CLS Group Holdings AG

Annual Report & Consolidated Accounts 31 December 2023

Contents

Trusted by thousands of counterparties within the global FX ecosystem, CLS makes FX safer, smoother and more cost effective.

In the face of ongoing uncertainty on a global scale, our services continue to meet the exceptionally high levels our clients and regulators expect.

Average daily settled value of over

6.6
USD trillion

in 2023

We are proud to be the trusted party at the center of the global FX ecosystem – making FX safer, smoother and more cost effective.

Created by the market for the market, our unrivaled global settlement infrastructure reduces systemic risk and provides standardization for participants in many of the world's most actively traded currencies. We deliver huge efficiencies and savings for our clients: in fact, our approach to multilateral netting and our in-out swaps program achieves a 99% reduction in funding requirements.

Our complementary products are designed to enable participants to manage risk effectively across the FX lifecycle – whether through more efficient processing tools or market intelligence derived from the largest single source of FX executed data available to the market.

18

of the most actively traded currencies globally

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

23

members of CLS oversight committee

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

35,000+

third-party participants

70+

settlement members

Operational highlights

Protect

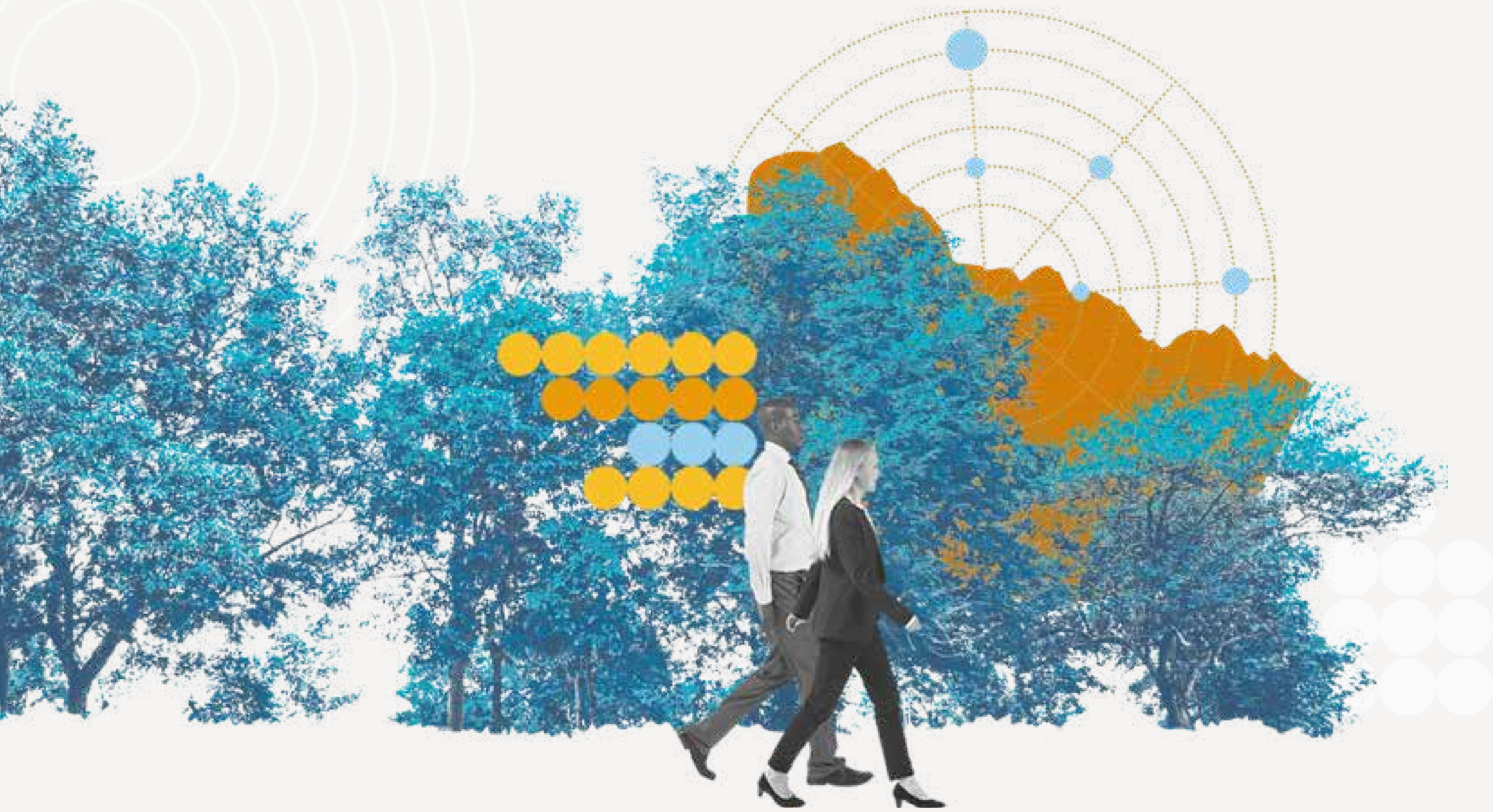
- Ongoing engagement with the FX ecosystem to explore solutions for mitigating settlement risk, particularly for heavily traded emerging market currencies.
- Continued to enhance our risk management practices – fostering a strong risk culture throughout the organization.

Improve

- Maintained our commitment to enhancing our resilience, technology capability, risk and controls and cybersecurity posture.

Grow

- CLSSettlement recorded an average daily settled value of over USD6.6 trillion in 2023.
- Strong growth in CLSNet as more users joined the service, with average daily value of net calculations of USD115 billion and a record of USD445 billion netted in December 2023.
- A year-on-year increase of 48% in terms of values of cross currency swap trades processed in 2023, and the addition of Barclays Bank and Danske Bank to our CCS service.
- Strong year-on-year revenue growth in CLSMarketData.



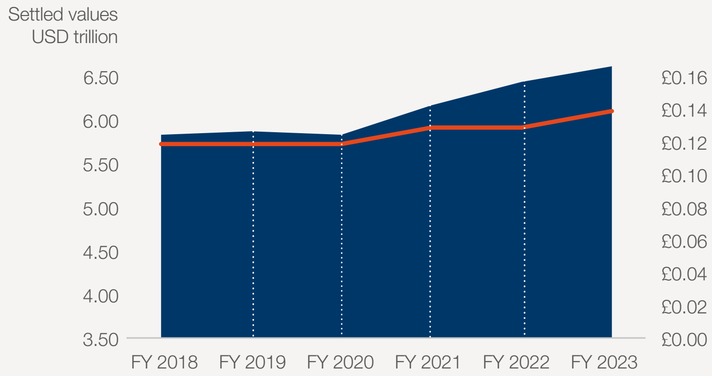
Financial highlights

		2023	2022
Revenue for the year	GBP million	**276.7**	253.3
Operating expenses	GBP million	**280.1**	244.9
(Loss)/profit from operations	GBP million	**(3.4)**	8.4
Total (loss)/profit for the year	GBP million	**(2.4)**	13.4
Total equity	GBP million	**321.7**	329.0
Capital resources	GBP million	**230.4**	202.1
Daily average settled value*	USD trillion	**6.6**	6.5
Daily average billable volume**	Number of sides	**1,153,000**	1,158,000
Average revenue per USD million settled	GBP	**0.14**	0.13
Peak value day (settled)	USD trillion	**16.0**	15.0
Peak volume day (settled)	Number of sides	**2,588,000**	2,756,000
Number of shareholders at year end		**79**	79
Number of settlement members at year end		**74**	74

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

Performance trends

Average daily settled value



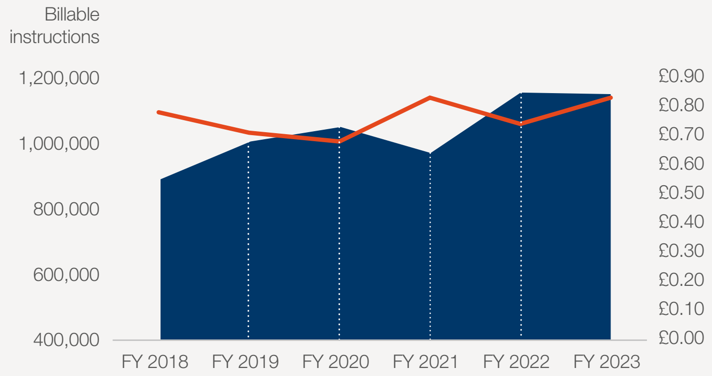
Settlement values

Average daily value at USD6.6 trillion increased 3% in 2023 compared to 2022.

Average daily settled value

Average revenue per USDm settled

Average daily billable volume



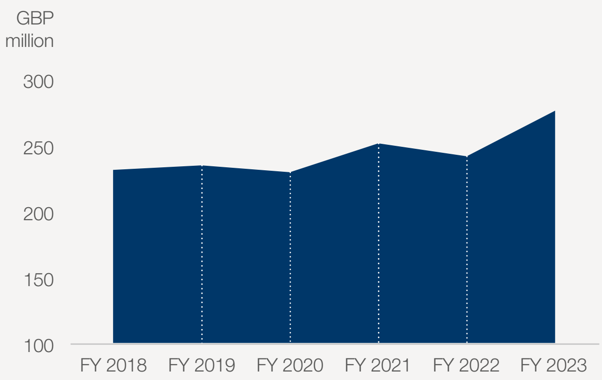
Input volumes

Average daily settled volumes in the service decreased by 0.4% in 2023 compared to 2022.

Average daily billable volumes

Average revenue per instruction

Operating expenses

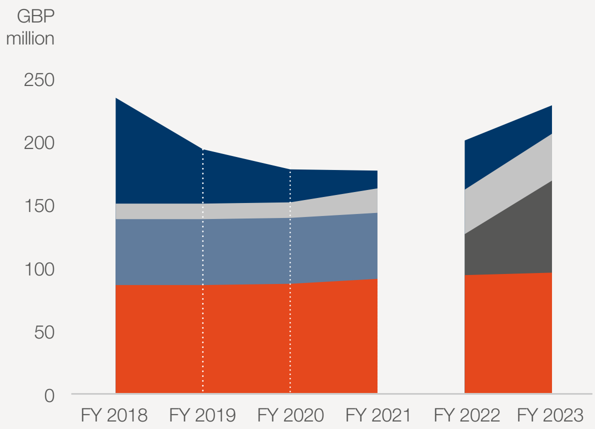


Operating expenses

Operating expenses increased 14% in 2023 compared to 2022 as a result of inflation and significant investments across resilience, risk and control, cybersecurity and infrastructure enhancements.

Reported expenses

Capital resources



Capital resources

Capital resources increased from GBP202.1 million at the end of 2022 to GBP230.4 million at the end of 2023.

Available capital
Buffer
Regulatory capital
Working capital
Risk capital

Chair's statement
Gottfried Leibbrandt

With political, financial and environmental uncertainty showing no signs of abating, it is more important than ever for us to fulfil our purpose of strengthening the FX ecosystem's resilience and efficiency.

Our commitment to constantly improving our services and ensuring resilience remains unwavering. In the face of ongoing uncertainty on a global scale, our services must continue to meet the exceptionally high levels our clients and regulators expect. This is why our investment program, focused on the resilience of our infrastructure and the evolution of our products and services, remains a strategic priority.

Just as our organizational strategy remains consistent, so do the key concerns regarding settlement risk and the impact this has on the broader FX ecosystem, in particular for currencies ineligible for CLSSettlement. We fully support the public sector and industry efforts to promote the use of payment-versus-payment (PvP) settlement mechanisms, and CLS is actively engaged with clients and the broader market in a search for credible solutions to address settlement risk for these currencies. This sentiment is shared by many market participants and is reflected by the increased adoption of CLSNet. By standardizing and automating the netting calculation process, CLSNet facilitates the reduction of payment obligations exposed to settlement risk, while enhancing operational and liquidity efficiencies. This service helps to mitigate operational risk for emerging market currency trades.

The trajectory of CLSNet has been strong, growing year-on-year as an ever-increasing number of participants across the globe join the service.

This, combined with the ongoing strong performance of CLSSettlement, demonstrates that market participants are seeking the high quality and reliable services provided by established financial market infrastructures, such as CLS, which they can rely on to mitigate risk and protect their operations.

We, along with our regulators and settlement members, place high importance on the resilience, soundness and stability of our services. Our ongoing investment program remains critical, not just for CLS, but for the safety of the entire FX ecosystem. Any failure to deliver could significantly affect the FX market and as a result, we dedicate much of our resources to these activities.

As a globally-regulated, mutually-owned financial market infrastructure, we put our clients at the center of our strategy. We remain focused on providing services that help them mitigate risk and enhance efficiency. By doing this effectively, we are confident in our ability to maintain our robust operational and financial performance in the coming years, despite potential challenges to profitability as we continue to invest in the organization.

The demand for our services is testament to the intrinsic value we bring to the FX market, and I look forward to working with my Board colleagues, the Executive Management Committee and the whole CLS team on the ongoing delivery of our strategy, and supporting our clients with secure, stable and resilient services.

I would like to thank our departing Board Directors David Gary (Deutsche Bank), Dominique Le Masson (BNP Paribas), Michael Lawrence (Citigroup), Hari Moorthy (Goldman Sachs), Bryan Osmar (Independent), William Stenning (Société Générale), Fabrizio Tallei (Intesa), and Ronnie Yam (United Overseas Bank Ltd) for the support they have provided to me, the Board, the Executive Management Committee and the broader team. Their collective insight, deep understanding of the ecosystem in which we operate and extensive leadership experience in financial markets have been invaluable to CLS. Please join me in wishing them every success in their future endeavors.

On a personal note I was deeply saddened by the news that former Board Director Gilbert Lichter passed away last year. Gilbert played a crucial role in CLS's progress over many years, sharing his extensive expertise in operating a financial market infrastructure. As both a colleague and a friend, I, along with my fellow Board members and the management team, truly appreciated his guidance and advice. He will be dearly missed.

Gottfried Leibbrandt
Chair of the Board

In memory of Gilbert Lichter

We were saddened by the loss of Gilbert Lichter in November 2023.

A dedicated former Board member, Gilbert served on the Board of CLS Group Holdings AG from 2015–2023 including several leadership positions as Chair of the Nominating and Governance Committee and as Interim CEO (1 August 2019 – 2 December 2019).

Prior to joining the CLS Board, Gilbert served as the Chief Executive Officer of EBA Clearing, which is the operator of two systemically important payment systems – EURO1, the private-sector owned large-value payments system, and STEP2, the pan-European ACH for SEPA payments, until his retirement in April 2015.

In addition, Gilbert was until April 2016 the Secretary General of the Euro Banking Association (EBA), an organization which he was involved with for over twenty years. EBA was founded in order to manage the ECU Clearing System in partnership with the Bank for International Settlements. As it developed, EBA has provided payment systems for the Euro and served as a forum for pan-European payments industry issues.

Gilbert also served on the Managing Board of CEDEL S.A. from 1989 through 1992. He began his professional career in 1978 with Banque Internationale à Luxembourg.

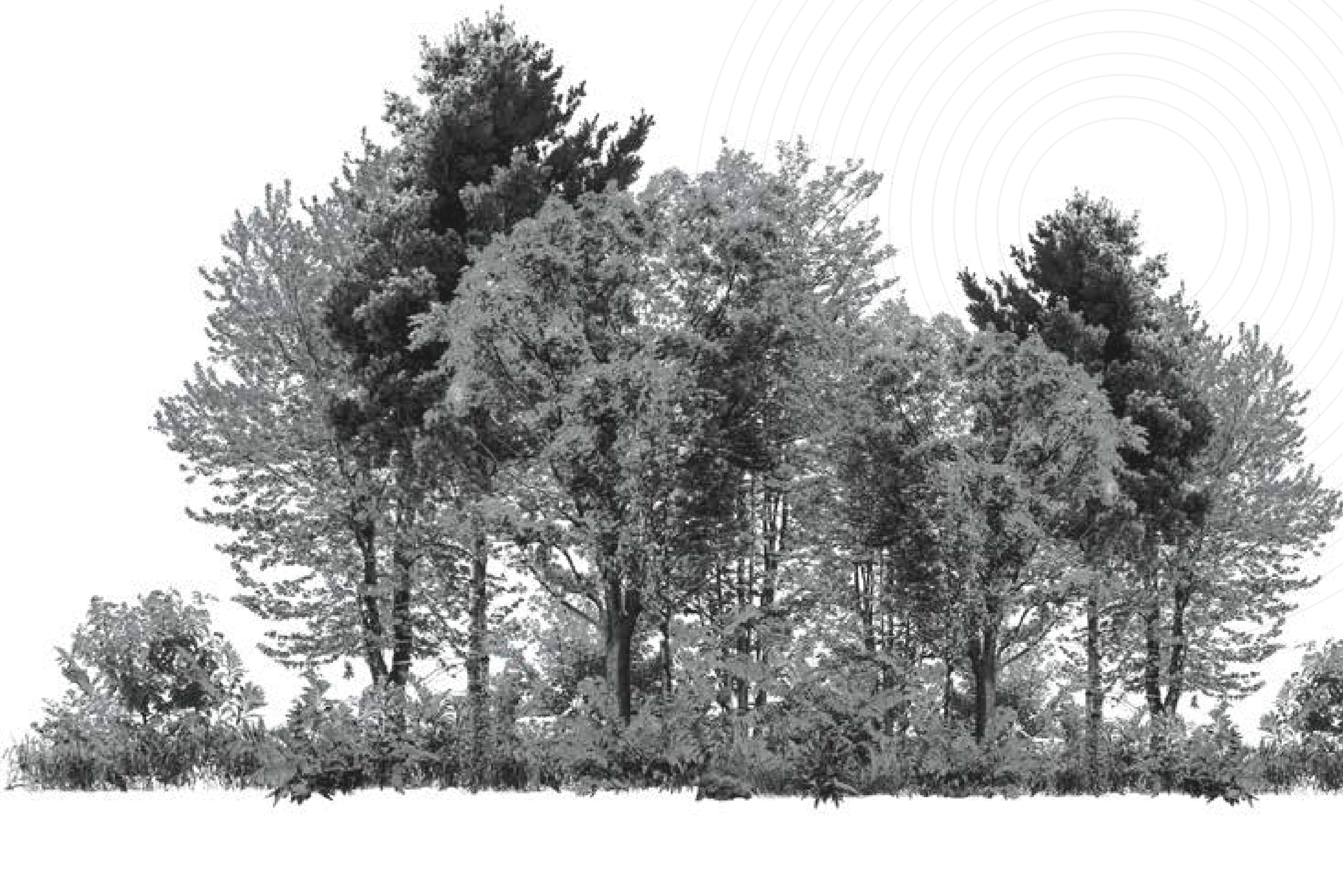
Gilbert's dedication and sense of humor will be missed.

He was truly a great person, a family man and a valued colleague. He was very much liked and appreciated by everyone he worked with, both as a professional and also as a friend and exceptional human being.

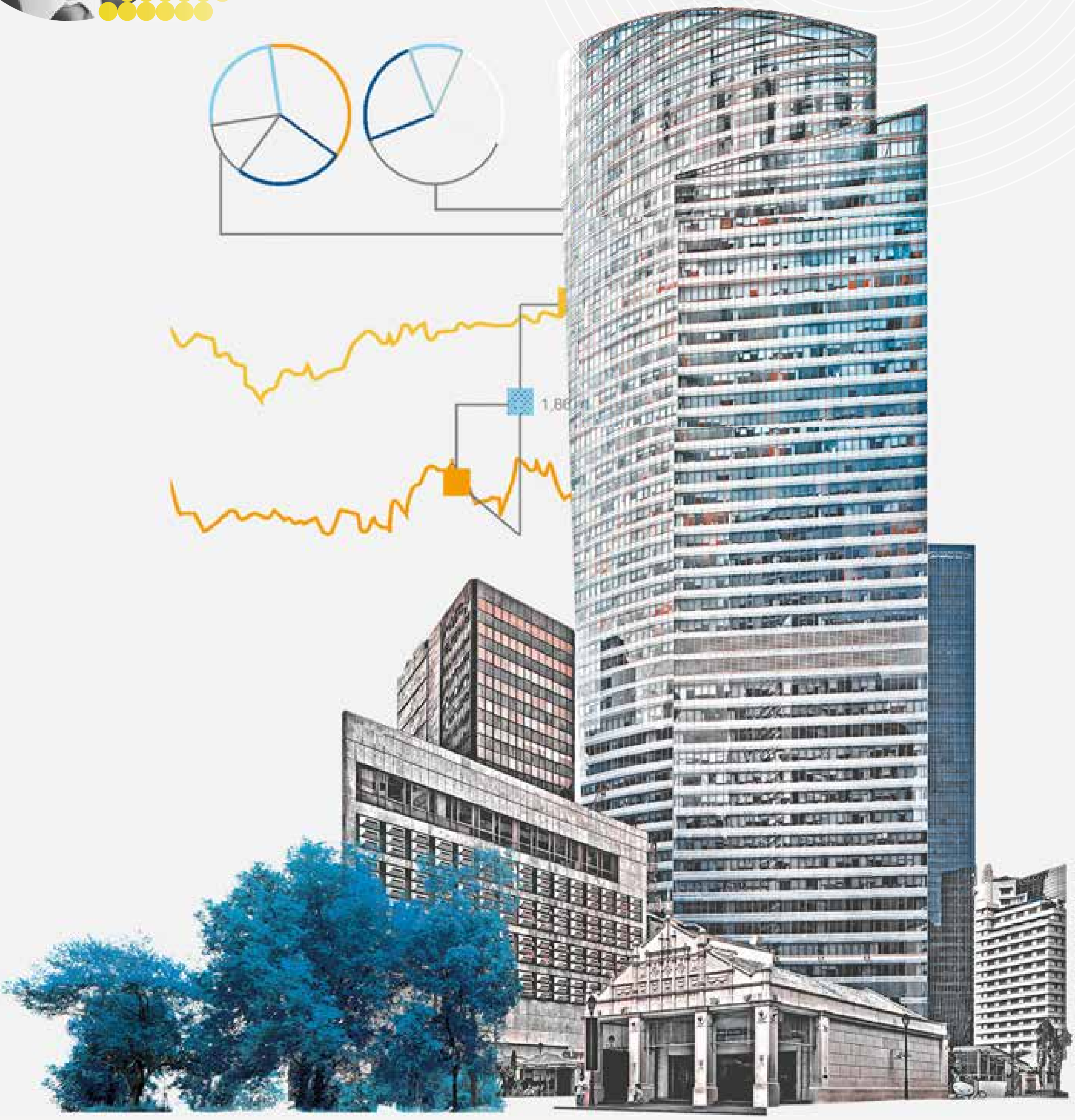
Gottfried Leibbrandt, Chair

As a leadership team, we will always remember him as a highly respected colleague with a unique blend of diplomacy, warmth, integrity and humor. This not only made him a key contributor to CLS's successes, but also endeared him to us as a deeply valued friend.

Marc Bayle de Jessé, Chief Executive Officer



Chief Executive Officer’s report
Marc Bayle de Jessé



As we look back on 2023, I reflect on our strong operational performance, solid financial position and our broader contribution to the FX ecosystem.

We remain committed to further enhancing efforts to provide high levels of resilience for the future. This includes continuing to invest in technology and infrastructure enhancements, resilience, cybersecurity and effective risk management.

Our products have seen sustained growth in volumes and values. CLSSettlement reported an average daily settled value of over USD6.6 trillion in 2023, with a new record value settled of USD16.0 trillion on 20 December, surpassing the previous record of USD15.0 trillion. The funding required to settle the record value was just USD78 million, resulting in significant capital and liquidity savings for our clients and the wider FX ecosystem.

CLSNet has also achieved substantial success. The average daily notional value of net calculations consistently exceeded USD115 billion in 2023, and in December reached a record of USD445 billion netted. In the latter part of 2023, trades involving emerging market currencies accounted for 70% of total instructions in CLSNet. This highlights the fact that the platform goes some way to reducing the settlement and operational risk associated with trading these currencies. Three additional institutions – BNY Mellon, ING and Taipei Fubon Bank – committed to implementing CLSNet and our growing CLSNet community now includes eight of the top ten global banks.[1]

Throughout 2023, CLSNet received extensive recognition, winning the "Market Infrastructure Project of the Year" at the Global Custodian Leader in Custody Awards, "Best FX Clearing and Settlement Provider" at Euromoney's FX Awards and "Best Settlement Initiative" at the FX Markets e-FX Awards.

Other CLS services have also experienced increased uptake. Our cross currency swaps (CCS) service saw continued growth during 2023, with a 48% year-on-year increase in the values and the addition of new CCS members, including Barclays Bank and Danske Bank. CLSMarketData also continued to see strong year-on-year growth with revenue growth of 51%.

The overall growth of our products and services contributed to revenues of GBP277 million – representing an increase of 9% compared to the same period last year. Whilst overall profit before tax at GBP2.6 million was lower, our cash and investments increased year-on-year as we continue to focus on financial prudence and maintaining a capital position well in excess of regulatory requirements in addition to our investment priorities.

The current geopolitical environment poses a distinct challenge for global regulators and policy makers in delivering reform on a global scale, and therefore settlement risk remains a cause for concern. This risk is evident in several key emerging markets currencies where growth in trading is outpacing G10 currencies. We remain actively engaged with the FX ecosystem, our settlement members, policy makers and the broader market through various forums. This enables us to explore practical solutions to support the efforts of market-wide initiatives to reduce settlement risk in the context of the Financial Stability Board's G20 Cross-Border Payments roadmap and the FX Global Code, which is due to be reviewed in 2024.

Another challenge facing the industry is the shortening of the US and Canadian securities settlement cycle from T+2 to T+1 in May 2024. This transition will impact cross-border business because the FX component of the transaction must be settled prior to the T+1 settlement of the security. At CLS, we have and will continue to engage extensively with both buy- and sell-side market participants to understand the challenges posed by T+1 securities settlement and explore how our services can support the market.

[1] According to the 2022 Euromoney Foreign Exchange Survey.

We continue to explore innovative technologies that could help reduce risk and increase efficiency, whilst also meeting our high standards of resilience. Our efforts are multi-faceted and range from internal research to participating in industry initiatives, for example the cross-currency impact of central bank digital currencies.

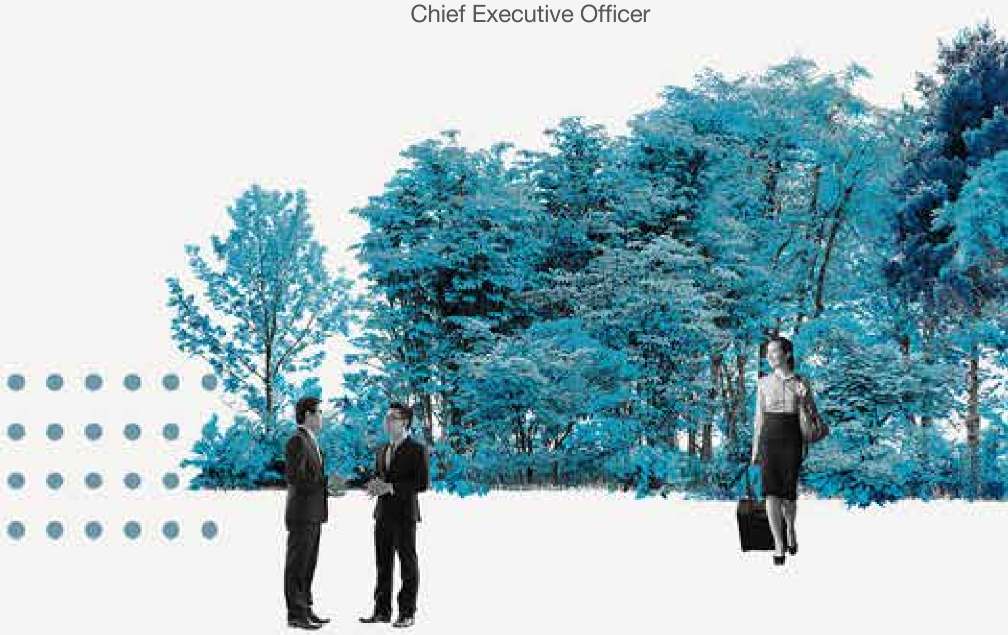
Our partnership approach with our settlement members, the asset manager community and other market participants highlights the fundamental role CLS plays in the FX ecosystem and our ongoing dedication to making the market as resilient as possible. In 2023, we established the Market Advisory Forum, which provides opportunities for me and my colleagues to discuss personally and directly with settlement members the topics causing them the most concern. These meetings will continue throughout 2024 and beyond.

Lastly, I would like to highlight the progress we have made on our environmental, social and governance (ESG) agenda. Our focus on ESG has resulted in the establishment of a sustainability network, an in-depth benchmarking study of our ESG practices and the publication of our Sustainability Statement.

Our employees are our strongest asset and we are therefore proud of our recognition by The Sunday Times as one of the best places to work in 2023. This recognition showcases our commitment to various aspects of inclusivity and to delivering a wide range of initiatives that support our employees' sense of belonging, emotional and mental wellbeing.

As we navigate the challenges of the global landscape in 2024, our overall strategy remains unchanged. We will continue to engage with the ecosystem to explore solutions for mitigating settlement risk, particularly for emerging market currencies. We remain committed to driving adoption of our services, investing in our products, resilience and infrastructure, and delivering exceptional service across our entire product range. Our focus on investment, balanced with financial prudence and maintaining a strong capital base will ensure our continued success.

Marc Bayle de Jessé
Chief Executive Officer



Chief Financial Officer's report
Trevor Suarez

As a global market infrastructure at the center of the FX ecosystem, we must maintain a strong capital position, balanced with appropriate investment to ensure we operate to the highest levels of financial and operational resilience.

While we have always maintained exceptional service levels, the current market conditions and the ever-changing geopolitical and economic landscape have heightened the industry's focus on resilience. To navigate this uncertainty, FMIs like CLS have a vital role to play and it is crucial that we maintain our focus on investing in our infrastructure, resilience, risk and control functions and the evolution of our products.

Within this context, I would like to provide an overview of our financial performance. In 2023, Profit before Tax was GBP2.6 million, a decrease compared to GBP9.2 million in 2022. Whilst revenues increased, in part due to higher tariffs, we also consciously increased the level of our investment to maintain the highest levels of operational resilience and further strengthen our cybersecurity posture.

Despite the decrease in profit, I am pleased to report that cash and investment balances increased to GBP230 million compared to GBP202 million in 2022. Whilst these balances are well in excess of the minimum regulatory requirement, internally we have chosen to hold an additional amount of capital over and above regulatory capital in the form of 'Risk Capital', which reinforces our commitment to ensuring financial resilience.

Our financial performance was underpinned by record levels of activity in CLSSettlement, a focus on cost management and careful management of our balance sheet. Revenue for 2023 amounted to GBP277 million, representing an increase of GBP23 million compared to 2022. CLSSettlement remains the most significant contributor to overall revenue, driven by payment instruction volumes, average daily settled values increasing from USD6.5 trillion in 2022 to USD6.6 trillion in 2023 and a tariff increase. In addition, third-party participants using CLSSettlement continued to be strong with more than 35,000 using the service.

230
GBP million
Capital Resources

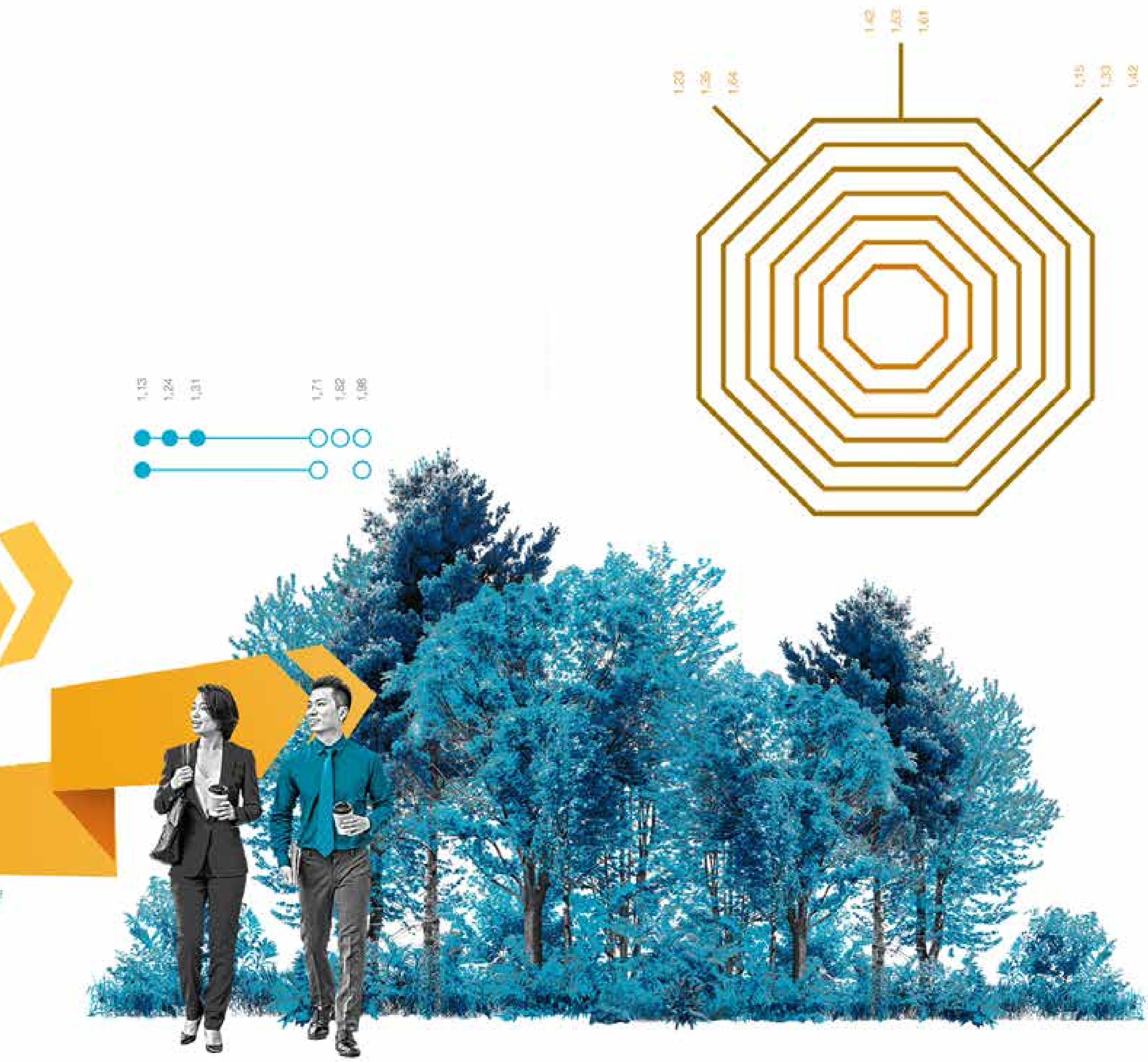
277
GBP million
Revenue for the year

Beyond CLSSettlement, we saw strong performance for our other products. CLSNet, our automated bilateral payment netting calculation service, continued to experience significant increases in adoption in 2023, with the average daily notional value of net calculations consistently exceeding USD115 billion.

The increased demand for the service resulted in revenues more than doubling in 2023. Though small in comparison to CLSSettlement, it aligns with our key priorities of helping market participants optimize efficiency in their post-trade processes and effectively address settlement risk for currencies not eligible for CLSSettlement, particularly emerging market currencies.

We also saw good revenue growth in our CLSMarketData products, as market participants sought to enhance their understanding of market liquidity and risk positions.

Operating expenses for 2023 increased to GBP280 million (GBP245 million in 2022), with significant and increased investment spread across key areas including resilience, risk and controls, cybersecurity and infrastructure enhancements.



Offsetting this to some extent, was a strong increase in interest income received of GBP6 million (GBP0.8 million in 2022) from our cash and investment portfolio. This increase is due to the benefit of higher interest rates, where appropriate. While interest rates remain elevated, we can expect a similar return from our portfolio.

Looking ahead to 2024, we will continue to invest heavily in enhancing our resilience, technology capability, risk and controls and cybersecurity capabilities. As a critical service provider to the FX market, we uphold the highest levels of operational resilience above all else, and maintaining these levels will continue to be our top priority.

We will do this in a measured and controlled manner, ensuring we remain financially resilient by maintaining a strong capital position at all times.

Trevor Suarez
Chief Financial Officer

Chief Risk Officer's report Deborah Hrvatin

As we reflect on the past year, it is clear that the landscape in which we operate is continually evolving.

The complexity and volatility of global markets, coupled with unprecedented technological advancements and increased cybersecurity risk alongside political and economic instability, have highlighted the criticality of robust risk management and a strong risk culture within our organization. Placing risk management at the forefront of our corporate strategy is therefore a business imperative. Most importantly, we need to be able to respond flexibly and dynamically to our shareholders' needs. At CLS, this remains a top priority.

Change also presents new opportunities. In over three decades of financial services experience, I have witnessed how resilience and adaptability are manifested within an organization. At CLS, we have advanced our risk management approach to ensure we can respond and adapt to current and anticipated challenges in 2024 and beyond. Our ongoing investment in enterprise resilience, technology and third-party risk management reflects our commitment to staying ahead.

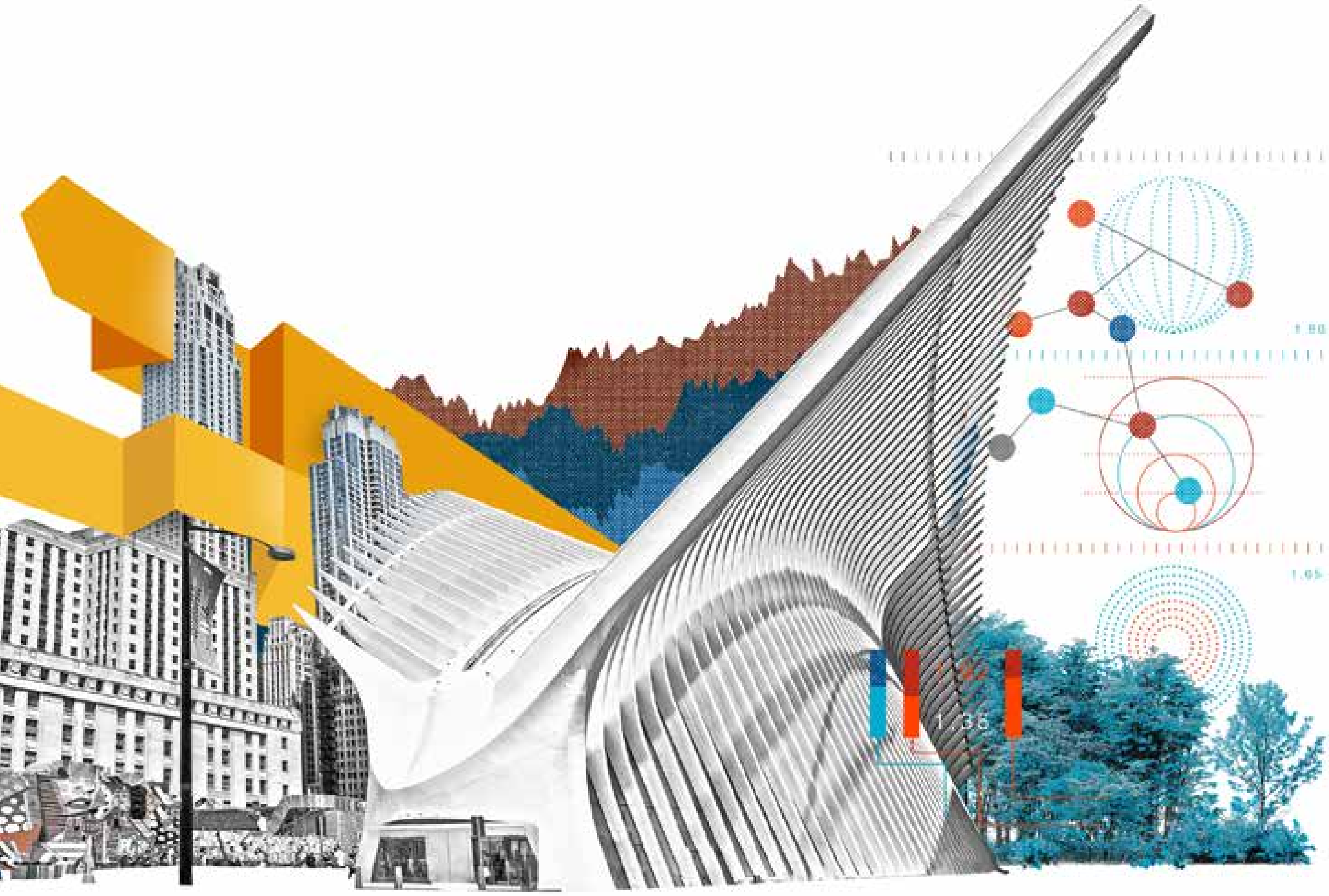
Our risk management framework is the cornerstone of our strategy, enabling us to identify, assess and mitigate risks that may impede the achievement of our strategic objectives. This dynamic framework allows us to quickly adapt to emerging risks and regulatory changes. It is built on a foundation of strong governance, with clear roles and responsibilities defined across the organization to ensure a comprehensive and cohesive approach. We continually seek and facilitate opportunities to educate the organization on the three lines of defense model and thereby promote a strong risk culture – a crucial aspect of our role as a designated financial market utility.

As we look ahead, our primary focus will continue to be on our adaptability and responsiveness to the following key risks:

Economic volatility – The economic environment is characterized by significant volatility, exacerbated by political tensions and trade disputes among others. We conduct continuous and rigorous analysis of the impact of such market stresses on our settlement activities, and this enables us to adjust our operational strategy. Our liquidity, market and credit risk management approaches remain strong.

Cybersecurity threats – Continuing cyberattacks and current geopolitical tensions highlight the importance of advanced threat monitoring capabilities to safeguard against disruption to our services. As digital transformation accelerates, cybersecurity remains a paramount concern. This past year, and continuing into 2024, we are committed to enhancing our cybersecurity framework by incorporating enhanced threat detection and response capabilities.

Operational risks – Operational risks in the industry have been amplified post-pandemic, from supply chain disruptions and data breaches to human resource challenges. We have responded by focusing on third-party risk oversight, continuing to focus on the health and safety of our employees and embracing flexible work arrangements. Such actions not only protect our most critical asset – our employees – they also ensure resilience to operate our most critical services.



Regulatory compliance – We continue to operate in a dynamic environment which requires us to stay abreast of the regulatory landscape in which we operate our products and services. Compliance management systems need to keep pace and we continue to invest in tools and technology and engage with the regulatory community to stay ahead of changes and minimize disruption to our operations.

Beyond our core mission, we recognize our responsibility as an employer to ensure we contribute positively to a strong, resilient planet by giving ESG practices the attention they deserve within our organization. The United Nations Sustainable Development Goals (UN SDGs), which promote economic advancement and growth, support the foundation of our sustainability initiatives.

The wellbeing of our employees is as important to us as the resilience of our systems. Our people strategy values different perspectives, and we work tirelessly to ensure an inclusive, diverse and respectful culture. Our focus on Diversity, Equity and Inclusion (DEI) continues to evolve through employee-led affinity groups such as the Sustainability Network, Women's Forum, Black Employee Network, CLS Pride and Parents and Caregivers Network - all of which are supported by senior leaders.

In 2023, we published our Sustainability Statement, aligning with the UN SDGs and underpinned by key metrics in our quarterly Enterprise Risk Management Report which is shared with all CLS employees and the Board. ESG is embedded into our risk taxonomy, guiding our strategic initiatives and reinforcing our commitment to sustainability.

Our solid financial performance, operational resilience and progress with our ESG practices are testament to our robust risk management practices, particularly within such a challenging environment. Looking ahead, we are committed to enhancing our risk management practices, fostering a strong risk culture from the Board, through our leadership community and with every employee.

The past year has underscored the importance of an effective risk management framework, and our focus remains on further strengthening our resilience, safeguarding our shareholders' interests and delivering our services effectively. We are confident that we are well equipped to take the opportunities and manage the challenges that may be presented.

Thank you for your continued trust and support.

Deborah Hrvatin
Chief Risk Officer

Directors' report

The Directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the year ending 31 December 2023. 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., CLS Services Ltd., CLS Assets UK Ltd., and CLS Processing Solutions Ltd.), New York City and New Jersey, US (CLS Bank International and CLS US Services Inc.). CLS Bank International provides FX-related settlement services, additional non-settlement services are provided by other CLS Group subsidiaries.

Principal activities and business review

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

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

Financial results and dividends

The Group reported a loss after interest and tax of GBP2.4 million, compared to a profit of GBP13.4 million in 2022.
Net assets were GBP321.7 million (2022: GBP329.0 million).
No dividend is recommended for the year (2022: GBPnil).

Going concern

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

The Directors estimate, based on their assessment of progress to date on service uptake and having reviewed cash flow forecasts for the 2024 budget year and long-term business plans, that sufficient funds will be available in the business for the foreseeable future.

Strategy

The cornerstone of CLS's strategy remains unchanged – to fulfil its purpose of strengthening resilience and efficiency in the FX ecosystem through global oversight and mutual ownership. The organization is committed to preserving and enhancing service operations, strengthening its risk and control environment and evolving its human capital amidst an evolving landscape. While CLS continues to grow participation and revenue across all its service lines, it recognizes the importance of financial prudence through effective cost management and strong balance sheet management.

In addition to reinforcing and refining its operations, the focus of CLS's strategy in 2024 will be on delivering its investment program which is heavily focused on the resilience of its infrastructure and continuing to improve its risk and control posture. Additionally, the evolution of its products and services will continue to remain a strategic priority.


1.23
1.35
1.51
1.66

Risk management

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

Internal controls

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

The Chief Internal Auditor, Duncan Barnard, has direct access to the Chair, Gottfried Leibbrandt and reports directly to the AFC with an administrative reporting line to the Chief Executive Officer.

The AFC also ensures that the Internal Audit division of the Group has adequate resources and appropriate access to information for effective functioning and in accordance with relevant professional standards.

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

Executive management

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

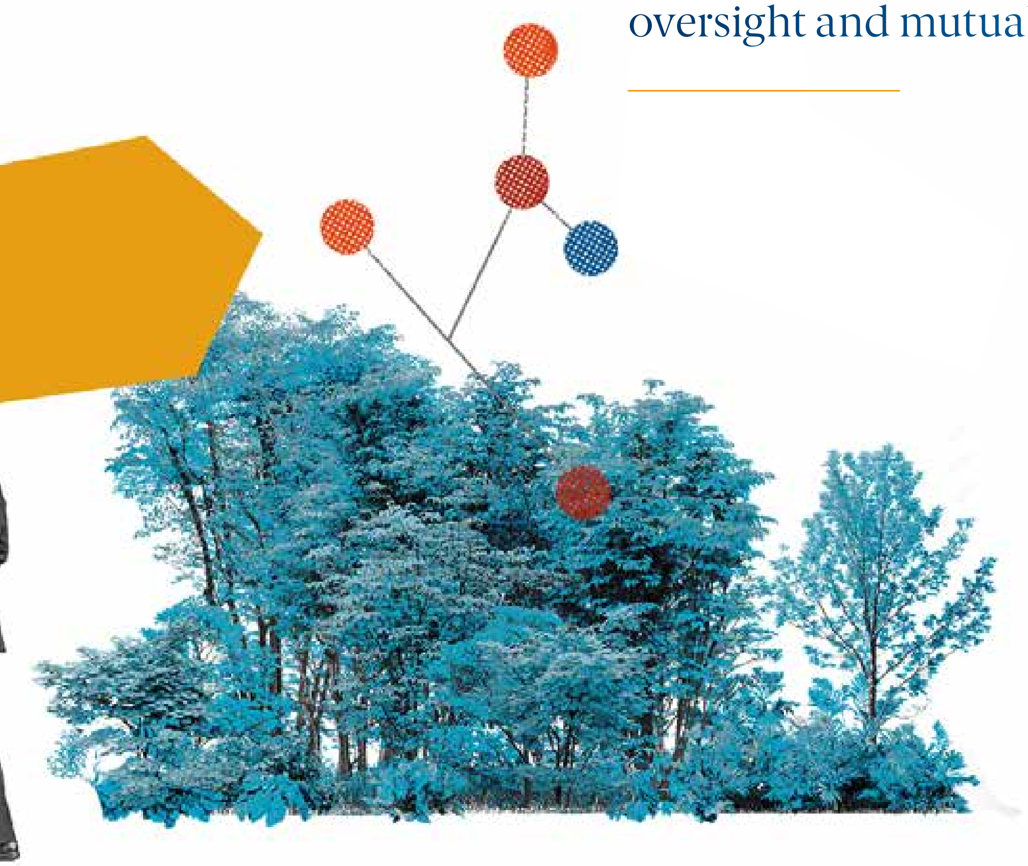
Regulatory affairs

The Board acknowledges that the regulatory developments in multiple jurisdictions are important for refining CLS's strategy. A description of the relevant regulatory developments follows.

Governance

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

The cornerstone of CLS's strategy is to fulfil its purpose of strengthening resilience and efficiency in the FX ecosystem through global oversight and mutual ownership.



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 24. 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 40.

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 4 June 2024. By order of the Board.

Gottfried Leibbrandt
CLS Group Holdings AG
Chair
25 April 2024

Directors' responsibilities statement

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.

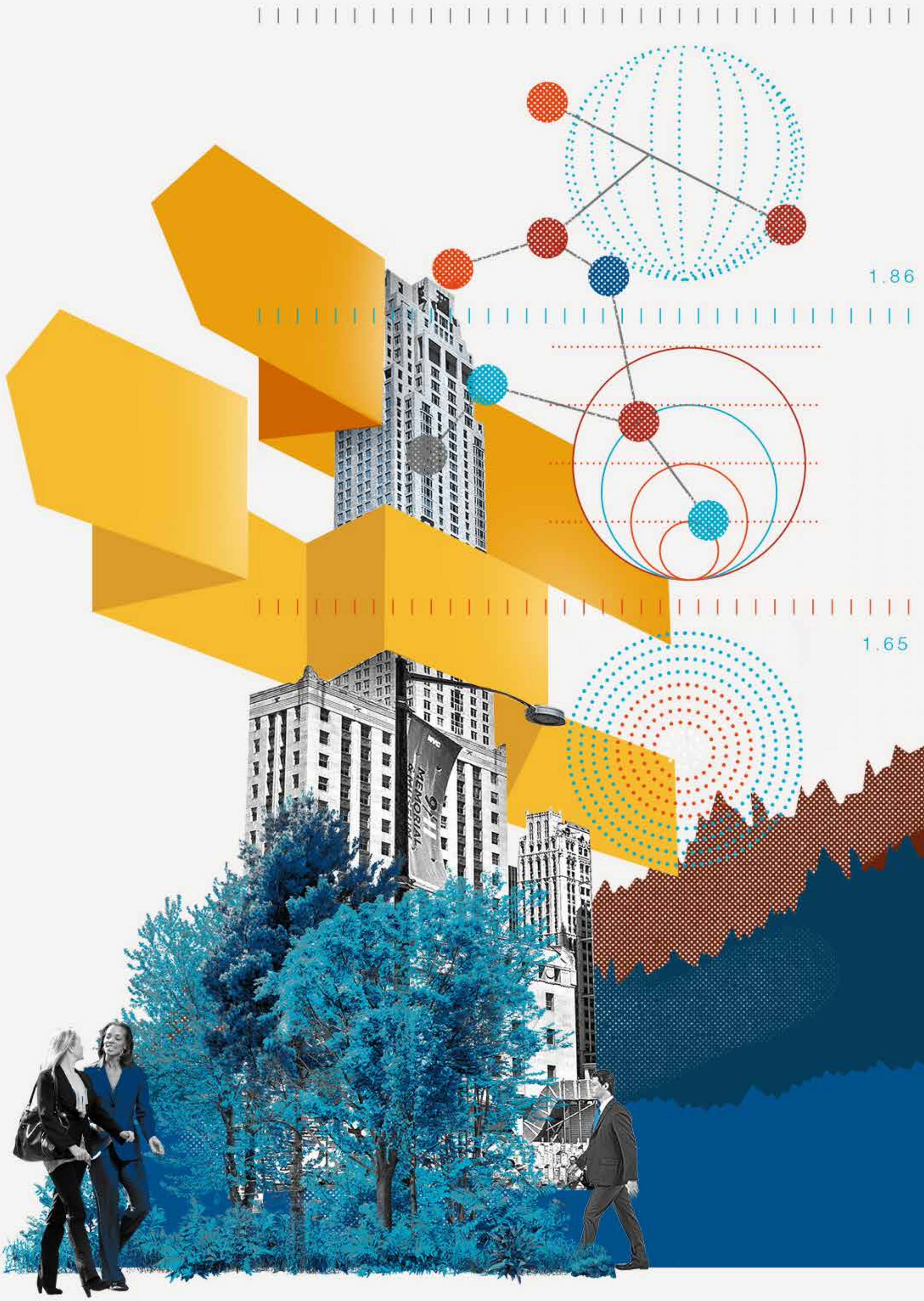
The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group. They are also responsible for safeguarding the assets of the Group and taking reasonable steps for the prevention and detection of fraud and other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

Overview

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

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

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

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 Chair of the Board directly or the Company Secretary by using the following email: ShareholderCommunications@cls-bank.com

Board of Directors

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

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

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

The Board held meetings on thirteen days in 2023, nine 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 Chair regarding industry or regulatory developments and from the Chief Executive Officer regarding business matters for the Group.

Board leadership and composition

As of 31 December 2023, the Board was comprised of eighteen Directors. CLS shareholder institutions are represented by eleven Directors, with seven Outside Directors. Given CLS's global reach, we have a culturally diverse Board with a large range of different professional experiences. We continue to focus on increasing gender and ethnic diversity at Board level, recognizing the importance of reflecting the diverse ecosystem in which we operate.

The Board is required to have a minimum of four Outside Directors, one of whom must serve as its Chair.

In addition, the Group's constitutional documents mandate that the roles of Chair 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.

The Chairs of the Audit and Finance Committee, the Nominating and Governance Committee, the Risk Management Committee and the Technology and Operations Committee are all 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 an 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, including the Chair, are remunerated for their services. In addition, expenses incurred by all Non-Executive Directors in fulfilling their Board responsibilities are reimbursed.

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. In doing so, it considers the appropriate level and structure of renumeration for the Chair and Outside Directors.

CLS shareholders have previously approved the following remuneration for the Chair and Outside Directors:

1. The Chair 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 or chairing a subsidiary board receive an additional USD10,000 for each additional committee and subsidiary board exceeding the one committee requirement. Outside Directors who serve as Chair of a committee receive an additional USD35,000.

Director compliance and Code of Conduct

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

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

In addition, Directors are required to disclose all business and industry affiliations.

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

Director development

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

CLS Group Board Committees

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

Audit and Finance Committee

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

Product Development Committee

While the responsibility for the Group's strategic vision and its implementation lies with the Board, the Product Development Committee (PDC) 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.

Chair's Committee

The Chair's Committee provides counsel to the Chair and the CEO on Board matters, including agendas and Board policies. In addition, the Committee serves as the Regulatory Relations 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 Chair's Committee also oversees the Group's whistle-blowing policy and processes.

Nominating and Governance Committee

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

Governance statement (continued)

Risk Management Committee

The Risk Management Committee (RMC) is responsible for reviewing and assessing areas of risk such as credit risk, market risk, liquidity risk, legal risk, compliance risk, payment risk, cybersecurity risk, operational risk, including third party risk (note 30). The RMC also assists the Board in (i) setting the risk appetite and (ii) the proper oversight of the risk management function (including compliance) of the Group.

Technology and Operations Committee

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

CLS Group subsidiaries

CLS Group Holdings AG, a Swiss corporation, is the parent holding company for the Group and is owned by 79 shareholders, each of whom (with limited exceptions) is a settlement member or an affiliate of a settlement member of CLS Bank International, a US Edge Act corporation. CLS Bank International provides FX-related settlement 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 Systemically Important Financial Market Utilities (SIFMUs), Edge Act corporations, and to bank holding companies subject to regulation and supervision by the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of New York (Federal Reserve).

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

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

CLS Group Holdings Board and Committee Composition 2023

CLS Group Holdings Board Members	CLS Group Holdings Board	Audit & Finance Committee	Chair's Committee	Nominating & Governance Committee	Product Development Committee	Risk Management Committee	Technology & Operations Committee
Total number of meetings held in 2023	13	8	9	13	5	9†	9†
Gottfried Leibbrandt*	Chair		Chair		•		
Michael Lawrence[4]	Deputy Chair		•			•	
Thomas Berkery*	•	Chair	•			•[11]	•[10]
Gerard Brady*[1]	•			•[12]		•	•
Debbie Chin[2]	•					•	•
Alberto Covin[2]	•				•	•	
Bruno d'Illiers[2]	•	•		•[12]		•	
Brian Gallagher	•	•[11]					•
David Gary[4]	•			•		•	
Karen Keenan*	•	•		•[11]		•[10]	
Sheryl Kennedy*	•	•	•	Chair[8]			
Dominique Le Masson[3]	•			•	•		
Gilbert Lichter*[6]	•		•	Chair[9]			
Federica Mazzucato	•			•	•[10]	•[11]	
Hari Moorthy[5]	•			•[11]			•
Paolo Muzzarelli	•				•		
Shuta Okawara	Deputy Chair[7]		•[11]				•
Bryan Osmar*[4]	•		•	•	•	Chair	
Rodolphe Sahel[2]	•				•		
Jodi Schenck[2]	•			•	•		
William Stenning[4]	•		•	•	Chair		
Edward Sterba*	•	•	•				Chair
Oliver Stuart	•	•[11]	•[11]		Chair[7]		•[10]
Fabrizio Tallei[4]	•				•		
John Trundle*	•		•[11]			Chair[7]	•
Bhupesh Vora[2]	•						•
Ronnie Yam[4]	•	•					

• Denotes Board/Committee membership
* Outside (Independent) Director
† Includes one joint TOPS-RMC meeting on 17 March 2023

(1) Elected on 6 February 2023
(2) Elected on 6 June 2023
(3) Resigned on 1 April 2023
(4) Resigned on 6 June 2023
(5) Resigned on 13 September 2023
(6) Deceased on 20 November 2023
(7) Elected on 6 June 2023
(8) Elected on 31 October 2023
(9) Resigned on 25 October 2023
(10) Member of Committee until 6 June 2023
(11) Member of Committee from 6 June 2023
(12) Member of Committee from 6 December 2023

Regulatory developments

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

Mitigation of FX settlement risk

CLS's proactive engagement with international standard-setting bodies, central banks, and industry participants has contributed to a renewed and increased focus on mitigating FX settlement risk, a risk that appears to have been increasing in recent years.

In 2023, CLS leveraged its participation in the New York, London, and Tokyo Foreign Exchange Committees (FXCs) and select subcommittees to facilitate meaningful conversations around the mitigation of FX settlement risk. CLS participated in a London FXC working group tasked with developing a more refined approach for collecting FX settlement data, which was then trialled as part of the October 2023 reporting cycle. CLS also participated in the Global Foreign Exchange Committee survey and offered feedback to further strengthen the settlement risk-related principles of the FX Global Code ahead of its three-year review in 2024.

During the year, CLS was invited to participate in the CPMI-led Payments Interoperability and Extension (PIE) Taskforce, a newly created industry body to deliver actions in furtherance of the targets set by the G20 roadmap to enhance cross-border payments. Through this task force, CLS is working with stakeholders to explore concrete solutions for cross-border payments that involve currencies that do not have access to PvP.

Cybersecurity, operational resilience and third-party risk

There continues to be a focus from key regulatory and supervisory bodies on cybersecurity, operational resilience, and third-party management. In particular, the Federal Reserve Board issued joint regulatory guidance on third-party relationships, which offers federal agencies' views on sound risk management principles for organizations when developing and implementing risk management practices for all stages in the life cycle of third-party relationships and introduces a new definition for a third party that is broader in scope.

As a systemically important FMI, CLS seeks to continuously strengthen its cybersecurity posture, as well as support global efforts to enhance operational resilience in the broader financial markets. In all aspects of its engagement, CLS underscores 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.

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, CLS seeks to collaborate with central bank payment system operators, both bilaterally and via participation in various RTGS working groups and fora, to offer its unique perspectives and recommend solutions to further mitigate settlement risk in the global FX market. During the past year, CLS has responded to consultations and have successfully implemented four mandatory industry RTGS ISO migrations in various jurisdictions regarding the ISO20022 messaging standard.

CLS has also engaged with central banks and international standard setting bodies to share its perspective on potential proposals to expand RTGS operating hours to 24x7x365.

CLS continues to monitor and assess evolving jurisdiction specific regulatory requirements for FMIs. Given its unique position as an international FMI, CLS's engagement in this context focuses on the applicability of specific standards and regulations in the cross-border context.

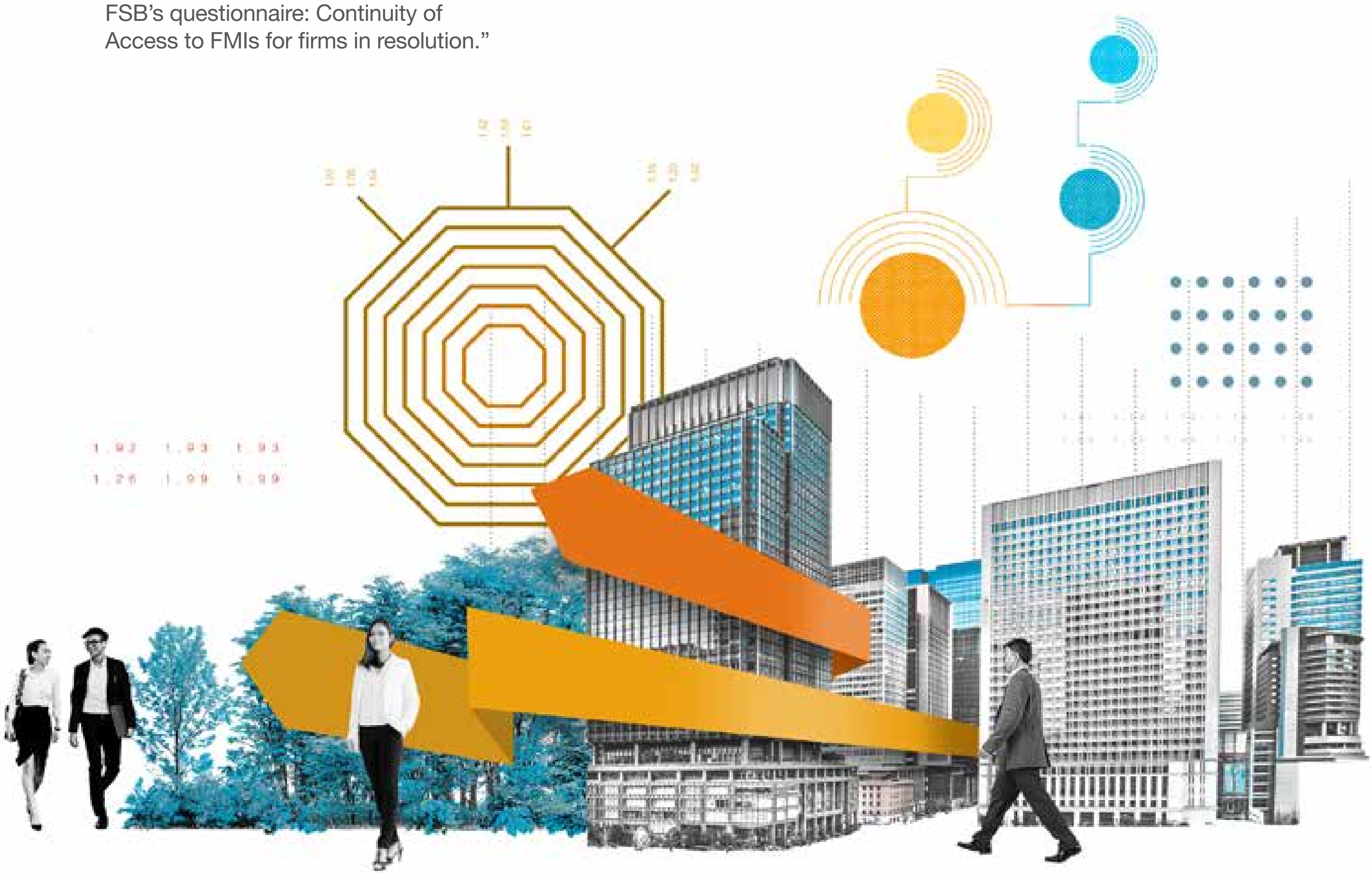
This is particularly true where jurisdiction specific requirements could be duplicative, in which case CLS seeks to promote deference to cooperative arrangements such as the CLS Oversight Committee.

Throughout 2023, CLS engaged in bilateral discussions with regulators and supervisory bodies to understand the scope of upcoming regulatory changes that may impact CLS.

Cross-border recovery and resolution regimes

CLS monitors recovery and resolution related regulatory developments with the view that resolution authorities, and FMIs themselves, should strive to maximize the likelihood that an entity subject to resolution (or its successor entity) continues to participate in FMIs so long as this does not compromise the safe and orderly operation of the FMIs. Where appropriate, CLS comments on pertinent consultations relating to the implementation and enhancement of resolution regimes with respect to continuity of access to FMIs for a firm in resolution.

In order to assist its settlement members and authorities, CLS provides comprehensive information to relevant stakeholders each year, highlighting key considerations in a resolution scenario. In particular, CLS updated and distributed its response to a resolution related questionnaire from the Financial Stability Board (the "FSB") titled "CLS responses to the FSB's questionnaire: Continuity of Access to FMIs for firms in resolution."



Board of Directors

Gottfried Leibbrandt

Originally elected May 2021
Affiliation Outside Director
Role Former Chief Executive Officer of Swift

Thomas Berkery

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

Gerard Brady

Originally elected February 2023
Affiliation Outside Director
Role Former Global Chief Information Security Officer ("CISO") for Morgan Stanley.

Debbie Chin

Originally elected June 2023
Affiliation United Overseas Bank
Role Head of Global Markets and Custody and Investment Operations

Alberto Covin

Originally elected June 2023
Affiliation UniCredit
Role Active Balance Sheet Management, Head of Resolution FMI Strategy

Brian Gallagher

Originally elected May 2022
Affiliation JPMorgan Chase
Role Managing Director, Head of Fixed Income, Currencies and Commodities Operations

Bruno d'Illiers

Originally elected June 2023
Affiliation BNP Paribas
Role Global Head of Corporate and Institutional Banking (CIB) Operations

Karen Keenan

Originally elected May 2020
Affiliation Outside Director
Role Former Chief Administrative Officer, State Street Corporation (USA)

Sheryl Kennedy

Originally elected May 2019
Affiliation Outside Director
Role Former Chief Executive Officer, Promontory Canada & Former Deputy Governor, Bank of Canada

Federica Mazzucato

Originally elected May 2022
Affiliation UBS Investment Bank
Role Global Head of Exchange Traded Derivatives and FX Prime Services

Paolo Muzzarelli

Originally elected May 2022
Affiliation Credit Suisse/UBS
Role Managing Director

Shuta Okawara

Originally elected May 2021
Affiliation MUFG Bank
Role Managing Director, Head of Transactions Services Division

Rodolphe Sahel

Originally elected June 2023
Affiliation Société Générale
Role Managing Director, acting as Deputy Head of Group Treasury for Société Générale

Jodi Schenck

Originally elected June 2023
Affiliation Citigroup
Role Head of North American Corporate FX Sales and Solutions

Edward Sterba

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

Oliver Stuart

Originally elected May 2022
Affiliation Morgan Stanley
Role Managing Director, Global Head of Institutional Securities Group (ISG) Equity & Capital Markets Operations

John Trundle

Originally elected May 2020
Affiliation Outside Director
Role Former Chief Executive Officer of Euroclear UK & Ireland

Bhupesh Vora

Originally elected June 2023
Affiliation Royal Bank of Canada
Role European Chief Information Officer Capital Markets Europe at RBC

Directors resigned in 2023

Dominique Le Masson
Resigned April 1

Bryan Osmar
Resigned June 6

Michael Lawrence
Resigned June 6

William Stenning
Resigned June 6

David Gary
Resigned June 6

Fabrizio Tallei
Resigned June 6

Ronnie Yam
Resigned June 6

Hari Moorthy
Resigned September 13

Gilbert Lichter
Deceased November 20

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

Executive Management Committee

Marc Bayle de Jessé
Chief Executive Officer

Thomas Barkhuff
Chief Information Officer

Duncan Barnard
Chief Internal Auditor

John Hagon
Chief Operating Officer

Deborah Hrvatin
Chief Risk Officer

Trevor Suarez
Chief Financial Officer

Gaynor Wood
General Counsel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Statutory Auditor's report

To the General Meeting of CLS Group Holdings AG, Lucerne

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of CLS Group Holdings AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated statement of profit and loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of 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 (ISA) and Swiss Standards on Auditing (SA-CH). 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, together with the requirements of the Swiss audit profession, as well as those of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), 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

Appropriateness of Capitalisation of 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.

CLS Group reported intangible assets of GBP109.9 million for the year ended 31 December 2023.

The most significant asset of the Group is the core settlement system which is necessary for the core operations and provision of the Group's services to its customers. There is therefore an expectation that this asset will be maintained and enhanced periodically, and costs incurred accordingly.

However, it can be judgmental as to when costs are incurred whether they meet the capitalization criteria of IAS 38 or they should be expensed which could lead to a material misstatement.

There is a high inherent risk due to the level of judgment applied by management in determining whether these costs are capital or expenditure which has led to an increased audit effort over this matter.

Our response

Our audit procedures included, amongst others:

- We have assessed the design and implementation of management's controls in determining whether costs relating to intangible assets are capital in nature.
- We have performed substantive sample testing over the purchases made in the year to assess the decisions made as to whether these costs were capital or expenditure.

Other information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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.

Board of Directors' Responsibilities 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, ISA 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 SA-CH, 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.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890 and PS-CH890, 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

B. Niedermayer

Stefan Biland	Benjamin Niedermayer
Licensed Audit Expert Auditor in Charge	Licensed Audit Expert

Zurich
26 April 2024

Consolidated accounts

Consolidated statement of profit or loss

For the year ended 31 December 2023 (All amounts stated in GBP000)

	Notes	2023	2022
Revenue	4	**276,678**	**253,274**
Operating expenses			
Operating expenses		(280,095)	(244,901)
Total operating expenses		(280,095)	(244,901)
(Loss)/profit from operations	5	**(3,417)**	**8,373**
Finance income	7	6,771	1,574
Finance expense		(778)	(788)
Profit before tax		**2,576**	**9,159**
Tax (expense)/credit for the year	8	(4,964)	4,273
Total (loss)/profit for the year		**(2,388)**	**13,432**

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

Consolidated statement of comprehensive income and loss

For the year ended 31 December 2023 (All amounts stated in GBP000)

	Notes	2023	2022
(Loss)/profit for the year		(2,388)	13,432
Exchange rate differences on translation of foreign operations		(153)	1,741
Exchange rate movements taken to the cash flow hedge reserve	16	(4,647)	495
Fair value movements taken to the OCI revaluation reserve		(60)	51
Tax on items accounted through OCI		–	(93)
Total comprehensive (loss)/profit		**(7,248)**	**15,626**
Attributable to:			
Equity holders of parent		(7,248)	15,626
Total comprehensive (loss)/profit		**(7,248)**	**15,626**

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

Consolidated statement of financial position

At 31 December 2023 (All amounts stated in GBP000)

	Notes	31 December 2023	31 December 2022
Non-current assets			
Intangible assets	9	109,924	131,255
Property, plant and equipment	10	6,727	4,916
Right of use assets	11	9,996	9,066
Other investments	13	333	323
Deferred tax asset	14	330	2,383
		127,310	**147,943**
Current assets			
Trade and other receivables	15	38,090	38,402
Current tax assets	21	6,778	11,428
Derivative financial instruments	16	–	2,339
Investments at fair value	19	76,118	72,751
Cash deposits	17	73,446	38,482
Cash and cash equivalents	18	80,841	90,827
		275,273	**254,229**
Total assets		**402,583**	**402,172**
Current liabilities			
Trade and other payables	20	(61,732)	(56,326)
Derivative financial instruments	16	(2,147)	–
		(63,879)	**(56,326)**
Net current assets		**211,394**	**197,903**
Non-current liabilities			
Other liabilities	22	(5,454)	(5,702)
Lease liabilities	23	(11,538)	(11,184)
		(16,992)	**(16,886)**
Total liabilities		**(80,871)**	**(73,212)**
Net assets		**321,712**	**328,960**

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

	Notes	31 December 2023	31 December 2022
Equity			
Share capital	24	202,582	202,582
Share premium account		116,104	116,104
Combined merger and consolidated reserves	25	116,631	116,631
Translation reserves		3,363	3,516
Cash flow hedge reserve		(2,712)	1,935
OCI revaluation reserve		176	236
Retained losses		(114,432)	(112,044)
Total equity		**321,712**	**328,960**

The consolidated financial statements were approved by the Board of Directors on 25 April 2024 and signed on its behalf by:

Gottfried Leibbrandt
CLS Group Holdings AG
Chair
25 April 2024

Marc Bayle de Jessé
CLS Group Holdings AG
Chief Executive Officer
25 April 2024

Consolidated statement of changes in equity

For the year ended 31 December 2023 (All amounts stated in GBP000)

	Notes	Share capital	Share premium	Combined merger and consolidated reserves	Translation reserves	Cash flow hedge reserve	OCI reserve	Retained losses	Total equity attributable to parent	Non-controlling interests	Total equity
Balance at 1 January 2022	24	**202,582**	**116,104**	**116,631**	**1,775**	**1,440**	**185**	**(125,383)**	**313,334**	**–**	**313,334**
Profit for the year		–	–	–	–	–	–	13,432	13,432	–	13,432
Other comprehensive income		–	–	–	1,741	495	51	(93)	2,194	–	2,194
Balance at 31 December 2022		**202,582**	**116,104**	**116,631**	**3,516**	**1,935**	**236**	**(112,044)**	**328,960**	**–**	**328,960**
Loss for the year		–	–	–	–	–	–	(2,388)	(2,388)	–	(2,388)
Other comprehensive income		–	–	–	(153)	(4,647)	(60)	–	(5,106)	–	(5,106)
Balance at 31 December 2023		**202,582**	**116,104**	**116,631**	**3,363**	**(2,712)**	**176**	**(114,432)**	**321,712**	**–**	**321,712**

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

Consolidated cash flow statement

For the year ended 31 December 2023 (All amounts stated in GBP000)

	Notes	2023	2022
(Loss)/profit from operations		**(3,417)**	**8,373**
Adjustments for:			
Amortization of intangible assets		34,577	27,881
Depreciation of property, plant and equipment and right of use assets		4,056	4,717
Foreign exchange (losses) recognized in profit from operations		(769)	(7,708)
Lease payments		(3,505)	(1,293)
(Loss)/profit on matured hedges		(413)	7,009
Operating cash flows before movements in working capital		**30,529**	**38,979**
Decrease/(increase) in receivables		1,136	(8,960)
Increase in payables		4,768	9,473
Cash generated from operations		**36,433**	**39,492**
Income taxes receivable/(payable)		2,060	(5,615)
Net cash inflow from operating activities		**38,493**	**33,877**
Investing activities:			
Interest received		3,141	645
Maturity of cash investments	18	40,000	8,386
Placing of cash investments		(75,000)	(30,000)
Sale of FVTOCI investments		3	6,571
Additions to intangible assets	9	(16,419)	(11,771)
Purchases of property, plant and equipment	10	–	(2,603)
Net cash outflow from investing activities		**(48,275)**	**(28,772)**
Net (decrease)/increase in cash and cash equivalents		**(9,782)**	**5,105**
Cash and cash equivalents at beginning of year		90,827	84,482
Effect of foreign exchange rate changes		(204)	1,240
Cash and cash equivalents at end of year		**80,841**	**90,827**
Cash and cash equivalents as presented on the consolidated statement of financial position		**80,841**	**90,827**

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

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

1. General information

Reporting entity

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

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

Basis of accounting

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

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

Basis of preparation

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

Functional and presentation currency

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

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

2. Significant accounting policies

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

A. Basis of consolidation

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

i. Subsidiaries

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

ii. Non-controlling interests (NCIs)

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

iii. Loss of control

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest in the former subsidiary is measured at fair value when control is lost.

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

iv. Transactions eliminated on consolidation

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

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

2. Significant accounting policies (continued)

B. Changes in accounting policy

i. New standards, interpretations and amendments effective

During the year, the following amendments to accounting standards came into effect:

- IFRS 17 Insurance Contracts, including amendments Initial Application of IFRS 17 and IFRS 9 – Comparative Information
- Definition of Accounting Estimates – Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Error
- Disclosure Initiative: Accounting Policies – Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgments
- Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12 Income Taxes

Following review of the amendments, the Directors consider that none of the standards, interpretations, and amendments effective for the first time from 1 January 2023 have had a material effect on the financial statements.

There are no other amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2023 that had a material impact on the consolidated financial statements.

C. 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. Non-monetary items that are measured based on historical cost in a foreign currency are not translated. Foreign currency differences are generally recognized in profit or loss.

However, foreign currencies arising from the translation of the following items are recognized in OCI:

- An investment in equity securities designated as at FVOCI (except on impairment, in which case foreign currency differences that have been recognized in OCI are reclassified to profit or loss).
- A financial liability designated as a hedge of the net investment In a foreign operation to the extent that the hedge is effective; and
- Qualifying cashflow hedges to the extent that the hedges are effective.

ii. Foreign operations

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

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

D. Revenue recognition

i. Instruction processing charges, fees and other income

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

The five-step model includes:

1) identifying the contract with the customer;

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

3) determining the amount of consideration in the contract;

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

5) recognizing revenue as each performance obligation is satisfied.

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

E. 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. Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

iv. Deferred compensation

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

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

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

2. Significant accounting policies (continued)

F. Leasing

At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As a lessee

Leases for where CLS is the lessee requires CLS to recognize both:

- a lease liability, initially measured at the present value of lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incidental borrowing rate, and
- a right of use (ROU) asset, measured initially at cost, which comprises the initial measurement of the lease liability adjusted for any lease payments made at or prior to commencement date, plus any initial direct costs, and estimated costs of restoring the underlying asset to the condition required by the lease, less any lease incentives received.

Generally, the Group uses its incremental borrowing rate as the discount rate. The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension period, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

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

The right of use asset will amortize to the income statement under the straight-line method over the life of the lease. It is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Short-term leases and leases of low-value assets

The Group has elected to not recognize right of use assets and lease liabilities of leases of low-value items and short-term leases, including IT equipment. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risk and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it's an operating lease.

When the Group is an intermediate lessor, it accounts for interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

G. 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.

H. 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.

I. Taxation

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

i. Current tax

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

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

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

ii. Deferred tax

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

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

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.

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

2. Significant accounting policies (continued)

J. 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
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.

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

Intangible asset component	Maximum asset life and amortization policy
Upgrades and enhancements to the core service	10 years, straight line
Unified services platform	10 years, straight line
Other CLS products	5 years, straight line
All other business systems	5 years, straight line

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

iv. Impairment of assets

Intangible assets must be tested annually for impairment irrespective of whether there is any indication of impairment. An impairment test is required additionally if there are indicators of impairment, which will trigger immediate review. Any impairment loss is recognized in the Consolidated Income Statement.

K. Financial instruments

i. Recognition and initial measurement

Financial assets and financial liabilities comprise all assets and liabilities reflected in Statement of Financial Position, although excluding property, plant and equipment, investment properties, intangible assets, deferred tax assets, prepayments, deferred tax liabilities and employee benefit plan.

The Group recognizes financial assets and financial liabilities in the Statement of Financial Position when, and only when, the Group becomes party to the contractual provisions of the financial instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus or minus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

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

ii. Classification and measurement

Financial instruments are classified at inception into one of the following categories, which then determine the subsequent measurement methodology.

Financial assets are classified into one of the following three categories:

- financial assets at amortized cost;
- financial asset at fair value through other comprehensive income (FVTOCI); or
- financial asset at fair value through the profit or loss (FVTPL)

Financial liabilities are classified into one of the following two categories:

- financial liabilities at mortized costs; or
- financial liabilities at fair value through the profit or loss (FVTPL)

The classification and the basis for measurement are subject to the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as detailed below:

Financial assets at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL.

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding.

If either of the above two criteria is not met, the financial assets are classified and measured at FVTPL.

If a financial asset meets the amortized cost criteria, the Group may choose to designate the financial asset at FVTPL. Such an election is irrevocable and applicable only if the FVTPL classification significantly reduces a measurement or recognition inconsistently.

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

2. Significant accounting policies (continued)

K. Financial instruments (continued)

Financial asset at fair value through other comprehensive income (FVTOCI)

A financial asset is measured at FVTOCI only if it meets both of the following conditions and is not designated as at FVTPL.

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

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

If an equity investment is designated as FVTOCI, all gains and losses, except for dividend income, are recognized in Consolidated Statement of Comprehensive Income and are not subsequently included in the Consolidated Statement of Income Statement.

Financial assets at fair value through the profit or loss (FVTPL)

Financial assets not otherwise classified above are classified and measured as FVTPL.

Financial liabilities at amortized cost

All financial liabilities, other than those classified as financial liabilities at FVTPL, are measured at amortized cost using the effective interest rate method.

Financial liabilities at fair value through the profit or loss (FVTPL)

Financial liabilities not measured at amortized cost are classified and measured at FVTPL. This classification includes derivative liabilities.

iii. Derecognition

Financial assets

The Group derecognizes a financial asset when;

- The contractual rights to the cash flow from the financial asset expire;
- It transfers the right to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred; or

The Group neither transfers nor retains substantially all of the risks and rewards ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of the consideration received is recognized as a gain or loss in profit or loss.

Financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged, canceled, or expire.

iv. Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial assets are modified, the Group evaluates whether the cash flows of the modified assets are substantially different. If the cash flows are substantially different, then contractual rights to the cash flows from the original financial asset are deemed to expire. In this case the original financial asset is derecognized and a new financial asset is recognized at either amortized cost or fair value.

If the cash flows are not substantially different, then modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in the Income Statement.

Financial liabilities

If the terms of a financial liabilities are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual obligations from the cash flows from the original financial liabilities are deemed to expire. In this case the original financial liabilities are derecognized and new financial liabilities are recognized at either amortized cost or fair value.

If the cash flows are not substantially different, then the modification does not result in derecognition of the financial liabilities. In this case, the Group recalculates the gross carrying amount of the financial liabilities and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in the Income Statement.

v. Derivative financial instruments and hedge accounting

Derivative financial instruments are contracts, the value of which is derived from one or more underlying financial instruments or indices, and include futures, forwards, swaps and options in the interest rate, foreign exchange, equity and credit markets.

Derivatives financial instruments are recognized in the Statement of Financial Position as financial asset at fair value through profit or loss. Fair values are derived form prevailing market prices, discounted cash flow models or option pricing models as appropriate.

In the Statement of Financial Position, derivative financial instruments with positive fair values (unrealized gains) are included as assets and derivative financial instruments with negative fair values (unrealized losses) are included as liabilities.

Cash flow hedges

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.

When a derivative is designated as a cash flow hedge instrument, the effective portion of changes in the fair value of the derivative is recognized in OCI and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognized in OCI is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

2. Significant accounting policies (continued)

K. Financial instruments (continued)

v. Derivative financial instruments and hedge accounting (continued)

The Group designates only the change in fair value of the spot element of forward exchange contracts as the hedge instrument in cash flow hedge relationships. The change in fair value of the forward element of forward exchange contracts (forward points) is separately accounted for as a cost of hedging, recognized in other comprehensive income and accumulated in a separate component of equity.

If hedge no longer meets the criteria for hedge accounting or the hedge instrument is sold, expires, is terminated or is exercized, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedge is discontinued, the amount that has been accumulated in the hedge reserve remains in equity until, for a hedge of a transaction resulting in the recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods as the hedge expected future cash flow affect profit or loss.

If the hedge future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and cost of hedging reserve are immediately classified to profit or loss.

L. 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.

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.

Estimates, judgments and any underlying assumptions are reviewed on an ongoing basis. The financial impact of any revisions to accounting estimates are recognized in both the current and future periods to which the estimate relates to.

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

Assumptions and estimation uncertainties

Critical estimates made in the preparation of the financial statements are as follows:

- 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.
- Assets in the course of construction: At the balance sheet date, management reviews the assets in the course of construction (work in progress) and determines that the balances are suitable not to be amortized until that asset is fully operational and put into production. At that point, the asset and associated cost is moved from work in progress, capitalized to the asset register and amortized over its useful economic life.

- Investment in Swift: Shares in Swift do not have a quoted market price in an active market. The fair value of the investment has therefore been determined using the nominal value per share calculated annually and approved by the board of SWIFT.
- Fair value of intangible assets: Much of the Group's intangible assets are in-house developed proprietary technology where no external market valuations exist.. The fair value of these intangible assets is subject to an annual impairment review, which uses value-in-use calculations. These calculations use estimates around future cash flow projections using the Group's 5 Year Financial plan, with longer term cash flows extrapolated using an estimated annual growth rate.

Critical judgments made in the preparation of these financial statements are as follows:

- Internal Cost Capitalization: Management assess every project individually to determine whether the project's activities meet capitalization criteria under US GAAP. At the balance sheet date, management has capitalized hardware and software along with certain employee and third-party vendor project related costs. Timesheet data is used to capture the time worked on relevant projects and this time is then converted into a cost which is used to capitalize the cost to Intangible Assets.
- Useful Economic Life (UEL): During the year, management has conducted a review of the estimated UEL of the internally generated intangible assets. Continued expenditure on application development maintains and enhances their future economic benefits and therefore management is of the opinion that the current estimated UELs can be maintained. Intangible assets are described in note 9.
- 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 5 Year Financial plan. The forecasted income profile contained within the plan supports the value of the asset and therefore management is of the opinion that the value is appropriate. Deferred tax assets are described in note 14.
- 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.

4. Revenue

	2023	2022
Instruction processing charges	247,370	223,460
Annual account maintenance fees	8,820	8,840
CCP Settlement	3,750	7,625
Liquidity usage fees	2,638	2,703
Other revenues	14,100	10,646
Total revenue	**276,678**	**253,274**

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

5. (Loss)/profit from operations

The (loss)/profit from operations has been arrived at after charging:

	Notes	2023	2022
Staff costs	6	130,663	115,771
IT service charges		52,691	46,100
Amortization of intangible assets	9	30,460	27,881
Impairment of intangible assets	9	4,117	–
Depreciation of property, plant and equipment	10,11	4,056	4,717
Foreign exchange gain		(609)	(365)
Foreign exchange (gain) on forward contracts		(162)	(403)
Telecom costs		21,383	21,254
Professional service costs		20,841	19,595
Establishment costs		3,045	2,665
Auditor's remuneration for audit services (see below)		920	713
Other		12,690	6,973

The analysis of auditor's remuneration is as follows:

	2023	2022
Fees payable to the Company's auditors for the audit of the Company's annual accounts		
– Current year	40	27
– Prior year	–	16
Audit of the Company's subsidiaries pursuant to legislation		
– Current year	770	517
– Prior year	110	153
Total audit fees	**920**	**713**
Fees payable to the Company's auditors and their associates for other services to the Group:		
Tax services	407	187
Total non-audit fees	**407**	**187**
Total fees	**1,327**	**900**

KPMG AG were appointed auditor for the Group at the annual general meeting on 4 June 2024 for one year.

6. Staff costs

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

Number of staff	2023	2022
Service delivery and technology	355	328
Risk and control	202	187
Corporate	54	48
Total	**611**	**563**

Total aggregate remuneration comprised:

	2023	2022
Salaries	111,081	97,176
Temporary staff	5,707	6,414
Social security costs	9,777	8,416
Pension costs	7,240	6,494
Total	**133,805**	**118,500**

During 2023 GBP3,142,000 (2022: GBP2,729,000) of the above costs were incurred in the creation of intangible assets and have been capitalized.

Analysis of Directors' remuneration is included in note 28.

7. Finance income

	2023	2022
Investment income	4,177	240
Interest income	2,594	1,334
Total	**6,771**	**1,574**

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

8. Tax

	2023	2022
Current tax:		
UK corporation tax		
– Current year	–	–
– Adjustments in respect of previous periods	–	–
	–	**–**
Non-UK corporation tax		
– Current year	(2,189)	(114)
– Withholding tax	(385)	(146)
Current tax expense for the year	**(2,574)**	**(260)**
Deferred tax:		
Relating to origination and reversal of temporary differences	4,669	1,234
Adjustments recognized in the year for deferred tax of prior periods	(154)	432
Differences arising from deferred tax functional currency	(6,905)	2,867
Deferred tax (charge)/credit for the year	**(2,390)**	**4,533**
Total tax (charge)/credit for the year	**(4,964)**	**4,273**

Non-UK tax relates to USA, Switzerland and Japan.

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

The charge for the year can be reconciled to the loss before tax as reported in the consolidated statement of profit and loss as follows:

	2023	2022
Profit before tax	2,575	9,159
UK statutory tax rate	23.5%	19%
Charge at UK statutory tax rate	(606)	(1,740)
Current tax affecting items:		
Permanent disallowable expenses and non-taxable income	5,285	3,597
Adjustments in respect of current income tax of previous periods	(20)	176
Effect of different tax rates of subsidiaries operating in other jurisdictions	(308)	(503)
Deferred tax affecting items:		
Foreign exchange rate movement	(6,820)	2,832
Differences on which no deferred tax is recognized	(2,495)	(89)
Total tax (charge)/credit for the year	**(4,964)**	**4,273**

9. Intangible assets

	Assets in course of construction	Settlement Assets	Non-settlement Assets	Total
Cost				
Opening balance 1 January 2022	29,459	307,467	24,531	361,457
Additions	11,771	–	–	11,771
Transfers	(30,850)	30,456	394	–
Disposals	–	(38,615)	(1,519)	(40,134)
Closing balance 31 December 2022	**10,380**	**299,308**	**23,406**	**333,094**
Additions	16,419	–	–	16,419
Transfers	(14,753)	7,439	7,314	–
Transfers to property, plant and equipment	(3,168)	–	–	(3,168)
Effects of movements in exchange rates	(5)	–	–	(5)
Closing balance 31 December 2023	**8,873**	**306,747**	**30,720**	**346,340**
Accumulated amortization				
Opening balance 1 January 2022	–	198,996	15,099	214,095
Charge for the year	–	23,930	3,951	27,881
Disposals	–	(38,618)	(1,519)	(40,137)
Closing balance 31 December 2022	**–**	**184,308**	**17,531**	**201,839**
Charge for the year	–	26,569	3,748	30,317
Impairment of intangible assets	–	4,117	143	4,260
Effects of movements in exchange rates	–	–	–	–
Closing balance 31 December 2023	**–**	**214,994**	**21,422**	**236,416**
Net book value				
31 December 2023	**8,873**	**91,753**	**9,298**	**109,924**
31 December 2022	10,380	115,000	5,875	131,255

During the year an impairment was recognized in relation to various assets within the Settlement and Non-settlement cash generating units of GBP4.1 million and GBP0.1 million respectively.

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

10. Property, plant and equipment

	Leasehold improvements	Computer equipment	Fixtures and fittings	Total
Cost				
Opening balance 1 January 2022	**12,989**	**14,966**	**451**	**28,406**
Additions	1,544	1,059	–	2,603
Disposals	(5,696)	(5,983)	(42)	(11,721)
Closing balance 31 December 2022	**8,837**	**10,042**	**409**	**19,288**
Transfers from Intangible assets	–	3,168	–	3,168
Disposals	–	(358)	–	(358)
Closing balance 31 December 2023	**8,837**	**12,852**	**409**	**22,098**
Accumulated depreciation				
Opening balance 1 January 2022	**10,280**	**13,902**	**413**	**24,595**
Disposals	(5,696)	(5,983)	(42)	(11,721)
Charge for the year	586	896	16	1,498
Closing balance 31 December 2022	**5,170**	**8,815**	**387**	**14,372**
Disposals	–	(358)	–	(358)
Charge for the year	565	777	15	1,357
Closing balance 31 December 2023	**5,735**	**9,234**	**402**	**15,371**
Net book value				
31 December 2023	**3,102**	**3,618**	**7**	**6,727**
31 December 2022	3,667	1,227	22	4,916

Additions to leasehold improvements last year relate to costs incurred for the preparation of new datacenter facilities. Depreciation of these assets will begin when the asset comes into use.

11. Right of use assets

The Group leases office space and small office equipment.

	Property	Office Equipment	Total
Cost			
Opening balance 1 January 2022	**19,227**	**706**	**19,933**
Lease modification	1,247	–	1,247
Closing balance 31 December 2022	**20,474**	**706**	**21,180**
Additions to right of use assets	5,537	81	5,618
Derecognition of right of use assets	(1,989)	–	(1,989)
Closing balance 31 December 2023	**24,022**	**787**	**24,809**
Accumulated depreciation			
Opening balance 1 January 2022	**8,360**	**535**	**8,895**
Charge for the year	3,073	146	3,219
Closing balance 31 December 2022	**11,433**	**681**	**12,114**
Charge for the year	2,663	36	2,699
Closing balance 31 December 2023	**14,096**	**717**	**14,813**
Closing balance 31 December 2023	**9,925**	**71**	**9,996**
Closing balance 31 December 2022	9,041	25	9,066

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

During the year, changes to the monthly lease payments on our New York office space has resulted in a reduction in the remaining payments for the term of the lease. The right of use asset has been recalculated and the reduction derecognized.

	2023	2022
Amounts recognized in profit or loss		
Interest on lease liabilities	**778**	**788**
Amounts recognized in statement of cash flows		
Total cash outflow for leases	**3,505**	**1,293**

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

12. Subsidiaries

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

Name of company	Holding	Proportion of voting rights and shares held	Nature of business
CLS UK Intermediate Holdings Ltd. (incorporated in the UK)	Ordinary shares	100%	Provision of CLS Group corporate services
CLS Services Ltd. (incorporated in the UK)	Ordinary shares	100%	Provision of operational support to the CLS Settlement system and Group entities
CLS Bank International (incorporated in the US)	Common stock	100%	Foreign exchange settlement risk and liquidity management
CLS US Services Inc. (incorporated in the US)	Common stock	100%	Provision of operational support to the CLS Settlement system and Group entities
CLS Processing Solutions Ltd. (incorporated in the UK)	Ordinary shares	100%	Provision of non-settlement products
CLS Assets UK Ltd. (incorporated in the UK)	Ordinary shares	100%	Provision of intangible assets to support non-settlement products

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

CLS Assets UK Ltd. ceased trading on 27 July 2023, and was subsequently struck off on 23 January 2024.

13. Other investments

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

	2023	2022
Investment in SWIFT	333	323
Balance at 31 December	**333**	**323**

Investment in SWIFT

CLS Bank International owns 50 shares (2022: 50 shares) in SWIFT which were purchased between April 2003 and May 2021. These shares are included in the balance sheet of the Group at cost. 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. 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 2023 was EUR7,760 (2022: EUR7,275) per share. The Group does not intend to dispose of this investment.

Balance at 31 December 2022	**323**
FVTOCI	6
Foreign Exchange Movement	4
Balance at 31 December 2023	**333**

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.

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

14. Deferred tax asset and liabilities

	Asset/(liability) recognized on			
	Trading losses	Tax depreciation	Accruals	Total
Balance at 1 January 2022	**24,027**	**(29,240)**	**4,742**	**(471)**
Credit to other comprehensive Income (OCI)	(93)	–	–	(93)
Foreign exchange movement	2,899	(2,318)	548	1,129
(Charge)/credit to income in the year	(725)	4,034	(1,491)	1,818
Balance at 31 December 2022	**26,108**	**(27,524)**	**3,799**	**2,383**
Foreign exchange movement	(1,360)	(4,930)	(193)	(6,483)
(Charge)/credit to income in the year	(5,920)	10,447	(97)	4,430
Balance at 31 December 2023	**18,828**	**(22,007)**	**(3,509)**	**330**

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

15. Trade and other receivables

	2023	2022
Trade receivables	24,226	23,676
Pre-payments and accrued income	11,401	13,622
VAT recoverable	1,346	877
Other receivables	1,117	227
Total	**38,090**	**38,402**

16. Derivative financial instruments

The Group uses currency derivatives to mitigate exposure to significant foreign currency cash flows. For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedge is recognized initially in other comprehensive income, and then recycled to the income statement in the periods when the hedged item will affect profit or loss. Any ineffective portion of the gain or loss on the hedging instrument is recognized in the income statement immediately. Transactions relating to these hedging instruments are expected to be incurred in 2023 and early 2024.

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

	At 31 December 2023		At 31 December 2022	
	Notional contract amount	**Fair value £'000**	**Notional contract amount**	**Fair value £'000**
Forward foreign currency contracts in hedging relationships	$158	(2,147)	$129m	2,339
Closing balance at 31 December	**$158m**	**(2,147)**	**$129m**	**2,339**

The maximum length of time over which the Group hedges exposure to the variability in future cash flows for forecast transactions is 18 months (2022: 18 months).

Gains and losses transferred from the cash flow hedging reserve to the income statement included a GBP412,000 loss (31 December 2022: GBP6,939,000 gain) transferred to administration and general expenses including taxation.

The amount is allocated as follows: Bonus expense GBPnil (31 December 2022: GBP21,000 gain); payroll expense GBP180,000 (31 December 2022: GBP3,027,000 gain); supplier payments GBP155,000 (31 December 2022: GBP2,594,000 gain); tax expense GBP77,000 (31 December 2022: GBP1,297,000 gain). Hedge ineffectiveness was GBPnil (2022: GBPnil). Further details of derivative financial instruments are provided in note 30.

17. Cash deposits

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

18. Cash and cash equivalents

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

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

19. Investments at fair value

All investments held as FVTOCI are short-dated investment grade securities with a maturity of 12 months or less.

	At 31 December 2023	At 31 December 2022
Investments held as FVTOCI	76,118	72,751
Total	**76,118**	**72,751**

20. Trade and other payables

	At 31 December 2023	At 31 December 2022
Accruals	(39,888)	(40,776)
Deferred income	(9,224)	(8,720)
Trade payables	(5,436)	(842)
Taxation and social security costs	(3,663)	(2,648)
Other payables	(3,521)	(3,340)
Total	**(61,732)**	**(56,326)**

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

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

21. Current tax assets/(liabilities)

	At 31 December 2023	At 31 December 2022
US State tax	(168)	–
Japan tax	(34)	–
Total tax liabilities	**(202)**	**–**
UK Corporation tax	–	1,874
US City tax	1,285	1,351
US Federal tax	4,176	6,435
US State tax	1,013	1,229
US New Jersey tax	506	539
Total tax assets	**6,980**	**11,428**
Net tax assets	**6,778**	**11,428**

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

22. Other liabilities

	At 31 December 2023	At 31 December 2022
Deferred compensation	(5,454)	(5,702)
Total	**(5,454)**	**(5,702)**

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

23. Lease liabilities

	31 December 2023	31 December 2022
Lease liabilities – Office equipment	(70)	(46)
Lease liabilities – Property	(11,468)	(11,138)
Total lease liabilities	**(11,538)**	**(11,184)**

24. Share capital

	Upper limit		Lower limit	
Authorized	**No. ordinary shares CHF1,400 each**	**Total nominal value CHF000**	**No. ordinary shares CHF1,400 each**	**Total nominal value CHF000**
31 December 2023	301,858	422,601	281,858	394,601

On 6 June 2023, CLS Group AG's Articles of Association were amended to introduce a new share capital band. This allows the Board of Directors to authorize the issue of up to 10,000 new registered shares or cancel up to 10,000 existing registered shares, up until 6 June 2028.

Authorized	No. ordinary shares CHF1,400 each	Total nominal value CHF000
31 December 2022	350,997	491,396

Allotted and fully paid	*No. ordinary shares CHF1,400 each	Total nominal value CHF000	Total nominal value GBP000
31 December 2023	**291,858**	**408,601**	**202,582**
31 December 2022	291,858	408,601	202,582

*Includes 3,344 of Treasury shares that CLS repurchased from shareholders in 2018.

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

25. Merger and consolidated reserves

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

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

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

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

The table below details this information.

	Pre-merger	Post-merger
As at 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 2023	**5,686**	**110,945**	**116,631**

CLS Group has opted to utilize an exemption available under IFRS 1 (First-Time Adoption of IFRS) in respect of not applying IFRS 3 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 IFRS 3.

26. Financial commitments

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

Financial commitments are as follows:

	31 December 2023	31 December 2022
Contracted for but not provided for:		
– Services agreement	486,898	253,064
– Acquisition of intangibles	–	11,703
– Other	39,667	33,873
Total	**526,565**	**298,640**

27. Contingent liabilities

There are no contingent liabilities at 31 December 2023 (2022: nil).

28. Related party transactions

Related parties

No single shareholder has overall control as resolutions are generally taken by majority and operate under a one shareholder one vote system. At 31 December 2023, the largest individual shareholder had 4.8% (2022: 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 2023	31 December 2022
Short-term employee benefits (USD)	2,392	2,414
Total (USD)	**2,392**	**2,414**

29. Controlling party

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

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

30. Treasury and capital risk management

Risk report

CLS has established an Enterprise-wide Risk Management Framework (the 'ERM Framework'), which is reviewed and approved by the CLS Group Board and remains subject to the CLS Group Board's oversight. The ERM Framework, covering Operational Risk (including Model Risk, Technology and Information Security, Physical Security, Governance and Oversight Risk, Third Party Risk), Liquidity & Market Risk, Participation & Credit Risk, Strategic Risk, Legal Risk, Financial Risk, Systemic Risk and Compliance Risk, supports a resilient approach for delivering on the CLS's FMI mandate and enables CLS to undertake a systematic approach to identifying, managing, mitigating and reporting current, as well as emerging, risks across the organization. Under the ERM Framework, roles and responsibilities are described in order to foster transparency, accountability and ownership for risk oversight and management across the CLS Group Board, Risk Management Committee, the CEO, the EMC, the CRO, and CLS's Internal Audit division. Enterprise-wide risk-related matters are reported and escalated to the CRO and, as appropriate, the EMC and the Risk 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 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 appetite and tolerances that CLS is prepared to accept and manage for CLS as a discrete entity, risks to Settlement Members, and broader systemic risks to the CLS ecosystem. The CLS Risk Appetite Statement is supported by relevant Key Risk Indicators with 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.

Financial Risk Management

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

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

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

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

1. Market risk

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

I. Foreign currency risk

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

II. Interest rate risk

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

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

2. Credit risk

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

3. Liquidity risk

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

4. Capital risk

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

CLS has developed a Recovery and Orderly Wind-Down Plan, approved by the CLS Bank Board and CLS Group Board, in recognition that the failure of the Settlement Service could result in systemic disruptions in the financial markets. The CLS Recovery and Orderly Wind-Down Plan focuses on the continuity of the Settlement Service and CLSClearedFX during severe idiosyncratic and systemic stress events. Under this plan CLS Bank holds liquid net assets funded by equity at a sufficient level to cover the costs of recovery (LNAFE) following a significant loss and the subsequent orderly wind-down of the Settlement Service and CLSClearedFX. The amount of LNAFE is equal to six months of current operating expenses and is also sufficient to fund the recovery and orderly winddown of CLS Bank's business. Furthermore, CLS Group holds in risk capital in aggregate to absorb for the potential impact of operational risk. This capital will by design include at least the minimum level of capital as per regulations and will also include an additional amount as determined by the CLS Board each year after careful evaluation of the CLS risk profile.

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

30. Treasury and capital risk management (continued)

Fair value of financial assets and financial liabilities

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 2023		31 December 2022	
	Book value	Fair value	Book value	Fair value
Financial assets				
1. Other investments	333	333	323	323
2. Loans and receivables:				
Trade and other receivables	38,090	38,090	38,402	38,402
Derivative financial instruments	–	–	2,339	2,339
3. FVTOCI investments	76,118	76,118	72,751	72,751
4. Deposits	73,446	73,446	38,482	38,482
5. Cash and cash equivalents	80,841	80,841	90,827	90,827
Total financial assets	**268,828**	**268,828**	**243,124**	**243,124**
Financial liabilities				
5. Financial liabilities at amortized cost:				
Trade and other payables	(61,732)	(61,732)	(56,326)	(56,326)
6. Derivative financial instruments	(2,147)	(2,147)	–	–
7. Other liabilities	(5,454)	(5,454)	(5,702)	(5,702)
Total financial liabilities	**(69,333)**	**(69,333)**	**(62,028)**	**(62,028)**

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

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

	Fair value hierarchy as at 31 December 2023			
	Level 1	Level 2	Level 3	Total
Financial assets				
Investment in SWIFT (Note 13)	–	–	333	333
FVTOCI investments	25,855	50,263	–	76,118
Financial liabilities				
Derivative financial instruments	–	(2,147)	–	(2,147)

	Fair value hierarchy as at 31 December 2022			
	Level 1	Level 2	Level 3	Total
Financial assets				
Investment in SWIFT (Note 13)	–	–	323	323
FVTOCI investments	5,097	67,654	–	72,751
Derivative financial instruments	–	2,339	–	2,339

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 USD158 million (2022: USD129 million).

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

30. Treasury and capital risk management (continued)

I. Interest rate risk profile

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

	Cash at bank	Deposits less than 3 months	Quoted commercial paper investments	Total
As at 31 December 2023				
Pound sterling	68,650	65,000	76,118	209,768
US dollar	8,653	8,446	–	17,099
Swiss franc	2,410	–	–	2,410
Other currencies	1,128	–	–	1,128
Total deposits, cash and cash equivalents	**80,841**	**73,446**	**76,118**	**230,405**
Fixed rate assets	–	73,446	76,118	149,564
Floating rate assets	67,417	–	–	67,417
Balances for which no interest is paid	13,424	–	–	13,424
Total deposits, cash and cash equivalents	**80,841**	**73,446**	**76,118**	**230,405**
As at 31 December 2022				
Pound sterling	78,170	30,000	72,751	180,921
US dollar	9,315	8,482	–	17,797
Swiss franc	2,388	–	–	2,388
Other currencies	954	–	–	954
Total deposits, cash and cash equivalents	**90,827**	**38,482**	**72,751**	**202,060**
Fixed rate assets	–	38,482	72,751	111,233
Floating rate assets	71,626	–	–	71,626
Balances for which no interest is paid	19,201	–	–	19,201
Total deposits, cash and cash equivalents	**90,827**	**38,482**	**72,751**	**202,060**

The effective interest rate on the average daily closing balances is 3.2% (2022: 2.9%).

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 3.35% or 3.05% (2022: 3.05% or 2.75%). Profit for the year ending 31 December 2023 (assuming the same closing balance values for one year) would increase or decrease by GBP345k (2022: increase or decrease by GBP303k).
- 20 basis points higher or lower and all other variables had been constant then the effective interest rates would have been 3.4% or 3.0% (2022: 3.1% or 2.7%). Profit for the year ending 31 December 2022 (assuming the same closing balance values for one year) would increase or decrease by GBP461k (2022: increase or decrease by GBP404k).

III. Foreign currency sensitivity

The Group's main sensitivity to changes in exchange rates is on its bank balances and investments held in foreign currency in order to finance its overseas operations, particularly USD and CHF. In 2023, GBP strengthened 6% against the USD and weakened 4% against the CHF. This led to an unrealized loss on exchange of GBP0.2 million (2022 GBP1.7 million unrealized gain) on GBP/USD and a gain of GBP0.2k (2022: GBP0.1k gain) 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 2023	At 31 December 2022
US Dollar	4,275	4,449
Swiss Franc	603	597
Total	**4,878**	**5,046**

31. Capital management

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

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

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

32. Post balance sheet events

Subsequent events were evaluated through to 25 April 2024 being the date that the financial statements were available for issue by the directors and signed on their behalf by the Chief Executive Officer and the Chair.

There were no post balance sheet events after 31 December 2023. CLS has continued to operate effectively despite recent geopolitical and other market events.

33. Standards issued but not yet adopted

Certain new standards, revisions and interpretations of existing standards have been published that have to be applied in future financial periods, but are not yet adopted by the Group. These changes are not expected to have any significant impact on the Group's consolidated financial statements (see also Changes in accounting policy (page 54).

Five year summary

Unaudited		2023	2022	2021	2020	2019
Revenue for the year	GBPm	276.7	253.3	237.9	212.5	207.8
Operating expenses (Reported basis)	GBPm	280.1	244.9	254.9	232.6	237.9
(Loss)/profit from operations	GBPm	(3.4)	8.4	(17.0)	(20.1)	(30.1)
Total (loss)/profit for the year	GBPm	(2.4)	13.4	(8.3)	(15.4)	(28.3)
Total assets at year end	GBPm	402.6	402.2	383.9	407.4	417.7
Total equity	GBPm	321.7	329.0	313.3	322.8	338.1
Daily average settled values	USDtr	6.6	6.5	6.2	5.9	5.9
Average revenue per USD million settled	GBP	0.14	0.13	0.13	0.12	0.12
Daily average billable volume	Number of sides	1,153,000	1,158,000	972,000	1,052,000	1,007,000
Average revenue per instruction	GBP	0.82	0.73	0.82	0.67	0.70
Average monthly number of employees in year	No.	611	563	534	500	409
Number of shareholders at year end	No.	79	79	79	79	79
Number of members at year end	No.	74	74	74	74	72

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