as well as resolution regimes on a broader basis. We submitted comments in response to the FSB's thematic peer review on bank resolution planning. Furthermore, we have updated CLS's Member Resolution Playbook to reflect the FSB's July 2017 guidance on continuity of access to FMIs for a firm in resolution, and this playbook includes (among other exhibits) a Considerations document for members (formerly known as the 'Checklist'). In the United States, we submitted a comment letter with respect to the Federal Reserve Board and FDIC's jointly proposed resolution planning guidance for the eight largest and complex U.S. G-SIBs, which had included a number of key changes to prior guidance regarding firms' payment, clearing, and settlement activities, in alignment with key principles from the FSB guidance.

Board of Directors



Kenneth Harvey

Originally elected December 2011
Affiliation Outside Director
Role Interim Chief Executive Officer (formerly Chief Technology & Services Officer, HSBC plc)

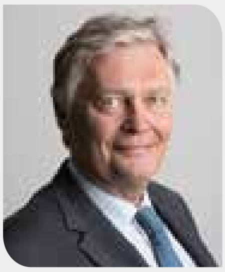


Bryan Osmar

Originally elected May 2017
Affiliation Outside Director
Role Co-Deputy Chairman, former Managing Director and Head of Market Infrastructure – Royal Bank of Canada

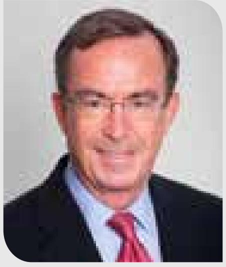
Rick Sears

Originally elected May 2011
Affiliation Barclays
Role Co-Deputy Chairman, Business Manager, Markets Division and Business Manager, Macro, Barclays International



Gilbert Lichter

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

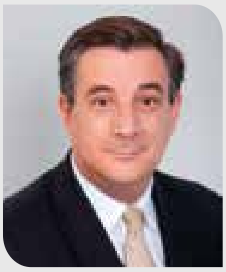


Thomas Berkery

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

Bruce Nolop

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



Vincent Bonamy

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

Gerard Brady

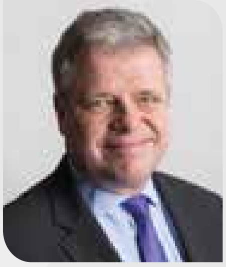
Originally elected May 2018
Affiliation Morgan Stanley
Role Global Chief Information Security Officer

Jennifer Buonopane

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

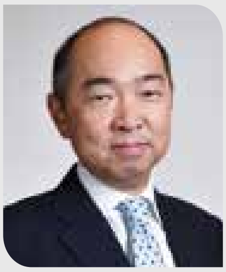
David Gary

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



Peter Healey

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



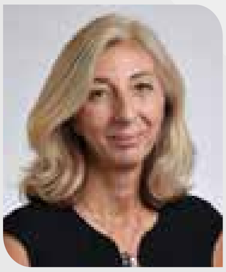
Akira Hoshino

Originally elected May 2017
Affiliation MUFG Bank
Role Senior Fellow & Managing Director, Co-Head of Global Markets Sales and Trading

Board of Directors

Michael Lawrence

Originally elected May 2018
Affiliation Citi, Markets & Securities Services
Role Managing Director, Global CAO, Foreign Exchange & Local Markets – Citi, Markets & Securities Services

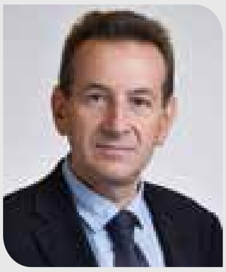


Dominique Le Masson

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

Ericka Leslie

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



William Stenning

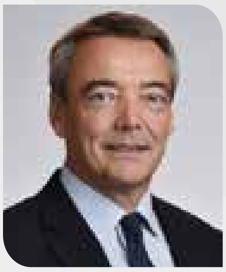
Originally elected May 2017
Affiliation Société Générale
Role Managing Director – Clearing, Regulatory & Strategic Affairs, Société Générale Corporate and Investment Bank

Robert Stolte

Originally elected May 2018
Affiliation JPMorgan's Commercial and Investment Bank
Role Managing Director

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 in 2018

Vidya Bittianda
Resigned 27 April 2018

Sir John Gieve
Resigned 7 May 2018

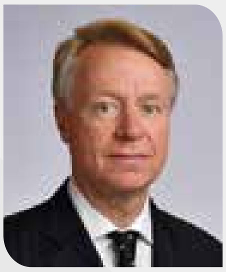
David Hudson
Resigned 7 May 2018

Gillian Lungley
Resigned 22 November 2018

David Puth
Resigned 30 November 2018

Paul Riordan
Resigned 7 May 2018

Executive Management Committee



Kenneth Harvey

Interim Chief Executive Officer

Duncan Barnard

Chief Internal Auditor

Michele Fleming

Chief Compliance Officer

John Hagon

Chief Operations Officer

Kathryn Herrington

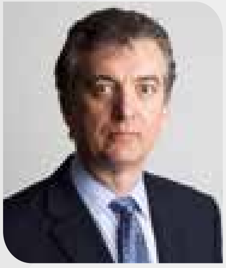
Chief Administrative Officer

Rachael Hoey

Head of Data Services

Shannon Kete

Chief Delivery Officer

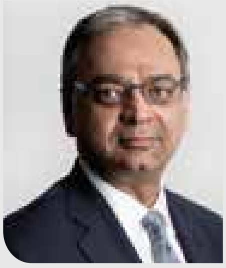


Dino Kos

Chief Regulatory Officer

Alan Marquard

Chief Strategy and Development Officer



Naresh Nagia

Chief Risk Officer

Trevor Suarez

Chief Financial Officer

Gaynor Wood

General Counsel

Tom Zschach

Chief Information Officer

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 financial statements for the year ended 31 December 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 48 to 53) give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, 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

CLS Group reported a tax credit of GBP8.5 million for year-ended 31 December 2018 and had tax assets and liabilities of GBP4.3 million and GBP16.6 million respectively 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 judgment 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

Using our tax specialists to assess the appropriateness of the Group's approach to accounting for taxes in its US trading subsidiary, including evaluating 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 relevant to the determination of the tax charge.

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

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

Intangible assets

Key audit matter

The Group reported intangible assets of GBP167 million as at 31 December 2018. Of this amount, GBP52 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 once assets are considered complete and ready for deployment are they transferred to assets in use and amortization commences. Our work was focused on this aspect of intangible asset accounting.

Our response

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

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

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

For further information on intangible assets refer to the following:

- Note 2. Significant accounting policies, I. Intangible Assets
- Note 3. Critical accounting judgments and key sources of estimation uncertainty
- Note 9 to the consolidated financial statements

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 stand-alone financial statements of the company, the remuneration report and our auditor's reports thereon.

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

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

Responsibility of the Board of Directors for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

KPMG AG

Christoph Gröbli	Spiros Kavvadias
Licensed Audit Expert	Licensed Audit
Auditor in Charge	Expert

Zurich, Switzerland
27 March 2019

Consolidated accounts

Consolidated statement of profit or loss

For the year ended 31 December 2018 (All amounts stated in GBP000)

	Notes	2018	2017
Revenue	4	**206,053**	**197,528**
Operating expenses			
Other operating expenses		(216,825)	(172,898)
Accelerated amortization of core settlement assets		(17,605)	–
(Loss)/profit from operations	5	**(28,377)**	**24,630**
Investment income	7	1,335	886
(Loss)/profit before tax		**(27,042)**	**25,516**
Tax credit/(charge) for the period	8	8,538	(9,764)
Total (loss)/profit for the period		**(18,504)**	**15,752**
(Loss) from continuing operations, net of tax		(19,875)	15,752
Profit from discontinued operations, net of tax	31	1,371	–
Attributable to:			
Equity holders of parent		(19,162)	15,193
Non-controlling interests	11	658	559
(Loss)/profit for the period		**(18,504)**	**15,752**

Notes from pages 56 to 89 form part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2018 (All amounts stated in GBP000)

	Notes	2018	2017
(Loss)/profit for the period		(18,504)	15,752
Net gains/(losses) from changes in fair value			
Net losses transferred to net profit			
Exchange differences on translation of foreign operations		827	(767)
Exchange rate movements taken to the cash flow hedge reserve	15	6,315	(3,027)
Fair value movements taken to be OCI revaluation reserve		(20)	–
Total comprehensive income		(11,382)	11,958
Attributable to:			
Equity holders of parent		(11,382)	11,757
Non-controlling interests		–	201
Total comprehensive income		**(11,382)**	**11,958**

Consolidated statement of financial position

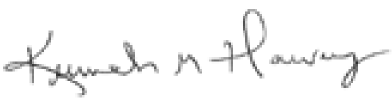
At 31 December 2018 (All amounts stated in GBP000)

	Notes	31 December 2018	31 December 2017
Non-current assets			
Intangible assets	9	165,507	161,831
Property, plant and equipment	10	9,287	11,722
Other investments	12	3,431	117
Deferred tax asset	13	4,337	2,092
		182,562	**175,762**
Current assets			
Trade and other receivables	14	34,507	31,848
Derivative financial instruments	15	4,769	–
Investments at fair value	18	128,289	–
Cash deposits	16	77,427	229,128
Cash and cash equivalents	17	25,158	32,539
Assets from discontinued operations	31	4,975	–
		275,125	**293,515**
Total assets		**457,687**	**469,277**
Current liabilities			
Trade and other payables	19	(56,880)	(41,987)
Current tax liabilities	20	(491)	(8,669)
Derivative financial instruments		–	(3,830)
Liabilities from discontinued operations		(673)	–
		(58,044)	**(54,486)**
Net current assets		**217,081**	**239,029**
Non-current liabilities			
Other liabilities	21	(7,043)	(6,702)
Deferred tax liabilities	13	(16,591)	(18,959)
		(23,634)	**(25,661)**
Total liabilities		**(81,678)**	**(80,147)**
Net assets		**376,009**	**389,130**

Notes from pages 56 to 89 form part of these consolidated financial statements.

	Notes	31 December 2018	31 December 2017
Equity			
Share capital	22	202,582	204,577
Share premium account		116,104	115,287
Combined merger and consolidated reserves	23	116,631	116,631
Translation reserves		1,334	507
Cash flow hedge reserve	15	3,288	(3,027)
OCI revaluation reserve		(20)	–
Retained losses		(65,630)	(46,468)
Equity attributable to equity holders of the parent		**374,289**	**387,507**
Non-controlling interests	11	1,720	1,623
Total equity		**376,009**	**389,130**

The consolidated financial statements were approved by the Board of Directors on 27 March 2019 and signed on its behalf by



Kenneth Harvey
CLS Group Holdings AG
Interim Chief Executive Officer
27 March 2019

Consolidated statement of changes in equity

For the year ended 31 December 2018 (All amounts stated in GBP000)

	Notes	Share capital	Share premium	Combined merger and consolidated reserves	Translation reserves	Cash flow hedge reserve	OCI reserve	Retained earnings	Total equity attributable to parent	Non-controlling interests	Total equity
Balance at 1 January 2017		**204,557**	**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		**204,577**	**115,287**	**116,631**	**507**	**(3,027)**	**–**	**(46,468)**	**387,507**	**1,623**	**389,130**
Issue of shares		–	–	–	–	–	–	–	–	–	–
Redemption of shares		(1,995)	817	–	–	–	–	–	(1,178)	–	(1,178)
Profit for the year		–	–	–	–	–	–	(19,162)	(19,162)	658	(18,504)
Dividend: non-controlling interest		–	–	–	–	–	–	–	–	(561)	(561)
Other comprehensive income		–	–	–	827	6,315	(20)	–	7,122	–	7,122
Balance at 31 December 2018	21	**202,582**	**116,104**	**116,631**	**1,334**	**3,288**	**(20)**	**(65,630)**	**374,289**	**1,720**	**376,009**

Notes from pages 56 to 89 form part of these consolidated financial statements.

Consolidated cash flow statement

For the year ended 31 December 2018 (All amounts stated in GBP000)

	Notes	2018	2017
(Loss)/profit from operations		**(28,377)**	**24,630**
Adjustments for:			
Amortization of intangible assets		53,658	19,537
Depreciation of property, plant and equipment		3,511	3,016
Foreign exchange gains recognized in profit from operations		(2,673)	(1,599)
Operating cash flows before movements in working capital		**26,119**	**45,584**
Increase in receivables		(2,784)	(5,548)
Increase in payables		10,841	1,790
Gain on matured hedges		6,315	5,510
Cash generated from operations		**40,491**	**47,336**
Income taxes paid		(9,739)	(6,266)
Net cash inflow from operating activities		**30,752**	**41,070**
Net cash inflow from operating activities (continued)		28,520	41,070
Net cash inflow from operating activities (discontinued)		2,232	–
Investing activities:			
Interest received		1,292	606
Decrease/(increase) in cash deposits	16	151,701	(151,208)
Purchase of FVTOCI investments		(131,603)	–
Purchases of intangible assets	9	(55,188)	(38,357)
Purchases of property, plant and equipment	10	(1,076)	(3,860)
Net cash (outflow) from investing activities		**(34,874)**	**(192,819)**
Net cash (outflow) from investing activities (continued)		(34,874)	(192,819)
Net cash (outflow) from investing activities (discontinued)		–	–
Financing activities:			
Redemption of shares	22	(1,179)	–
Dividend: non-controlling interest		(561)	(2,925)
Net cash inflow from financing activities		**(1,740)**	**(2,925)**
Net cash (outflow) from financing activities (continued)		(1,179)	(2,925)
Net cash (outflow) from financing activities (discontinued)		(561)	–
Net decrease in cash and cash equivalents		**(5,862)**	**(154,674)**
Cash and cash equivalents at beginning of year		**32,539**	**189,367**
Effect of foreign exchange rate changes		3,282	(2,154)
Cash and cash equivalents at end of year		**29,963**	**32,539**
Cash from discontinued operation		(4,805)	–
Cash and cash equivalents as presented on the consolidated statement of financial position		**25,158**	**32,539**

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, Executive Management Committee (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 29 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

Effective 1st January 2018 IFRS 15, Revenue from Contracts with Customers, which replaces IAS 18, revenue and IAS 11, Construction Contracts was applied. 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. 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.

This standard has been adopted using the modified, cumulative effect approach wherein the guidance is applied only to existing contracts as of the date of initial application, and to new contracts transacted after that date.

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

H. Taxation

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

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.

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

2. Significant accounting policies (continued)

H. Taxation (continued)

ii. Deferred tax

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

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

I. Intangible assets

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

The Group has identified the following assets:

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

i. Recognition and measurement

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

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

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

ii. Subsequent expenditure

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

iii. Amortization

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

In January 2018 the Board of CLS Group decided to proceed with replacing the CLSSettlement system in 2020 resulting in a shortening of the estimated UEL of the CLSSettlement Service and upgrades and enhancements.

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

The new unified services platform which will host the settlement service, once live, will be amortized over 10 years.

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 CLSSettlement service	20 years, 20% reducing balance
Upgrades and enhancements to the core service	10 years, straight line
STAR program	10 years, straight line
Other CLS services	5 years, straight line
All other business systems	5 years, straight line

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

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

2. Significant accounting policies (continued)

J. Financial instruments

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

i. Non-derivative financial assets and liabilities – recognition

Financial assets and financial liabilities are recognized when a group entity becomes 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-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

ii. Non-derivative financial assets and liabilities – derecognition

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

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

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

Derecognition of financial liabilities

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

iii. Non-derivative financial assets and liabilities – measurement

Investments at fair value

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

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

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

FVTOCI equity investments

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

Amortized cost

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

iv. Derivative Financial Instruments

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

Hedge accounting

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

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

2. Significant accounting policies (continued)

J. Financial instruments (continued)

Cash flow hedge accounting

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

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

v. Impairment

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

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

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

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

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

vi. Non financial assets

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

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

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

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

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

K. Equity instruments

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

L. Future accounting developments

There have been, and are expected to be, a number of significant changes to the Group's financial reporting after 2018 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 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.

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

3. Critical accounting judgments and key sources of estimation uncertainty

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

Assumptions and estimation uncertainties

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

- Tax: At the balance sheet date there are prior tax years for which management believes a provision is required. The provision has been estimated by management at an appropriate level calculated at the more likely outcome. This provision will be released if not expensed once the years in question are formally agreed and closed with relevant tax authorities.
- Deferred Tax: At the balance sheet date, management has reviewed the carrying value of the deferred tax asset using as its support the Group's projected five year plan. The forecasted income profile contained within the plan supports the value of the asset and therefore management is of the opinion that the value is appropriate. Deferred tax assets are described in note 13.
- UEL: During the year, management has conducted a review of the estimated UEL of the internally generated intangible asset. Continued expenditure on application development maintains and enhances its future economic benefits and therefore management is of the opinion that the current estimated UEL can be maintained. Intangible assets are described in note 9.
- Transfer to cost: In addition, at the balance sheet date, management has continued its policy of reviewing the assets in the course of construction and deemed the balances within it suitable not to be amortized until that asset is fully operational and put into production. All these assets relate to software.
- Valuation of financial instruments: The valuation of financial instruments often involves a significant degree of judgment and complexity, in particular where valuation models make use of unobservable inputs (Level 3 assets and liabilities). Note 29 provides information on these instruments, including the related unrealized gains and losses recognized in the period, a description of significant valuation techniques and unobservable inputs, and a sensitivity analysis.

4. Revenue

	2018	2017
Instruction processing charges	178,408	173,712
Annual account maintenance fees	8,302	7,900
CCP settlement	3,878	–
Liquidity usage fees	2,672	2,721
Aggregation fees	6,990	8,073
In/Out Swap program participant fees	1,402	1,368
Credit derivatives	1,500	1,550
Account opening fees	200	800
Cross Currency Swaps	622	419
Sundry income	2,079	985
Total revenue	**206,053**	**197,528**

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.

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

5. Profit from operations

The profit from operations has been arrived at after charging:

	Notes	2018	2017
Staff costs	6	88,923	77,458
IT service charges		36,918	28,712
Amortization of intangible assets	9	22,915	19,537
Depreciation of property, plant and equipment	10	3,511	3,016
Accelerated amortization of core settlement assets		17,605	–
Impairment of intangibles		13,136	–
Profit share arrangement	19	367	259
Traiana service charges		1,453	1,786
Foreign exchange loss		373	469
Foreign exchange gain on forward contracts		(1,252)	(5,510)
Telecom costs		15,322	15,879
Professional service costs		16,696	12,842
Establishment costs		5,760	6,923
Other		12,725	10,571
Auditors' remuneration for audit services (see below)		286	240

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:

	2018	2017
Fees payable to the Company's auditors for the audit of the Company's annual accounts		
– Current year	245	220
– Prior year	21	–
Audit of the Company's subsidiaries pursuant to legislation		
– Current year	20	20
– Prior year	–	–
Total audit fees	**286**	**240**
Fees payable to the Company's auditors and their associates for other services to the Group:		
Tax services	259	196
Other services	17	39
Total non-audit fees	**276**	**235**
Total fees	**562**	**475**

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

6. Staff costs

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

Number of staff	2018	2017
Service delivery and technology	149	191
Risk and control	156	110
Corporate	69	40
Total	**374**	**341**

Total aggregate remuneration comprised:

	2018	2017
Salaries	69,348	62,341
Temporary staff	10,215	7,090
Social security costs	5,425	4,428
Pension costs	3,935	3,599
Total	**88,923**	**77,458**

Further analysis of Directors' remuneration is included in note 27

7. Investment income

	2018	2017
Interest income on investments	1,335	886

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

8. Tax

	2018	2017
Current tax:		
UK corporation tax		
– Current period	(421)	(523)
– Adjustments in respect of previous periods	144	(103)
	(277)	**(626)**
Non-UK corporation tax		
– Current period	4,457	(4,974)
	4,457	**(4,974)**
Current tax credit/(charge) for the period	**4,180**	**(5,600)**
Deferred tax:		
Relating to the change in tax rates from 19.25% to 19%	(243)	87
Relating to origination and reversal of temporary differences	4,193	(4,636)
Adjustments recognized in the period for deferred tax of prior periods	408	3
Deferred tax credit/(charge) for the period	**4,358**	**(4,546)**
Total tax credit/(charge) for the period recognized in the income statement	**8,538**	**(10,146)**

Non-UK tax relates to USA and Japan.

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

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

	2018	2017
(Loss)/profit before tax	(27,042)	25,516
UK statutory tax rate	19%	19.25%
At UK statutory income tax rate credit/(cost)	5,138	(4,912)
Current tax affecting items:		
Permanent disallowable expenses and non-taxable income	(568)	(103)
Adjustments in respect of current income tax of previous periods	122	(98)
Deferred tax expense relating to changes in the tax rates	(233)	78
Effect of different tax rates of subsidiaries operating in other jurisdictions	4,589	(5,840)
Deferred tax affecting items:		
Dividend income not taxable	409	–
Foreign exchange rate movement	558	(16)
Differences on which no deferred tax is recognized	(1,477)	385
Total tax credit/(charge) for the period	**8,538**	**(10,146)**

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

9. Intangible assets

	Assets in course of construction	Settlement Assets	Non-settlement Assets	Total
Cost				
Opening balance 1 January 2017	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**
Additions	57,334	–	–	57,334
Transfers	(71,741)	62,485	9,256	–
Foreign exchange	–	–	–	–
Closing balance 31 December 2018	**50,793**	**355,807**	**11,767**	**418,367**
Accumulated amortization				
Opening balance 1 January 2017	–	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**
Charge for the year	–	21,431	1,484	22,915
Accelerated amortization of core settlement assets	–	17,605	–	17,605
Impairment during the year	–	13,136	–	13,136
Foreign exchange	–	–	2	2
Closing balance 31 December 2018	**–**	**248,927**	**3,933**	**252,860**
Net book value				
31 December 2018	**50,793**	**106,880**	**7,834**	**165,507**
31 December 2017	65,200	96,567	64	161,831

10. Property, plant and equipment

	Leasehold improvements	Computer equipment	Fixtures and fittings	Total
Cost				
Opening balance 1 January 2017	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**
Additions	–	1,076	–	1,076
Disposals	–	–	–	–
Closing balance 31 December 2018	**11,912**	**13,652**	**451**	**26,015**
Accumulated depreciation				
Opening balance 1 January 2017	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**
Charge for the year	1,480	2,013	18	3,511
Disposals	–	–	–	–
Closing balance 31 December 2018	**5,908**	**10,457**	**363**	**16,728**
Net book value				
31 December 2018	**6,004**	**3,195**	**88**	**9,287**
31 December 2017	7,484	4,132	106	11,722

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

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

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

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

	2018	2017
Non-current assets	–	64
Current assets	4,975	3,901
Current liabilities	(673)	(543)
Net assets	**4,302**	**3,422**
Carrying amount of NCI	**1,720**	**1,623**

[1]Not operational as at 31 December 2018.

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

	2018	2017
Revenue	6,990	8,073
Profit	1,371	1,141
Other comprehensive income (OCI)	–	(359)
Total comprehensive income	**1,371**	**(782)**
Profit allocated to NCI	**658**	**559**
OCI allocated to NCI	**–**	**(359)**
Cash flows from operating activities	2,563	1,350
Dividends paid	(1,137)	(5,877)
Net increase in cash and cash equivalents	**1,426**	**(4,527)**

12. Other investments

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

	2018	2017
Investment in R3	3,120	–
Investment in SWIFT	311	117
Balance at 31 December 2018	**3,431**	**117**

Investment in R3 LLC

CLS UK Intermediate Holdings Ltd. held 27,790 shares in R3 at 31 December 2018 representing less than 2% of the entity's total share capital. This investment is not required to be accounted for under the equity method of accounting as the Company does not have significant influence. The investment is held on the Group balance sheet at FVTOCI in accordance with IFRS 9.

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

Balance at 31 December 2017	**–**
Acquisitions	3,120
FV movement	–
Foreign exchange movement	–
Balance at 31 December 2018	**3,120**

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All amounts in GBP000 unless stated otherwise

Investment in SWIFT

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

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

Balance at 31 December 2017	**117**
FV movement	184
Foreign exchange movement	10
Balance at 31 December 2018	**311**

The fair value of the investment has been determined using the nominal value per share calculated annually and approved, by the board of SWIFT. The last available price determined in June 2018 was EUR 5,160 per share. The Group does not intend to dispose of this investment.

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

13. Deferred tax asset and liabilities

	Asset/(liability) recognized on				
	Trading losses	**Tax depreciation**	**Accruals**	**Other**	**Total**
Balance at 1 January 2017	**3,487**	**(29,108)**	**3,618**	**3,049**	**(18,954)**
Foreign exchange movement	(194)	4,843	(125)	(176)	4,348
(Charge)/credit to income in the year	(3,293)	5,675	(2,354)	(2,289)	(2,261)
Balance at 31 December 2017	**–**	**(18,590)**	**1,139**	**584**	**(16,867)**
Foreign exchange movement	561	2,156	72	119	2,908
(Charge)/credit to income in the year	11,021	(10,903)	309	1,278	1,705
Balance at 31 December 2018	**11,582**	**(27,337)**	**1,520**	**1981**	**(12,254)**

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

14. Trade and other receivables

	At 31 December 2018	At 31 December 2017
Pre-payments and accrued income	17,358	15,871
Other receivables	1,035	644
VAT recoverable	870	748
Trade receivables	15,244	14,585
Total	**34,507**	**31,848**

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 2019 and early 2020.

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

	At 31 December 2018		At 31 December 2017	
	Notional contract amount	Fair value £'000	Notional contract amount	Fair value £'000
Forward foreign currency contracts not in hedging relationships	$10m	894	$11m	(415)
Forward foreign currency contracts in hedging relationships	$72m	3,875	$107m	(3,415)
Closing balance at 31 December	**$82m**	**4,769**	**$118m**	**(3,830)**

The maximum length of time over which the Group hedges exposure to the variability in future cash flows for forecast transactions is 18 months (2017: 18 months).

Gains and losses transferred from the cash flow hedging reserve to the income statement included a GBP919 loss (31 December 2017: GBP2,801,000 loss) transferred to administration and general expenses including taxation. The amount is allocated as follows: Bonus expense GBP1,534,000 gain (31 December 2017: GBP887,000 loss); payroll expense GBP1,226,000 (31 December 2017: GBP895,000); supplier payments GBP1,226,000 (31 December 2017: GBP895,000). Hedge ineffectiveness was GBPnil (2017 GBP249,000).

Further details of derivative financial instruments are provided in note 29.

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.

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

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.

18. Investments at fair value

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

	At 31 December 2018	At 31 December 2017
Investments held as FVTOCI	128,289	–
Total	**128,289**	**–**

19. Trade and other payables

	At 31 December 2018	At 31 December 2017
Accruals	(40,285)	(27,537)
Deferred income	(7,941)	(8,578)
Trade payables	(732)	(789)
Taxation and social security costs	(2,356)	(2,131)
Other payables	(5,105)	(2,569)
Payable to Founding Aggregation Participants of CLS Aggregation Services LLC	(461)	(383)
Total	**56,880**	**(41,987)**

Trade and other payables principally comprise amounts outstanding for trade purchases accruals and deferred income included ongoing costs relating to the core system.

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

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

20. Current tax (liabilities)/assets

	At 31 December 2018	At 31 December 2017
UK Corporation tax	–	(68)
US Federal tax	(3,704)	(10,930)
Total tax liabilities	**(3,704)**	**(10,998)**
UK Corporation tax	340	278
US City tax	1,397	1,339
US Federal tax	1,476	712
Total tax assets	**3,213**	**2,329**
Net tax liabilities	**(491)**	**(8,669)**

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.

21. Other liabilities

	At 31 December 2018	At 31 December 2017
Deferred compensation	(7,043)	(6,702)
Total	**(7,043)**	**(6,702)**

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

22. Share capital

Authorized	No. ordinary shares CHF 1,400 each	Total nominal value CHF000
31 December 2018	**350,997**	**491,396**

Authorized	No. ordinary shares CHF 1,400 each	Total nominal value CHF000
31 December 2017	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 2018	**288,514**	**403,920**	**202,582**

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

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

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

23. 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 2018	**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.

24. 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;

	2018	2017
Minimum lease payments under operating leases recognized in the Profit or Loss for the year	**4,397**	**4,414**

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 2018	31 December 2017
– not later than one year	2,793	2,691
– later than one year but not later than five years	7,607	8,894
– later than five years	534	1,469
Total	**10,934**	**13,054**

25. 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 2018	31 December 2017
Contracted for but not provided for:		
– Services agreement	186,040	240,591
– Acquisition of intangibles	37,325	34,910
– Other	6,981	7,884
Total	**230,346**	**283,385**

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

26. Contingent liabilities

There are no contingent liabilities at 31 December 2018.

27. 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% (2017: 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 2018	31 December 2017
Short-term employee benefits	2,392	2,803
Total	**2,392**	**2,803**

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.

28. 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.

29. Treasury and capital risk management

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

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

Treasury and capital risk management is carried out by the finance division to reduce financial risk and to ensure sufficient liquidity is available to meet its operational needs and to invest in cash assets. Finance works closely with the all the CLS divisions to ensure its understanding of underlying business requirements. The Group's Capital Management 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, bond 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

29. 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 (LNAFE) at a sufficient level to cover the costs of recovery 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 wind-down 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 2018		31 December 2017	
	Book value	Fair value	Book value	Fair value
Financial assets				
1. Other investments	3,431	3,431	117	117
2. Loans and receivables:				
Trade and other receivables	34,194	34,194	31,848	31,848
3. Derivative financial instruments	4,769	4,769	–	–
4. FVTOCI investments	128,289	128,289	–	–
5. Deposits, cash and cash equivalents	102,585	102,585	261,667	261,667
Total financial assets	**273,268**	**273,268**	**293,632**	**293,632**
Financial liabilities				
6. Financial liabilities at amortized cost:				
Trade and other payables	(64,809)	(64,809)	(41,987)	(41,987)
7. Derivative financial instruments	–	–	(3,830)	(3,830)
8. Other liabilities	(7,039)	(7,039)	(6,702)	(6,702)
Total financial liabilities	**(71,848)**	**(71,848)**	**(52,519)**	**(52,519)**

29. 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)

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

	Fair value hierarchy as at 31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial assets				
Unquoted equities (Note 12)	–	–	3,431	3,431
FVTOCI investments	122,804	5,485	–	128,289
Derivative financial instruments	–	4,769	–	4,769
Amortized cost instruments	–	–	34,194	34,194

	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)

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

29. Financial risk report (continued)

Fair value through profit and loss

Derivative financial instruments at fair value through profit or loss represent forward foreign currency contracts with a notional value of USD82 million (2017: USD143 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	Quoted commercial paper investments	Total
As at 31 December 2018					
Pound sterling	19,547	61,500	–	128,289	209,336
US dollar	3,134	15,927	–	–	19,061
Swiss franc	1,841	–	–	–	1,841
Other currencies	636	–	–	–	636
Total deposits, cash and cash equivalents	**25,158**	**77,427**	**–**	**128,289**	**230,874**
Fixed rate assets	–	77,427	–	128,289	205,716
Floating rate assets	22,024	–	–	–	22,024
Balances for which no interest is paid	3,134	–	–	–	3,134
Total deposits, cash and cash equivalents	**25,158**	**77,427**	**–**	**128,289**	**230,874**
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**

The effective interest rate on the average daily closing balances is 0.54% (2017: 0.33%).

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

29. 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 0.69% or 0.39% (2017: 0.48% or 0.18%). Profit for the year ending 31 December 2018 (assuming the same closing balance values for 1 year) would increase or decrease by GBP352k (2017: increase or decrease by GBP392k)
- 20 basis points higher or lower and all other variables had been constant then the effective interest rates would have been 0.74% or 0.34% (2017: 0.53% or 0.13%). Profit for the year ending 31 December 2018 (assuming the same closing balance values for 1 year) would increase or decrease by GBP470k (2017: increase or decrease by GBP523k).

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 2018, GBP weakened 5.5% against the USD and strengthened 0.2% against the CHF. This led to an unrealized gain on exchange of GBP1.3 million (2017 GBP3.6 million loss) on GBP/USD and a loss of GBP20k (2017: GBP100k) on GBP/CHF respectively.

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

	At 31 December 2018	At 31 December 2017
US Dollar	9,596	11,243
Swiss Franc	3,067	463
Total	**12,663**	**11,706**

30. Capital management

The Group has processes and controls to monitor and manage its liquidity and capital to ensure that entities in the Group will be able to continue as going concerns. The liquidity structure of the Group consists cash, cash equivalents, deposits and FVTOCI investments (as described in notes 16, 17 and 18) and equity attributable to the equity holders of the parent, comprising issued capital, reserves and retained earnings as described in notes 22 to 23.

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

31. Discontinued operations

The Group discontinued operations is its US subsidiary; CLS Aggregation Services LLC which ceased operating on the 30th November 2018. The complete wind-up of the company is expected in H1 2019.

The following table analyzes performance and position relating to the discontinued operations for the period from 1 January to cessation of operations on 31 December 2018.

All amounts in GBP 000s unless otherwise stated.

Revenues	
Aggregation fees	6,990
Total revenues	**6,990**
Expenses	
Service charges	(4,883)
Amortization	(62)
Other expenses	(610)
Total expenses	**(5,555)**
Profit before tax	1,435
Tax (charge)/credit for the period	(64)
Profit for the period	**1,371**
Assets	
Trade debtors	170
Cash	4,805
Liabilities	
Current tax liabilities	83
Accruals and other liabilities	(756)
Total net assets	**4,302**
Total equity	**4,302**

32. Post balance sheet events

Subsequent events were evaluated through to March 27 2019, being the date that the financial statements were available for issue by the directors and signed on their behalf by the Chief Executive Officer.

33. 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 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

Unaudited		2018	2017	2016	2015	2014	2013
Revenue for the year	GBPm	206.1	197.5	201.2	195.6	183.3	172.9
Operating expenses (Reported basis)	GBPm	234.4	172.9	164.1*	152.0	151.1	148.7
(Loss)/profit from operations	GBPm	(28.4)	24.6	37.1*	43.6	32.2	24.2
Total (loss)/profit for the year (Reported basis)	GBPm	(18.5)	15.8	41.6*	30.2*	19.8	14.6
Total assets at year end	GBPm	457.7	469.3	459.9	406.2	354.7	356.7
Total equity	GBPm	376.0	389.1	380.1*	335.1*	300.5	278.5
Capital expenditure	GBPm	58.4	42.2	25.4	33.9	40.0	45.7
ROE		(4.9%)	4.1%	10.9%	9.0%	6.9%	7.7%
Daily average settled values	USDtr	5.9	5.2	4.8	4.8	5.11	4.99
Daily average billable volume	Number of sides	891,000	779,000	818,000	856,000	801,000	801,000
Average revenue per instruction	GBP	0.77	0.86	0.83	0.79	0.79	0.73
Daily average aggregation volumes	Number of sides	208,831	225,193	247,166	294,245	360,000	392,000
Average monthly number of employees in year	No.	374	341	343	341	355	338
Number of shareholders at year end	No.	79	80	79	78	76	75
Number of members at year end	No.	71	67	66	64	62	63

*Numbers are on a restated basis.

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Markets don’t stand still.
We don’t either.