trusted market solutions

CLS Group Holdings AG

Annual Report & Consolidated Accounts 31 December 2020

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

Contents

Consolidated accounts

USD13.4 trillion

Peak value day (settled)

The Covid-19 pandemic has reinforced the importance of the role we play in ensuring market stability. And while this has had no impact on our overall strategy, it has caused us to revisit our priorities to ensure that everything we do is in support of our vision to deliver targeted, exceptional solutions to the FX market by applying the network, expertise and trust we have worked hard to build.

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

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

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

18

of the most actively traded currencies globally

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

25,000+
third-party clients

23
members of CLS oversight committee

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

Operational highlights

Protect

- Delivered a seamless service for our clients throughout the Covid-19 pandemic – mobilizing quickly to deliver stability through a period of severe market stress
- Completed engagement with relevant regulatory and government bodies across the EU to ensure continued access to CLSSettlement for all market participants post-Brexit
- Embarked on a market-wide program to foster dialog with market participants and public policy representatives to address the rise in settlement risk and develop a payment-versus-payment (PvP) solution to expand access to settlement risk mitigation across the currency spectrum

Improve

- Appointed a new Chief Information Officer and made significant progress in technology infrastructure enhancements, including migrating CLSNet to the cloud, enhancing our ability to develop the service more easily, both in terms of functionality and connectivity
- Enhanced our control functions, particularly in risk management and governance as we completed our foundational work in three lines of defense

Grow

- Grew the CLSNet network, adding Actinver, BNP Paribas, Citibank and J.P. Morgan to the service and announcing a collaboration with Finastra to provide access to their corporate and buy-side customers. Alpha Bank and First Abu Dhabi Bank sign testing and trialing agreements as the first Russian and UAE banks, respectively
- Increased third-party adoption of CLSSettlement across banks, corporates and funds globally (Japan, Philippines, Mexico and Latin America)
- Capitolis and Capitalab joined TriOptima as approved providers under the CLSOptimization banner to deliver class-leading optimization services to enhance capital use and manage risk
- CLSMarketData clients gained access to quantitative analytics capabilities through SIGTech

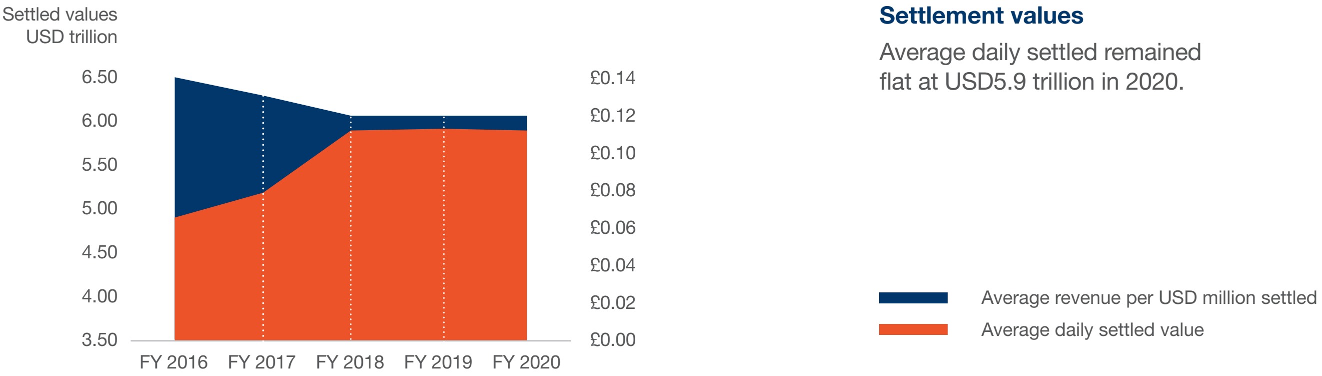
Financial highlights

		2020	2019
Revenue for the year	GBP million	**212.5**	207.8
Operating expenses	GBP million	**232.6**	237.9
(Loss) from operations	GBP million	**(20.1)**	(30.2)
Total (loss) for the year	GBP million	**(15.4)**	(28.3)
Total equity	GBP million	**322.8**	338.1
Capital expenditure	GBP million	**44.5**	55.6
Daily average settled value*	USD trillion	**5.9**	5.9
Daily average billable volume**	Number of sides	**1,052,000**	1,007,000
Average revenue per USD million settled	GBP	**0.12**	0.12
Peak value day (settled)	USD trillion	**13.4**	12.8
Peak volume day (settled)	Number of sides	**2,665,000**	2,196,000
Number of shareholders at year end		**79**	79
Number of settlement members at year end		**74**	72

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

Performance trends

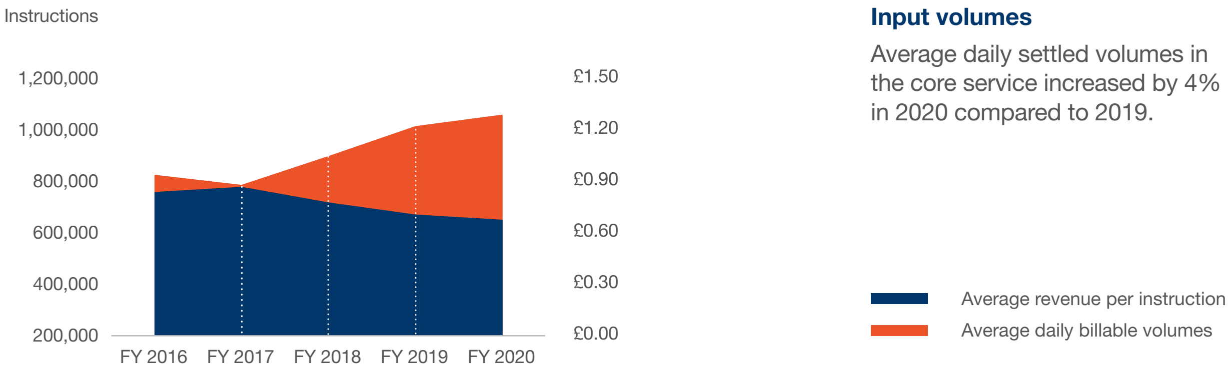
Average daily settled value



Settlement values

Average daily settled remained flat at USD5.9 trillion in 2020.

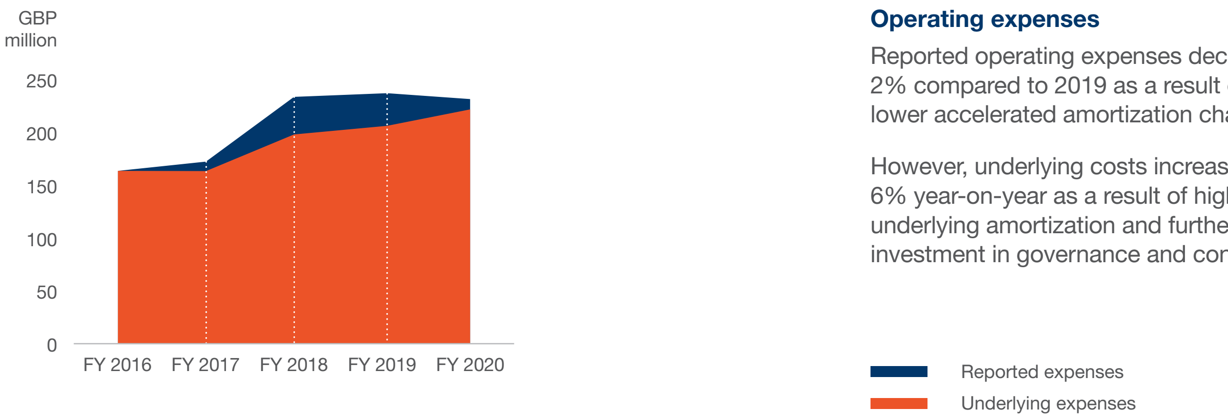
Average daily billable volume



Input volumes

Average daily settled volumes in the core service increased by 4% in 2020 compared to 2019.

Operating expenses

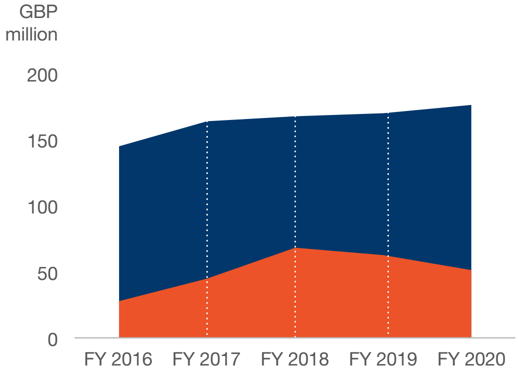


Operating expenses

Reported operating expenses decreased 2% compared to 2019 as a result of a lower accelerated amortization charges.

However, underlying costs increased by 6% year-on-year as a result of higher underlying amortization and further investment in governance and controls.

Investment in CLS system

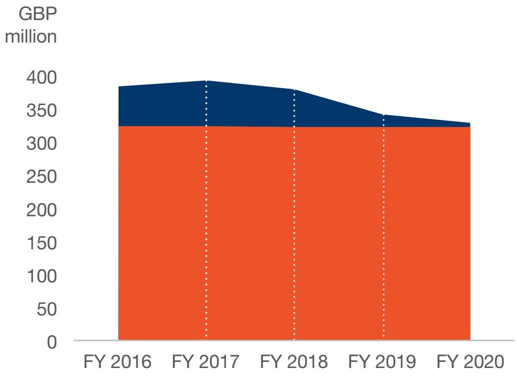


Investment in CLS

Our investment in CLSSettlement continued through 2020.

Intangible assets NBV
Capital investment

Total equity and paid in capital



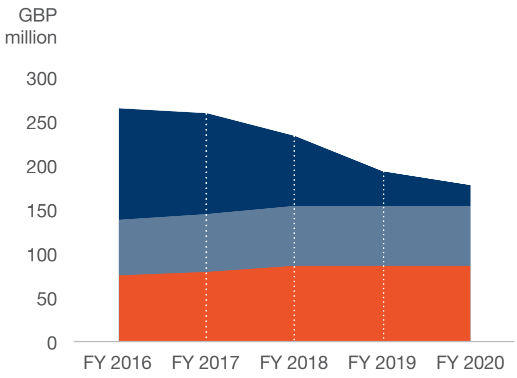
Total equity and paid in capital

Total equity decreased from GBP338.1 million at the end of 2019 to GBP322.8 million at the end of 2020.

CLS continues to be well capitalized.

Total equity
Paid in capital

Capital resources



Capital resources

Capital resources decreased from GBP195.2 million at the end of 2019 to GBP179.3 million at the end of 2020.

Available capital
Operational buffer and working capital
Regulatory capital

Chairman's statement
Kenneth Harvey

"As a global FMI we have long recognized that CLS is purpose-driven. Our role is not to just serve shareholders, but employees, communities and the broader FX ecosystem."

2020 was a year of challenges. The speed at which the Covid-19 pandemic escalated, the severity of lockdowns across the world, the size of global stimulus measures and the impact of global macro events, such as the US presidential election and Brexit, caused unprecedented spikes in market volatility.

This uncertainty has further reinforced the importance of financial market infrastructures (FMIs) and the fundamental role we play in ensuring market stability. At all times, our focus has been on ensuring our clients can continue to rely on us and our services, through what has been one of the most turbulent years in modern history.

For CLS, we performed as strongly in the second half of the year as the first. We ran our settlement services with 100% availability throughout the year and continued at pace on our trajectory to complete the Convergence program to replace our legacy settlement technology infrastructure between late Q2 and early Q3 2021.

New product adoption slowed somewhat due to the Covid-19 pandemic as the technical changes required for any client to adapt their current practices to leverage our offering likely suffered a six-month delay. Despite these challenges, we remained focused on delivering our strategy, launching new collaborations to support FX portfolio optimization, delivering in-depth insight into market behavior through our data services, and proactively engaging with participants and policy makers on determining new ways to address the rise in settlement risk, in particular for emerging markets currencies. Of particular note has been the continued evolution of CLSNet, designed to address the challenges facing currencies ineligible for CLSSettlement. Having begun our investment program five years ago and launching the product in 2019, the 'network effect' of more participants joining is promising and will play a central role in mitigating risk and reducing operational cost for this growing market segment. The ultimate objective is a true payment-vs-payment service for these currencies, and I look forward to future releases providing enhanced functionality and connectivity.

I'd like to extend my thanks to Marc, the Executive Management Committee and the broader CLS team for their dedication and resilience throughout 2020, and for ensuring we remain focused on delivering our strategy. As Marc's first full year, this has been an immensely challenging time to lead the organization, but he has successfully steered CLS through this period and is well placed to deliver the next phase of our evolution. Marc brings a sense of purpose to the organization, which has resonated with clients, regulators, employees and the CLS Board.

As the pandemic, climate change and geopolitical instability have swept the globe, people are looking increasingly for organizations to step up and help address challenges in partnership with governments and the public. We have something of a head start in this respect – as a global FMI we have long

“Strengthening resilience and efficiency in the FX ecosystem through global oversight and mutual ownership underpins our existence and acts as the guiding principle for how we operate.”

recognized that CLS is purpose-driven. Our role is not to just serve shareholders, but employees, communities and the broader FX ecosystem.

This has led to much discussion at the CLS Board level. A key area of focus during 2020 was to define – in partnership with the Executive Management Committee, Communications & Marketing, client-facing teams and the broader leadership population – a purpose statement that reaffirms our commitment to the markets we serve. The statement, “strengthening resilience and efficiency in the FX ecosystem through global oversight and mutual ownership”, underpins our existence and acts as the guiding principle for how we operate. Our focus in 2021 will be to reinforce that position, not only delivering the high-quality service and market stability our clients expect, but also implementing our environmental, social and governance (ESG) program, demonstrating our sense of corporate citizenship in everything we do.

We also completed a comprehensive review and implementation of a revised corporate structure, which now more closely aligns to the long-term corporate strategy and overriding principle of protecting CLSSettlement. I have referred to these changes in previous reports and following approval by the Board and regulators, they came into effect on 1 January 2021. This new structure – with ‘product companies’ that provide settlement, processing and data products, ‘asset companies’ that own and manage intangible assets, and ‘service companies’ that provide support services to other CLS companies – is a pragmatic evolution that leverages existing structures while clearly separating settlement, processing and data activities within the CLS group of companies. It will also enhance financial transparency of CLS’s products and services through their lifecycles. You will see these changes in reporting reflected in future annual reports.

I am also pleased to report that our ongoing work to onboard the Chilean peso as the nineteenth currency on CLSSettlement continues to progress well, with the Banco del Estado de Chile having signed a letter of intent to formally join the service. We are working closely with the central bank of Chile to define a timeline and next steps for onboarding the currency.

You will find a more detailed progress report in Marc’s and Trevor’s messages regarding the development of our services.

As we enter another challenging but also promising year, I am confident that Marc, the Executive Management Committee and the broader organization are ready to take on any challenge that may come their way.

Kenneth Harvey
Chairman of the Board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2 BUY LMT
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ADVANCING ISSUES
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Chief Executive Officer's report
Marc Bayle de Jessé

"The overarching premise of delivering high quality services, while also making the necessary investments in our infrastructure, enhancing our suite of settlement, processing and data solutions, and improving our controls environment, were the right areas to be focusing on in the medium to long term."

As my first full year as CEO of CLS, 2020 has been both exceptionally demanding and rewarding. The global Covid-19 pandemic brought with it multiple challenges for our team, not only operationally and logistically, but personally as well, as colleagues adjusted to multiple lockdowns and new ways of working.

As we mobilized quickly to continue delivering stability through a period of severe market stress, we took the opportunity to question some of the fundamentals of operational resilience, risk management, performance and connectivity, both among ourselves as colleagues and within the broader FX ecosystem.

The pandemic was compounded by various political factors, such as the US presidential election and Brexit. The latter is particularly relevant to CLS, and we have a team who has been working proactively with relevant regulatory and government bodies across the EU for over two years to ensure continued access to CLSSettlement for all market participants. While there is still much uncertainty regarding the long-term impact on the financial services sector more broadly, we successfully ensured relevant legal frameworks were established ahead of the transition period.

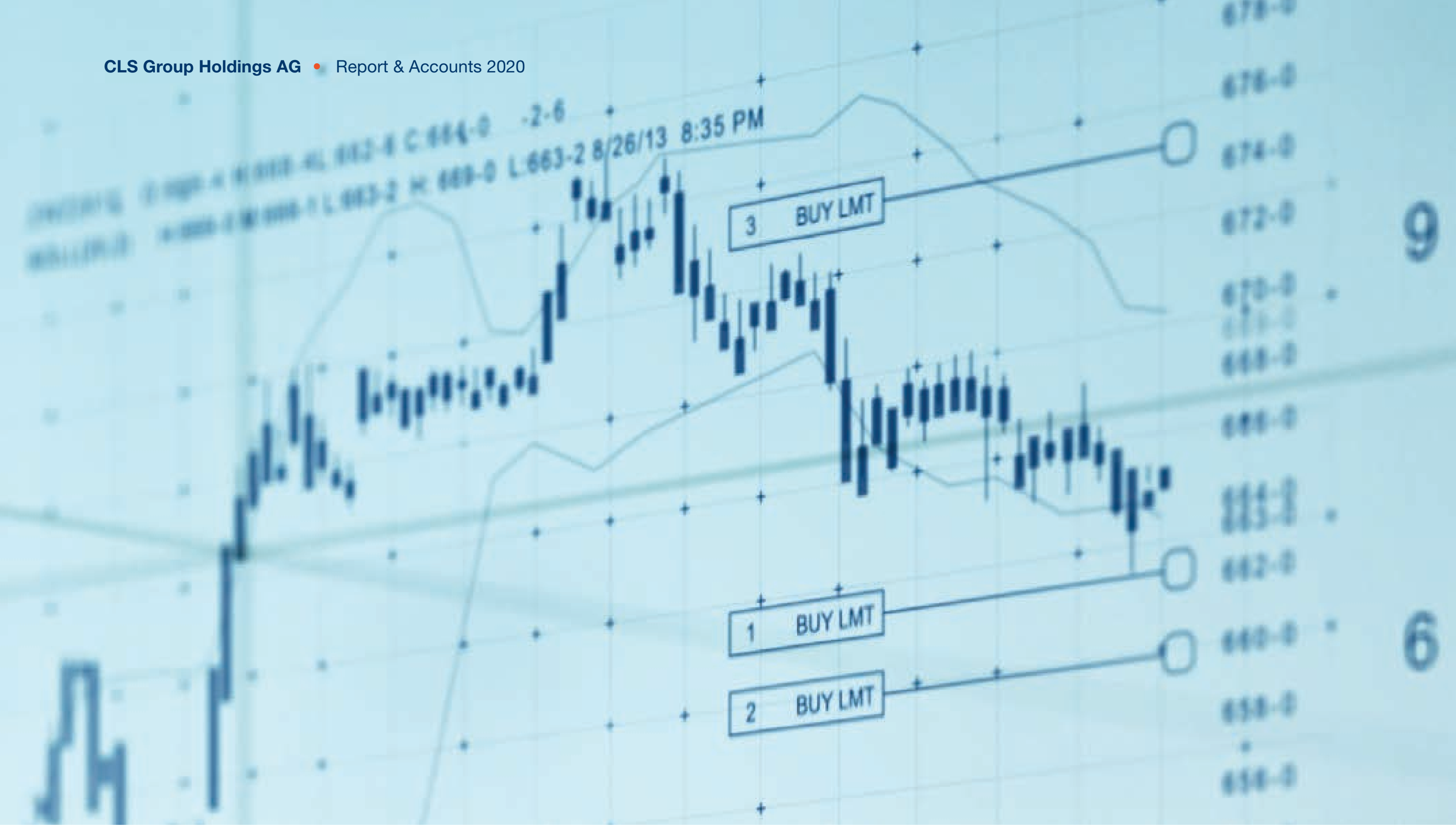
What this year has reaffirmed above all is our organization's sense of purpose. As is so often the case with FMIs, our value is underplayed when market conditions are strong but reaffirmed in periods of instability and market stress. Despite the entire team having to adapt almost overnight to fully remote working, and the challenges this presented from a technological, work-life balance and colleague connectivity perspective, we remained steadfast in our purpose. As highlighted in my interim message, we took decisive, pre-emptive measures right at the beginning of the pandemic to safeguard the wellbeing of our people and ensure the continued operation of our services. We maintained communication with our clients and regulators, providing assurances that we had appropriate structures, processes and protocols in place to deliver effective operations. Above all, we delivered a seamless settlement service for our clients, ensuring 100% system availability throughout the year.

On joining the organization in late 2019, I immediately recognized the validity of the strategy set out by the Executive Management Committee and the Board. The overarching premise of delivering high quality services, while also making the necessary investments in our infrastructure, enhancing our suite of settlement, processing and data solutions, and improving our controls environment, were the right areas to be focusing on in the medium to long term. We have continued to deliver on that strategy and despite the impact of the pandemic, have made good progress.

Product update

From a settlement perspective, we continued to focus primarily on ensuring uptake of CLSSettlement, growing overall third-party participation by 4.3%. We also had the pleasure of welcoming new settlement members Citadel and Nedbank to CLSSettlement in the second half of the year, taking our total number of settlement members to 74. And in late 2020, ANZ became the first bank in Asia Pacific to settle all 18 eligible currencies in CLSSettlement. Volumes in the service reflected the volatility across the market, reaching record highs of 2,664,798 transactions valued at USD13.4 trillion settled on 18 March 2020 compared to lows of 4,026 transactions at USD36 billion settled on 25 May 2020.

As I highlighted in my interim message, effective risk management, operational resilience and efficiency have become even more important for market participants. The Covid-19 pandemic has reinforced the importance of the role we play in ensuring market stability. And while this has not impacted on our overall strategy, it has caused us to revisit our priorities to ensure that everything we do is in support of our vision to deliver targeted, exceptional solutions to the FX market by applying the network, expertise and trust we have worked hard to build.



Following the publication of the 2019 Bank for International Settlements' Quarterly Review on the rise of settlement risk, we have embarked on a market-wide engagement program to foster dialog on this subject. We published a thought leadership piece 'Unsettling, the rise in settlement risk' and have been actively engaging market participants and public policy representatives about how best to deliver an alternative solution to mitigating settlement risk across emerging markets currencies. This engagement has led to us frequently sharing the latest insights on settlement risk at global FX committee meetings, hosting panel discussions among member banks, speaking at major policy-related events and establishing a settlement member working group to explore the development of a payment-versus-payment (PvP) solution for those currencies not currently included in CLSSettlement, that can be adopted by the market with relative ease.

Meanwhile, we have continued to promote netting as an interim solution and are encouraging the community to adopt CLSNet. In the later part of 2020, we signed a letter of intent with Finastra, one of the world's largest fintech companies, to provide customers of their confirmation match system platform (CMS) access to CLSNet.

From a technology perspective, and by the time of this report's publication, we will have completed the migration of CLSNet to the cloud and separated it from our settlement infrastructure, thereby enhancing our ability to develop the service more easily, both in terms of functionality and connectivity. These milestones demonstrate the value of CLSNet, and we hope to onboard a significant number of additional clients in 2021.

In addition to CLSNet, we made progress across other areas of the processing business line by onboarding two new compression providers: Capitolis and Capitalab. Both of these services went live at the end of 2020 and join TriOptima under the CLSOptimization banner, a group of approved CLS providers delivering class-leading optimization services to enhance capital use and manage risk.

Our work in data also gathered pace and despite the Covid-19 pandemic, saw moderate growth. We delivered new, enhanced market insight and analysis through data services, including a collaboration with SIGTech's multi-asset systematic analytics platform to provide tailored, quantitative research and the causaLens AI platform to provide insight into market behavior.

The value of our settlement services and our data analysis is becoming widely recognized across the globe. This year CLS won 'Best Trading Infrastructure Provider' at the Waters Technology American Financial Technology Awards, and 'Best FX Settlement and Risk Mitigation Solution' and 'Best FX Market Data Provider' at the FX Markets Asia 2020 Awards.

Investment program

In my interim message, I highlighted the importance of investing in our infrastructure, resilience and controls framework. Convergence remains front and center, and following its implementation we will have one of the most sophisticated and flexible post-trade technology infrastructures in the industry. We have prioritized safety and resilience in rolling out this technology. Following revisions to the plan early in 2020, our testing program with settlement members and vendors is well underway and we are on track to meet our go live deadline between late Q2 and early Q3 2021, subject to regulatory approval.

We are also making significant headway with enhancements to our controls functions, particularly in risk management and governance as we completed our foundational work in three lines of defense. We continue to make this a priority in 2021, and these investments remain fundamental to our long-term success.

The cost of Convergence, ongoing investments in our technology infrastructure and the separation of our CLSNet infrastructure from settlement will continue to have an adverse impact on our medium-term financials for some time, driven by the investment itself and the accelerated amortization charges associated with the CLSSettlement platform. However, our capital reserves remain well in excess of regulatory requirements.

The Covid-19 pandemic has also caused us to reassess the needs of colleagues and our longer-term technology infrastructure as we continue to work remotely. The likelihood of a return to previous working practices is small and as such, we have established a working group that is actively assessing and implementing revised business practices and technology that will support a new long-term hybrid working model.

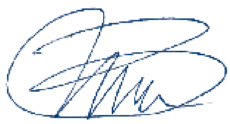
Looking to the future

My first full year at CLS has been one of much learning and an appreciation for the dynamics and complexities that come with running a global FMI. I have been very impressed by the dedication and sense of duty that colleagues across this organization demonstrate in their day-to-day roles. Throughout this year, the team remained committed to providing market stability and delivering excellence to the FX ecosystem, while ensuring we met our commitments on what remains a very large change agenda. I have also spent some time reviewing our organizational structure and made some changes to ensure we are well positioned to deliver on our strategy.

The pandemic has also led to a collective recognition that we can and must do more to deliver a comprehensive environment, social and governance (ESG) program. We have made great progress this year, in particular with our diversity and inclusion agenda. Treating all colleagues with consideration and respect has been central to our approach to leading people through the pandemic and into new ways of working. This became particularly evident at several key moments throughout the year, perhaps most notably during the Listening Session in which a number of Black colleagues, against a backdrop of very distressing external events, shared insight into their own life experiences. This was a highly impactful learning experience and helped inspire discussion about what more we can do to support one another, to make CLS an even better place to work and to be a force for good in the wider community.

Building on this, we have mobilized a team to deliver an exciting program in 2021 and beyond. Deborah provides further detail in her ESG report.

As we go into 2021, our investment in product development, infrastructure, and governance and controls remains of critical and strategic importance, but will continue to have an impact on our financials. However, our capital position remains strong and we look forward to continuing to deliver on our strategy. I extend my thanks to the whole team who have worked tirelessly through the year to deliver on our priorities.



Marc Bayle de Jessé
Chief Executive Officer

Chief Financial Officer's Report
Trevor Suarez

> "We expect Convergence to go live between late Q2 and early Q3 2021 with the final stages of our technology investment program taking place post Convergence. Once complete, our leading in-house technology platform and infrastructure will offer class-leading levels of resilience, strategic flexibility and optionality."

As highlighted in my previous reports, our current financial results continue to reflect the impact of our ongoing multi-year investment program which, despite the Covid-19 pandemic, remains within our expectations.

Reported losses after tax were GBP15.4 million for the year (2019: loss GBP28 million), while cash and deposit balances, a measure of our capital strength, stood at GBP179 million. Although these balances were down compared to last year, we continue to hold capital in excess of required minimum regulatory and our internal limits.

Before tax, underlying losses for the year were GBP7.6 million. This is before charges of GBP9 million relating to product development investments to segregate the CLSNet and settlement infrastructures and GBP3.7 million of accelerated amortization charges related to our Convergence program to migrate CLSSettlement onto our new Unified Services Platform (USP).

We expect Convergence to go live between late Q2 and early Q3 2021 with the final stages of our technology investment program taking place post Convergence. Once complete, our in-house technology platform and infrastructure will offer class-leading levels of resilience, strategic flexibility and optionality. We have factored this investment and the cost of decommissioning our legacy systems, as well as the respective impact on capital, into our future financial projections. After this period of near-term investment, we are targeting lower long-term infrastructure operating costs.

Our 2020 results showed revenues increased modestly year-on-year underpinned by steady activity in CLSSettlement, coupled with strong growth in our compression services, demonstrating the importance of CLS's ability to deliver excellence in times of heightened global risk and market stress. In 2021 we will look to develop our services further, for example in our collaboration with Capitolis and Capitalab, to support the delivery of class-leading optimization services to manage capital usage and reduce risk.

In 2020 we announced our first change in tariffs for five years with an increase in the revenue required to offset the increased cost of governance and control related to CLSSettlement. We also believe the value of both the settlement risk mitigation and funding efficiency should be closely correlated to the value of a CLSSettlement instruction. As a result, we also announced changes to our CLSSettlement pricing methodology, to better emphasize the settled value element of the tariff which now better reflects the risk mitigation and liquidity benefits we provide. We always endeavor to keep any fee changes to a minimum and remain committed to ensuring long-term price sustainability.

As in prior years we fully expensed any investment relating to further enhancing CLSNet, reflecting our experience that our products can take several years to fully achieve steady state economic maturity. This investment improves CLSNet's flexibility and scalability and develops the enhanced connectivity for both buy-side and sell-side participants. During the last quarter of 2020 we also began charging customers for the first time following the initial free trial period and I am encouraged by the number of institutions that have recently signed up to this service, including Alpha Bank and First Abu Dhabi Bank as our first Russian and UAE banks, respectively.

Our data business continues to perform well and in line with forecasts despite the Covid-19 pandemic, which has had a profound impact on the overall data and information services market. We will continue to develop the data business into 2021 to meet demand as the FX industry adopts to this new market environment.

2020 underlying expenses increased by a modest 6% year-on-year, with increased staff costs reflecting our ongoing enhancements to our governance and control framework.

And as in previous years, our investment program reflected the requirements of our critical market infrastructure status, coupled with strategic investments including, most notably, Convergence.

Where appropriate we will seek strategic savings to offset these investments. Given competing priorities, we will also continue to adopt a strict prioritization and evaluation of our book of work, whilst balancing the importance of ongoing investment.

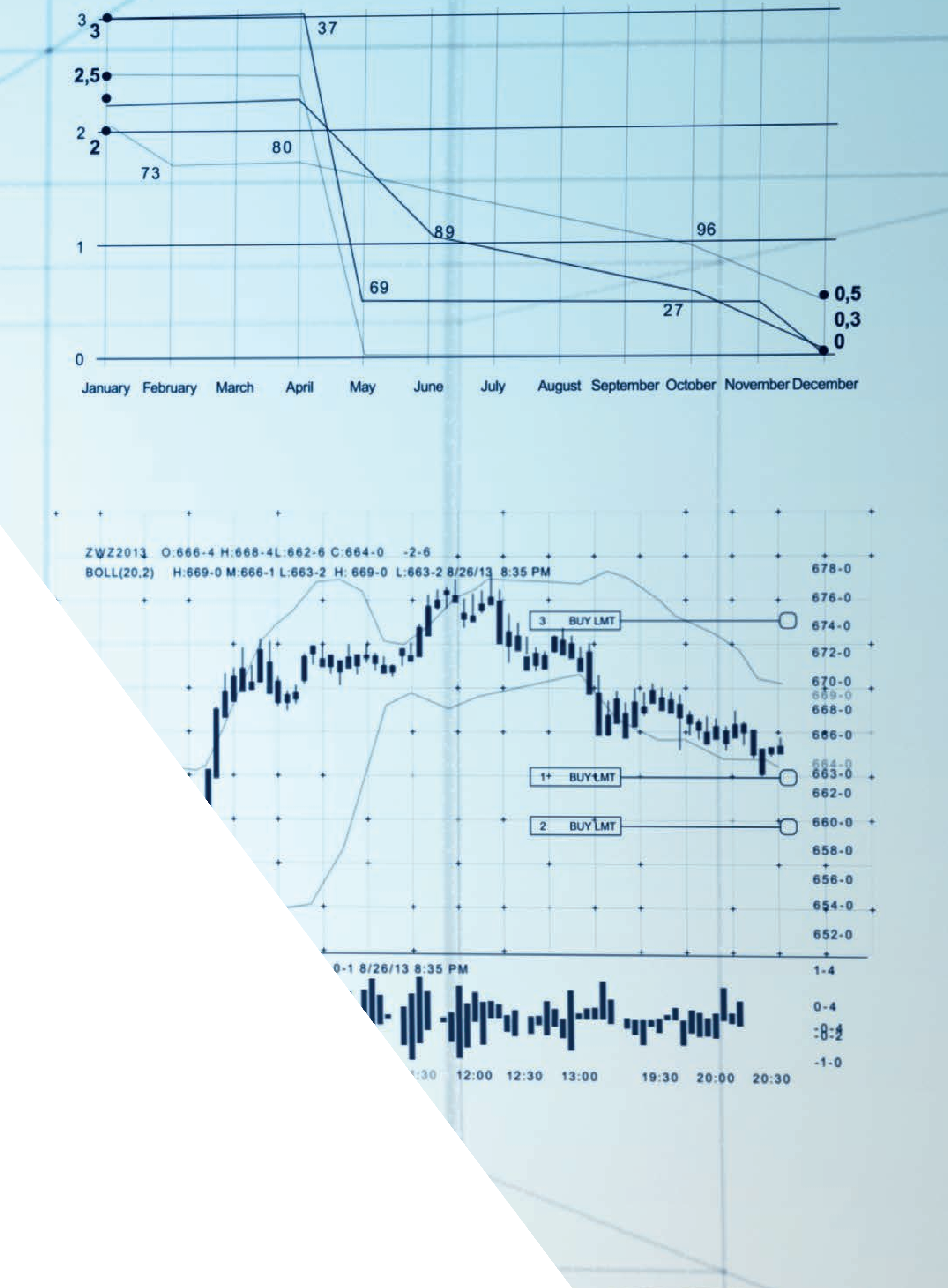
Analysis of our cash and deposit balances reflects a year of significant, but conscious investment. This was not only in the Convergence program, but in strengthening our new talent, capabilities, and enhancing related process and tools. Despite the impacts of Covid-19, we remained within our financial expectations, including the resiliency of our balance sheet where the market valuation of our own deposits and financial investments remained largely unaffected by the market volatility seen at the start of the pandemic. This reflected our conservative approach to balance sheet investment.

During 2020, we continued to monitor our current and future forecast capital position closely, at both an aggregate and an individual legal entity level. On completion of our long-term investment program, we are targeting a return to positive cash generation as we seek to realize both financial and non-financial benefits from our new platform and infrastructure. In the intervening period, as we progress through the investment cycle, we will continue to hold capital above the minimum requirements in our regulated entity and maintain a level of capital in excess of these minimum requirements for prudence purposes, held in the form of a buffer, across the Group.

While the scale of investment has had an impact on our financial results, we will always actively balance the need for service excellence and resilience with our capital position. The heart of our business continues to be CLSSettlement and ongoing investment here is paramount. This year will see the completion of our Convergence program which will be one of our most critical priorities, coupled with initiatives which further strengthen our governance and control framework. In parallel, we will selectively enhance our three business lines of settlement, data and processing, to fully support our clients.

In closing, in 2020 we progressed well on a number of fronts and successfully navigated the challenges presented by Covid-19. In 2021, I hope to share the successful progress we have made against our strategic goals. For now, I thank all of our many stakeholders and especially my fellow colleagues for their commitment and continued contribution to the success of CLS.

Trevor Suarez
Chief Financial Officer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Environmental Social Governance Report
Chief Risk Officer
Deborah Hrvatin

> “We recognized the need to establish a more formal framework which encompassed all aspects of environmental, social and governance (ESG) and set about establishing an overall ESG strategy that would enable us to deliver on our ambitions.”

Our mission to strengthen resilience and efficiency in the FX ecosystem through global oversight and mutual ownership makes us a truly unique organization: we are in a category of one. Since our inception in 2002, we have remained resolute on delivering that market stability for the benefit of the ecosystem and our owners and clients.

The sense of delivering value to the market is felt across our entire organization. The pandemic has demonstrated that in times of market stress, our colleagues are able to mobilize quickly to maintain market stability and service excellence every day. As Marc references in his message, we operated our settlement services seamlessly throughout the year, which reflects this organization’s dedication to its purpose.

The Covid-19 pandemic has also brought environmental, social and governance (ESG) practices into stark focus, not just for CLS but across the globe. As individuals navigate the complexities of a world affected by a pandemic, climate change and broader economic and political instability, organizations must be more conscious than ever of their responsibility to contribute to the longer-term goals of society.

As a financial market infrastructure, our primary responsibility is to our clients, colleagues, the communities in which we operate and the FX market we support.

The global industry is converging on common principles and metrics to drive transparency on this important topic, and there has been collective recognition by the CLS Board, Executive Management Committee and the broader colleague population that we all must do even more to support our community and planet, empower our people, foster wellbeing and set a benchmark of excellence for good governance.

Thanks to our purpose-driven strategy and a robust people agenda focused on attracting, developing and retaining diverse high-performing teams, we have many of these aspects in place today. We are committed to making CLS an even better place to work and force for good in our local communities, and have been extremely active in supporting those communities and progressing equity and inclusion across the organization.

Notable milestones have been the formation of an employee resource group to collaborate with HR, affinity groups and employee volunteers in developing our overall inclusion agenda. This has manifested itself in the expansion of our Women's Forum across all our locations to ensure global representation and the formalization of Black and Pride networks to promote inclusion and allyship. Of particular note was our first Listening Session, in which Black colleagues shared insight into their own life experiences in the wake of the Black Lives Matter protests.

As the devastating effects of the Covid-19 pandemic swept across the globe, we also placed renewed effort into supporting our local communities. This included launching food drives and fundraising projects to support the British National Health Service, the Food Bank for New York City and Southwark Foodbank, the Japanese Red Cross and Mother's Choice, a Hong Kong-based charity supporting pregnant teenagers and children without families.

In 2020 we recognized the need to establish a more formal framework which encompassed all aspects of ESG and set about establishing an overall ESG strategy that would enable us to deliver on our ambitions. Comprising four pillars, it is inspired by the United Nation's seven sustainable development goals. They are **principles of governance** (our governing purpose, leadership composition and ethical behavior), **planet** (our action on climate), **people** (reduced inequality and health and wellbeing) and **prosperity** (sustainable communities). Their selection represents both new initiatives and existing ones where we can expand activity easily. They represent a sustainable starting point that will be enhanced as our ESG framework matures.

In Q3 of 2020 this overall ESG strategy and framework was approved and endorsed by the CLS Board and senior management, and is also one of our top corporate priorities for 2021. Following the creation of an internal employee resource group, we are now actively pushing forward with our ESG agenda. Initial activity has included performing a gap analysis against best practice and our current initiatives, and we are now in the process of establishing a program of ESG activities, metrics and disclosure reporting as well as embedding ESG into our working practices, policies and procedures throughout 2021.

I am personally extremely excited about the prospect of ESG at CLS and the difference we can make as an organization. I look forward to providing you with comprehensive updates in future.

D Hrvatin

Deborah Hrvatin
Chief Risk Officer
Executive Sponsor

Directors' report

"The focus of CLS's strategy in 2021 – will be to protect its core competency of Settlement and position CLS as the trusted party for FX settlement globally."

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 2020. 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 achieved a loss after interest and tax of GBP15.4 million, compared to a loss of GBP28.3 million in 2019. Net assets of GBP322.8 million showed a decrease of GBP15.3 million compared to 2019. No dividend is recommended for the year (2019: GBPnil).

Going concern

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

The Directors estimate, based on their assessment of progress to date on service uptake and having reviewed cash flow forecasts for the 2021 budget year and long-term business plans, that sufficient funds will be available in the business for the foreseeable future.

Strategy

The global pandemic has reaffirmed the need for CLS to stay the course on delivering its strategy in order to fulfil its purpose of strengthening resilience and efficiency in the FX ecosystem through global oversight and mutual ownership. The organization remains committed to its program of infrastructure modernization, an effective operating environment and enhanced risk and control frameworks. It also remains focused on expanding settlement risk mitigation, through new participants and currencies in CLSSettlement as well as engaging the FX market on the development of a potential new payment-vs-payment mechanism for non-CLS settled currencies.

The focus of CLS's strategy in 2021 will be to continue this trajectory to maintain its position as the trusted party at the heart of the FX ecosystem. It will achieve this by effectively prioritizing settlement-related activities, developing strong technological and operational capability to enable future growth and managing risk effectively, coupled with prudent financial and resource planning.

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

Risk management

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

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

Internal controls

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

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

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

Executive management

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

Regulatory affairs

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

Governance

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

Capital structure

Details of the authorized and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 24 and 25. The Company has one class of ordinary shares which carry no right to fixed income. All issued shares are fully paid.

Directors and their interests

The Directors who served during the year are listed on pages 38 to 41.

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

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

Auditors

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

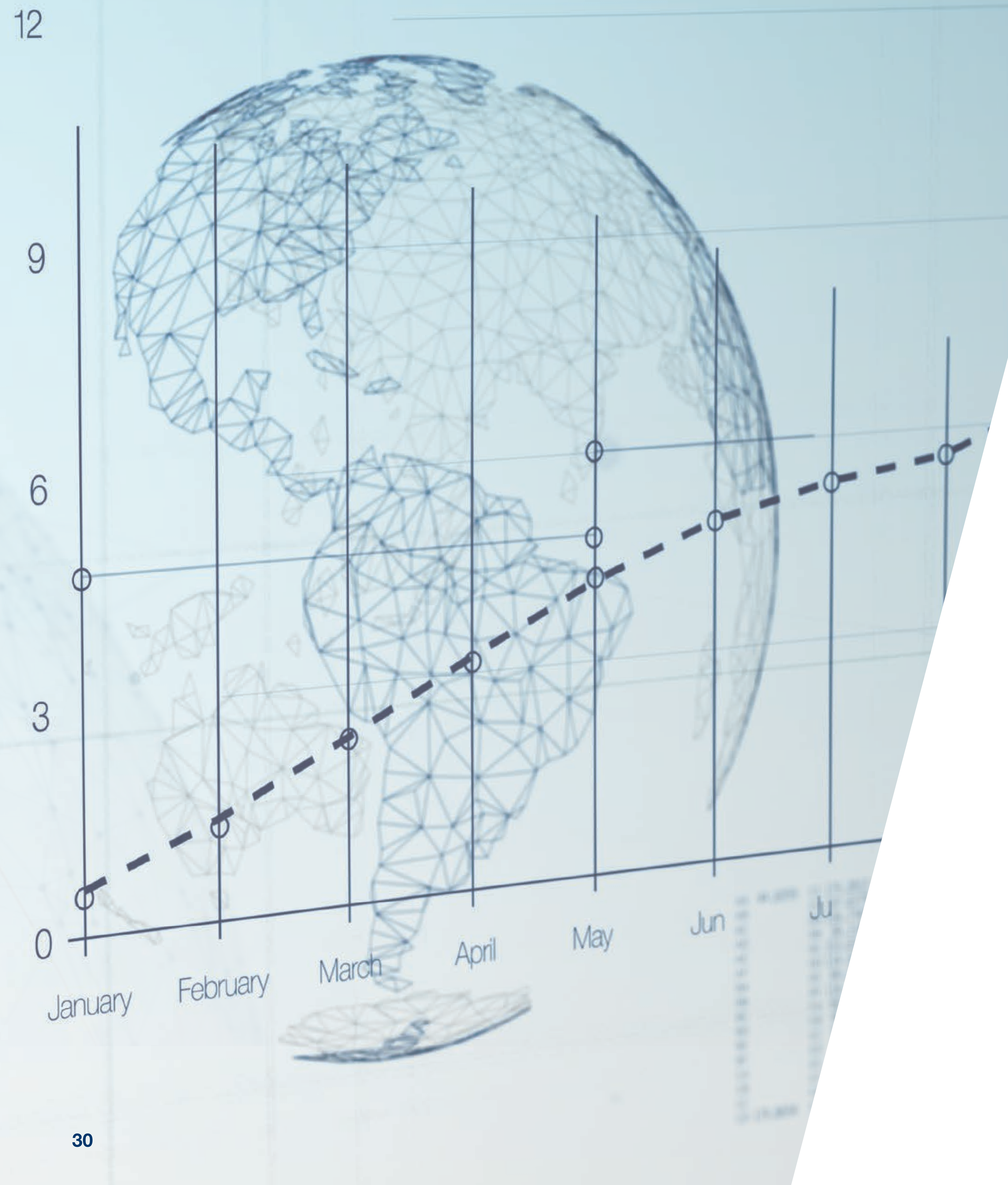
So far as the Director is aware, there is no relevant audit information of which the company's auditors are unaware; and

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

On the recommendation of the AFC, to comply with governance policy, the Board approved the submission of a proposal to Shareholders for the reappointment of KPMG AG as the Independent Auditor for CLS Group Holdings AG and the reappointment of KPMG LLP as the Independent Auditor for the Group's subsidiaries at the Annual General Meeting of Shareholders to be held on May 17, 2021. By order of the Board.

Kenneth Harvey
CLS Group Holdings AG
Chairman
22 March 2021

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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Overview

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

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

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

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

Board of Directors

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

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

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

The Board held fifteen meetings in 2020, two of which were convened in person. Board Committees meet regularly, as needed, to fulfill their chartered responsibilities. In addition to its meetings, the Board receives regular communications from the Chairman regarding industry or regulatory developments and from the Chief Executive Officer regarding business matters for the Group.

Board leadership and composition

As of 31 December 2020, the Board was comprised of twenty Directors. CLS shareholder institutions are represented by twelve Directors, with eight Outside Directors.

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

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

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

The Nominating and Governance Committee and Board regularly consider and assess the size of the Board and whether it supports the Board's oversight responsibilities. 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 Chairman, are remunerated for their services. In addition, expenses incurred by all Non-Executive Directors in fulfilling their Board responsibilities are reimbursed.

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

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

1. The Chairman of the Board, who is required to attend meetings with regulatory and oversight agencies, industry associations and shareholders and who is required to devote up to 50% of his or her time to the Group, receives an annual stipend of USD600,000 (or its equivalent in a different currency), and

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

3. Outside Directors serving on more than one Committee receive an additional USD10,000 for each additional committee exceeding the one committee requirement. Outside Directors who serve as Chairman of a committee receive an additional USD35,000

Director compliance and Code of Conduct

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

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

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

Director development

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

CLS Group Board Committees

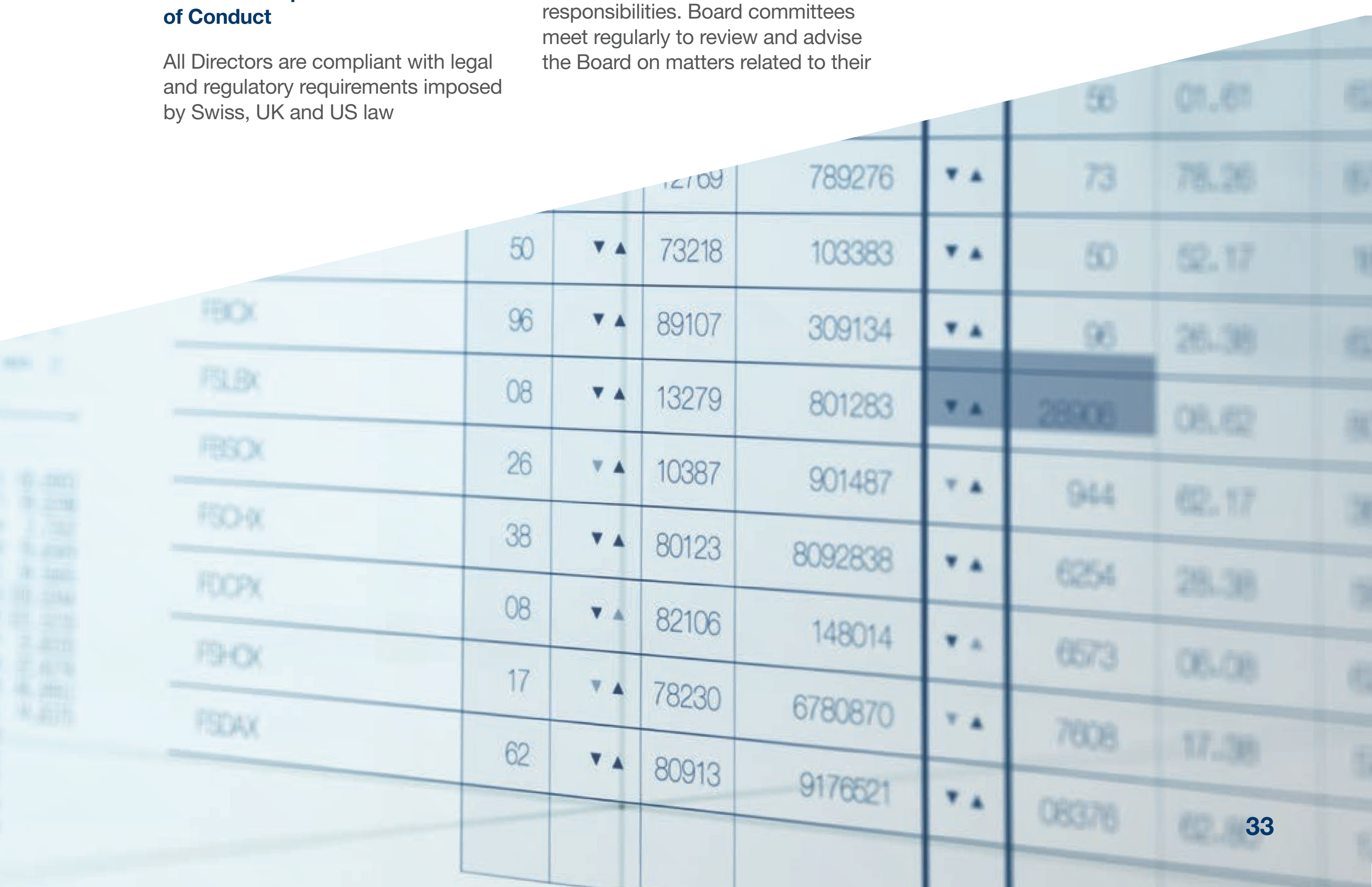
The Board has six board committees to support its oversight responsibilities. Board committees meet regularly to review and advise the Board on matters related to their chartered responsibilities, which extend to all CLS Group subsidiaries.

Audit and Finance Committee

The Audit and Finance Committee (AFC) is charged with (i) overseeing the Internal Audit function, (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 methods 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.



Governance statement (continued)

Chairman's Committee

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

Nominating and Governance Committee

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

Risk Management Committee

The Risk Management Committee (RMC) is responsible for reviewing and assessing areas of risk such as credit risk, market risk, liquidity risk, legal risk, compliance risk, payment risk, cybersecurity risk, and operational risk. The RMC also assists the Board in (i) setting the risk appetite and (ii) the proper oversight of the risk management function of 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 fulfilled 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 2020

CLS Group Holdings Board Members	CLS Group Holdings Board	Audit & Finance Committee	Chairman's Committee	Nominating & Governance Committee	Product Development Committee	Risk Management Committee	Technology & Operations Committee
Total number of meetings in 2020	15	11	11	11	6	11	9
Kenneth Harvey*	Chair		Chair		●		●
Ericka Leslie	Deputy Chair		●				●
Thomas Berkery*	●	Chair[1]	●				●
Vidya Bittianda	●					●	
Vincent Bonamy[2]	●				●	●	
Gerald Brady	●		●[3]				●
Jennifer Buonopane[2]	●			●			
David Gary	●					●	
Peter Healey	●	●					
Karen Keenan*[4]	●	●				●	
Sheryl Kennedy*	●	●		●			
Michael Lawrence	●					●	
Dominique Le Masson	●				●		
Gilbert Lichter*	●		●	Chair			
Naoto Nakamura[4]	●					●	
Bruce Nolop*[2]	●	Chair	●				
Bryan Osmar*	●		●	●		Chair	
William Stenning	●		●	●	Chair		
Edward Sterba*	●	●	●				Chair[5]
Fabrizio Tallei	●	●					
David Thomas[2]	●			●			●
John Trundle*[4]	●					●	●
Jason Vitale[2]	●		●	●	Chair		
Eddie Wen	●				●		
Ronnie Yam	●	●					

● Denotes Board/Committee membership

Asterisk (*) indicates Outside (Independent) Director

(1) Appointed Chair of the Audit and Finance Committee 12 May 2020
(2) Resigned 11 May 2020
(3) Resigned as Chair of the Technology and Operations Committee 12 May 2020
(4) Appointed 12 May 2020
(5) Appointed Chair of the Technology and Operations Committee 12 May 2020

Regulatory developments

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

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 increased since 2013.

In 2020, CLS focused its efforts on (i) educating and raising awareness of FX settlement risk amongst industry and regulatory stakeholders; (ii) advocating the incorporation of strengthened settlement risk principles into the three-year review of the Global FX Code; and (iii) encouraging the Global Foreign Exchange Committee (GFXC) and local Foreign Exchange Committees (FXCs) to collect data related to FX settlement risk via existing semi-annual turnover surveys conducted by these FXCs. Further, CLS leveraged its participation in the New York, London, and Tokyo Foreign Exchange Committees and select subcommittees by presenting on the topic of FX settlement risk.

In October, the Financial Stability Board published a roadmap to address the key challenges (e.g., high costs, low speed, limited access, insufficient transparency) often faced by cross-border payments, and the frictions found in existing processes that contribute to these challenges. The roadmap includes 19 building blocks, many of which closely align with CLS's operations and interests (particularly building block 9 'Facilitating increased adoption of PvP'). CLS created a cross-divisional steering committee of key stakeholders to organize and progress CLS's work to support the roadmap's implementation and engagement with the regulatory community.

Cybersecurity and operational resilience

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

In 2020, CLS continued to support sector-wide efforts to embed international guidance on cyber resilience for FMIs and operationalize the CPMI's strategy to reduce the risk of wholesale payments fraud related to endpoint security. We also participated in international working groups focused on key regulatory priorities, such as information-sharing, coordinated testing frameworks, and third party risks.

RTGS renewal initiatives

As a participant in the respective RTGS systems for each CLSSettlement-eligible currency, CLS may be impacted by domestic initiatives to enhance or renew existing infrastructure. Accordingly, we seek to collaborate with central bank payment system operators, both bilaterally and via participation in various RTGS working groups and fora, to offer our unique perspectives and recommend solutions to further mitigate settlement risk in the global FX market. During the past year, we have responded to consultations in various jurisdictions regarding implementation of the ISO 20022 messaging standard. We have also engaged with central banks and international standard-setting bodies to share our perspective on potential proposals to expand RTGS operating hours to 24x7x365.

Jurisdiction-specific requirements for FMIs

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

Brexit

Following the decision by the United Kingdom to leave the European Union, CLS formed a dedicated inter-divisional team tasked with identifying and proactively addressing potential Brexit-related issues that could impact CLS or its participants, including legal and regulatory issues. In particular, CLS has focused on mitigating risks relating to its anticipated loss of statutory finality protections under the EU Settlement Finality Directive after Brexit. This concern arose as a consequence of such protections applying to systems governed by the law of an EU Member State. (CLS's rules are governed by English law.) CLS has taken, and continues to take, all appropriate steps to address this risk and to ensure that CLS was well positioned with respect to all Brexit-related risks. In particular, CLS successfully addressed the legal framework risks that would have arisen in the event of a hard (no-deal) Brexit. In light of the fact that a soft Brexit occurred, CLS was required to take additional steps in Italy and France to ensure continued finality protections for the CLS system after the end of the transition period on December 31, 2020, which it successfully completed. The Trade and Cooperation Agreement between the EU and the UK was executed on December 30, 2020 and came into force on January 1, 2021. No further extension of the transition period was therefore entered into and no further actions from CLS are required. In addition, CLS has been monitoring the European Commission consideration of potential future amendments to the Settlement Finality Directive (SFD) in the context of third country systems. CLS was informed that in the near future CLS would have the opportunity to respond to a consultation with respect to the SFD.

Cross-border recovery and resolution regimes

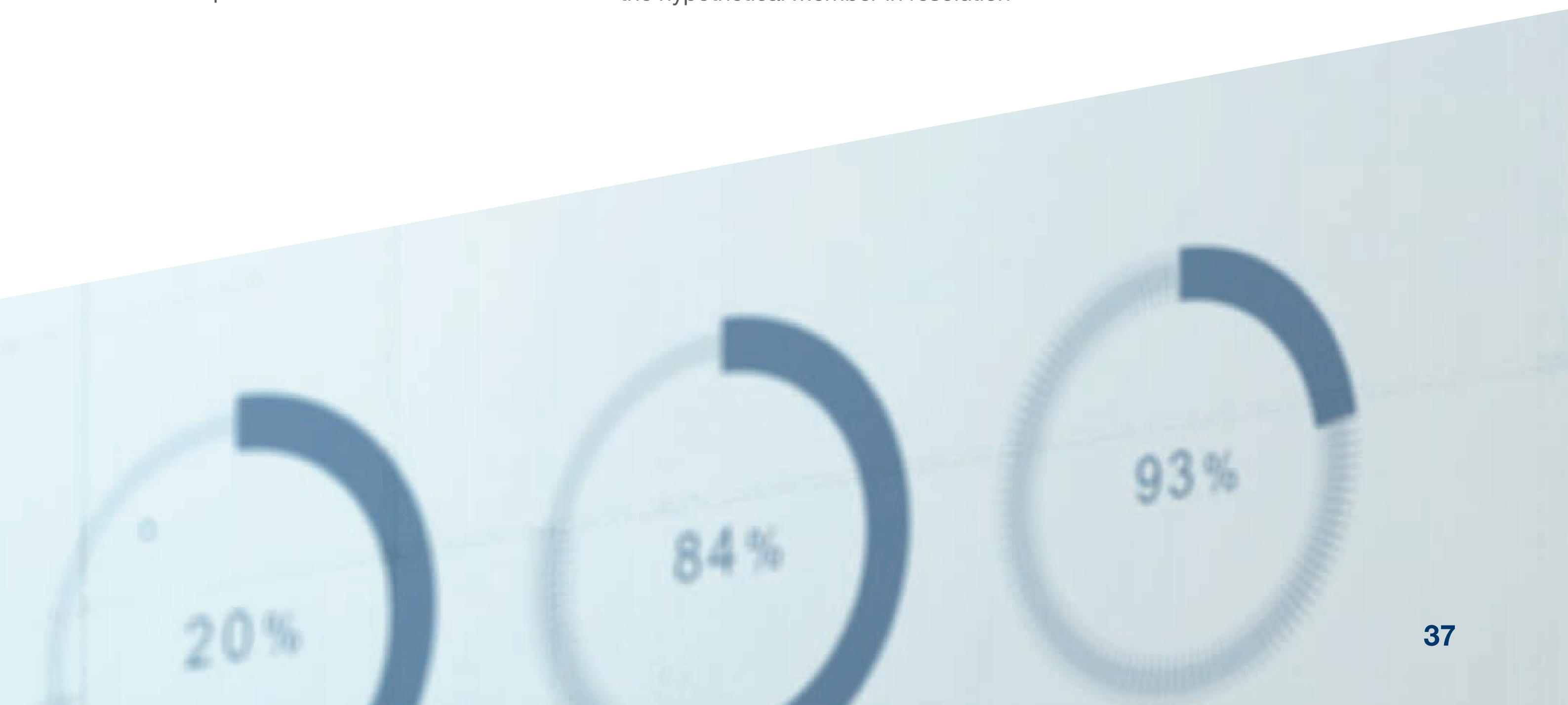
CLS monitors recovery and resolution-related regulatory developments with the view that resolution authorities, and FMIs themselves, should strive to maximize the likelihood that an entity subject to resolution (or its successor entity) continues to participate in FMIs so long as this does not compromise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

In Q2 2020 CLS organized a Member resolution war game (War Game) exercise based on the resolution of a hypothetical Dutch Member, attended by representatives from various Members as well as certain authorities. As a follow-up to the War Game CLS organized a Member Resolution Working Group (comprised of CLS representatives and representatives from a diverse group of Members) to consider and discuss potential ways for the industry to consider certain of the key War Game takeaways in additional detail (e.g., potential challenges with respect to the ability of the hypothetical Member in resolution to timely meeting its funding obligations to CLS in all relevant currencies), and to identify and assess potential next steps for all stakeholders with respect to these issues over the longer term. The work of the Member Resolution Working Group is ongoing.

In addition, in August 2020, CLS (along with other FMIs) received a questionnaire from the Financial Stability Board (FSB) posing numerous resolution-related questions. This questionnaire was part of an FSB initiative to create a common template for gathering information about continuity of access to FMIs for firms in resolution. In December, CLS provided its response to the questionnaire to Members.

Engagement to onboard the Chilean peso

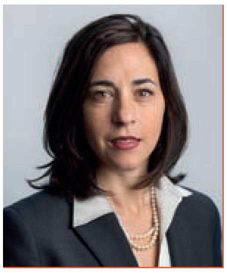
CLS has been engaged with the Central Bank of Chile, Chilean market participants, and settlement members on the onboarding of the Chilean peso (CLP) into CLSSettlement as its nineteenth currency. As Chile is reforming its FX market to make CLP effectively deliverable onshore, CLS will be able to help mitigate the likely resulting increase in FX settlement risk and to establish its brand in South America. In July 2020, CLS and the central bank hosted a workshop for prospective CLP nostro service providers. Later the same month, the CLS Board agreed to start the implementation of the CLP into CLS, but a go live date has not yet been established.



Board of Directors

Kenneth Harvey

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

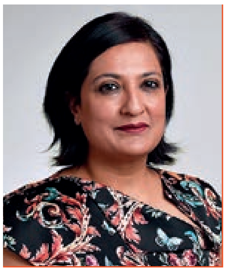


Ericka Leslie

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

Thomas Berkery

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



Vidya Bittianda

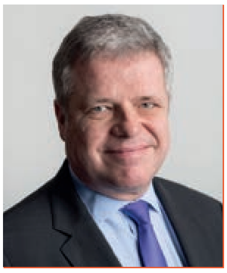
Originally elected May 2019
Affiliation Westpac Banking Corporation
Role General Manager, Risk Analytics & Insights

Gerard Brady

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

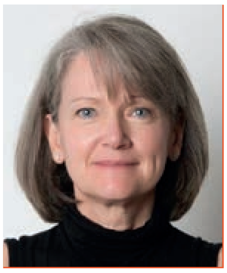
David Gary

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



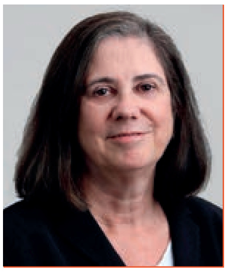
Peter Healey

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



Karen Keenan

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

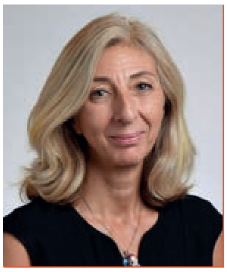


Sheryl Kennedy

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

Michael Lawrence

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



Dominique Le Masson

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

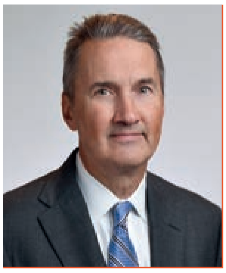
Gilbert Lichter

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

Board of Directors

Naoto Nakamura

Originally elected May 2020
Affiliation MUFG
Role Managing Director, Global Head of FX and Local Markets Trading, co-head of Global Markets Sales and Trading Division



Bryan Osmar

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

William Stenning

Originally elected May 2017
Affiliation Société Générale
Role Managing Director, Head of Public Affairs,UK

Edward Sterba

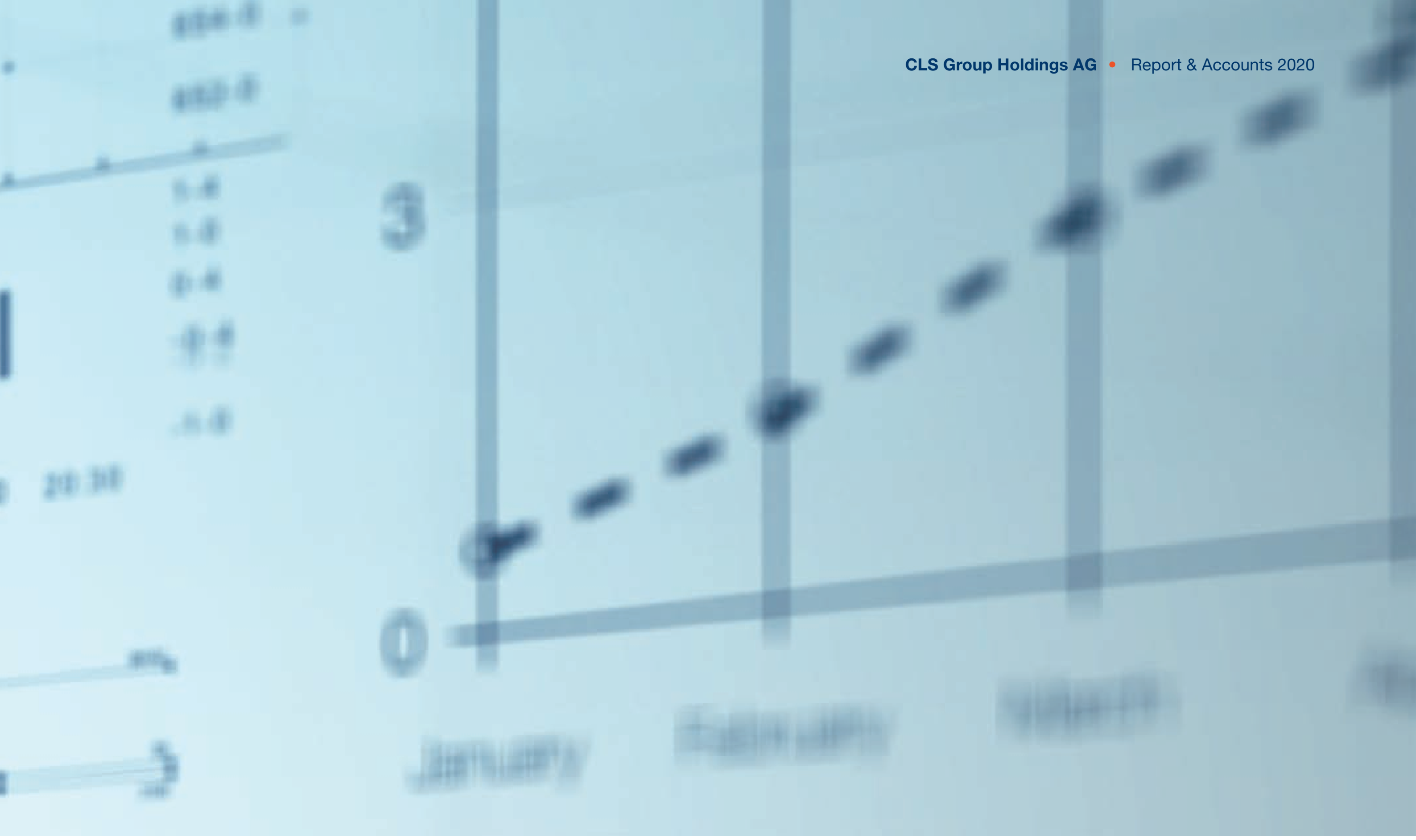
Originally elected May 2019
Affiliation Outside Director
Role Former Chief Technology Officer, HSBC

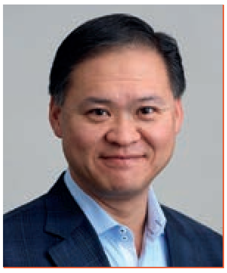
Fabrizio Tallei

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

John Trundle

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





Eddie Wen

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

Ronnie Yam

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

Company Secretaries

Philippe Weber

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

Michael Preston

Originally appointed April 2015
Affiliation CLS Bank International
Role Company Secretary

Directors resigned in 2020

Vincent Bonamy
Resigned 11 May 2020

Jennifer Buonopane
Resigned 11 May 2020

Bruce Nolop
Resigned 11 May 2020

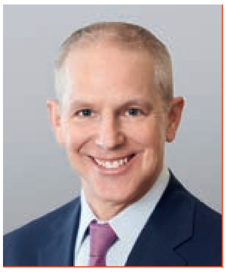
David Thomas
Resigned 11 May 2020

Jason Vitale
Resigned 11 May 2020

Executive Management Committee

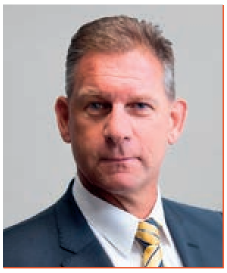
Marc Bayle de Jessé

Chief Executive Officer



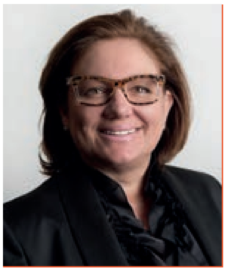
Thomas Barkhuff

Chief Information Officer



Duncan Barnard

Chief Internal Auditor



Michele Fleming

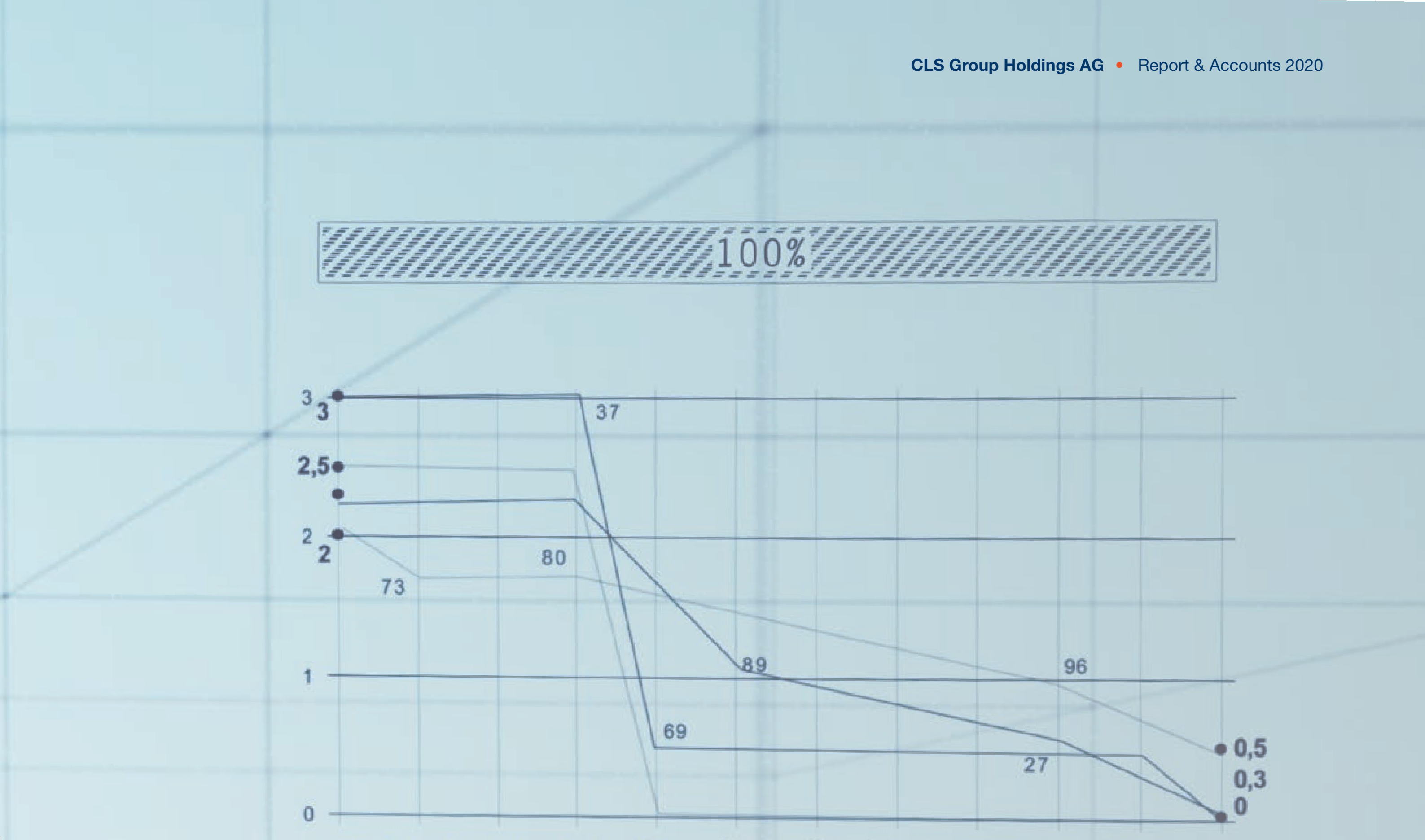
Chief Compliance Officer

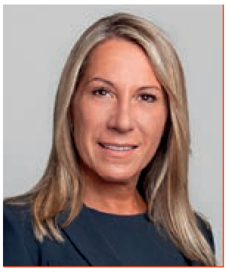
John Hagon

Chief Operating Officer

Kathryn Herrington

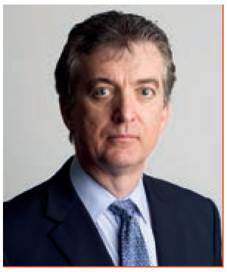
Chief Administrative Officer





Deborah Hrvatin

Chief Risk Officer

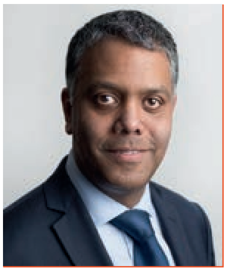


Dino Kos

Chief Regulatory Officer

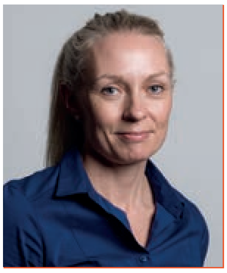
Alan Marquard

Chief Business Development Officer



Trevor Suarez

Chief Financial Officer



Gaynor Wood

General Counsel

Statutory Auditor's report

To the General Meeting of CLS Group Holdings AG, Lucerne

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of CLS Group Holdings AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2020 and the consolidated statement of profit or 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 (pages 48 to 85) give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

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

Key audit matter

CLS Group reported intangible assets of GBP173.9m for the year ended 31 December 2020.

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:

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

For further information on the appropriateness of capitalization of assets refer to the following:

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

Other information in the annual report

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

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

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

Responsibility of the Board of Directors for the consolidated financial statements

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

We also:

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

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

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

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

Report on other legal and regulatory requirements

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

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

KPMG AG

Stefan Biland	Martin Schulz
Licensed Audit Expert	Licensed Audit Expert
Auditor in Charge	

Zurich, Switzerland
22 March 2021

Consolidated accounts

Consolidated statement of profit or loss

For the year ended 31 December 2020 (All amounts stated in GBP000)

	Notes	2020	2019
Revenue	4	**212,465**	**207,775**
Operating expenses			
Operating expenses		(228,819)	(221,212)
Accelerated amortization of core settlement assets		(3,734)	(16,727)
(Loss) from operations	5	**(20,088)**	**(30,164)**
Investment income	7	492	1,699
Interest expense		(575)	(480)
(Loss) before tax		**(20,171)**	**(28,945)**
Tax credit for the period	8	4,740	665
Total (loss) for the period		**(15,431)**	**(28,280)**
(Loss) from continuing operations, net of tax		(15,431)	(28,226)
(Loss)/profit from discontinued operations, net of tax		–	(54)
Attributable to:			
Equity holders of parent		(15,431)	(28,253)
Non-controlling interests	12	–	(27)
(Loss) for the period		**(15,431)**	**(28,280)**

Notes from pages 54 to 85 form part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2020 (All amounts stated in GBP000)

	Notes	2020	2019
(Loss) for the period		(15,431)	(28,280)
Exchange differences on translation of foreign operations		511	(235)
Exchange rate movements taken to the cash flow hedge reserve	16	(322)	(6,593)
Fair value movements taken to the OCI revaluation reserve		9	224
Total comprehensive income		(15,233)	(34,884)
Attributable to:			
Equity holders of parent		(15,233)	(34,884)
Non-controlling interests		–	–
Total comprehensive income		**(15,233)**	**(34,884)**

Consolidated statement of financial position

At 31 December 2020 (All amounts stated in GBP000)

	Notes	31 December 2020	31 December 2019
Non-current assets			
Intangible assets	9	173,860	167,845
Property, plant and equipment	10	5,471	7,671
Right of use assets	11	13,882	7,030
Other investments	13	129	3,405
Deferred tax asset	14	627	439
		193,969	**186,390**
Current assets			
Trade and other receivables	15	29,634	31,869
Current tax assets	21	4,533	4,113
Investments at fair value	19	80,248	123,636
Cash deposits	17	21,198	44,750
Cash and cash equivalents	18	77,860	26,781
Assets from discontinued operations		–	194
		213,473	**231,343**
Total assets		**407,442**	**417,733**
Current liabilities			
Trade and other payables	20	(52,439)	(50,264)
Current tax liabilities	21	(715)	(3,366)
Derivative financial instruments	16	(4,376)	(2,788)
Liabilities from discontinued operations		–	(69)
		(57,530)	**(56,487)**
Net current assets		**155,943**	**174,856**
Non-current liabilities			
Other liabilities	22	(4,611)	(4,530)
Deferred tax liabilities	14	(8,598)	(12,000)
Lease liabilities	23	(13,944)	(6,663)
		(27,153)	**(23,193)**
Total liabilities		**(84,683)**	**(79,680)**
Net assets		**322,759**	**338,053**

Notes from pages 54 to 85 form part of these consolidated financial statements.

	Notes	31 December 2020	31 December 2019
Equity			
Share capital	24	202,582	202,582
Share premium account		116,104	116,104
Combined merger and consolidated reserves	24	116,631	116,631
Translation reserves		1,610	1,099
Cash flow hedge reserve	16	(3,627)	(3,305)
OCI revaluation reserve		213	204
Retained losses		(110,754)	(95,323)
Equity attributable to equity holders of the parent		**322,759**	**337,992**
Non-controlling interests	12	–	61
Total equity		**322,759**	**338,053**

The consolidated financial statements were approved by the Board of Directors on 22 March 2021 and signed on its behalf by:

Kenneth Harvey
CLS Group Holdings AG
Chairman
22 March 2021

Marc Bayle de Jessé
CLS Group Holdings AG
Chief Executive Officer
22 March 2021

Consolidated statement of changes in equity

For the year ended 31 December 2020 (All amounts stated in GBP000)

	Notes	Share capital	Share premium	Combined merger and consolidated reserves	Translation reserves	Cash flow hedge reserve	OCI reserve	Retained earnings	Total equity attributable to parent	Non-controlling interests	Total equity
Balance at 1 January 2019	24	**202,582**	**116,104**	**116,631**	**1,334**	**3,288**	**(20)**	**(65,630)**	**374,289**	**1,720**	**376,009**
Issue of shares		–	–	–	–	–	–	–	–	–	–
Redemption of shares		–	–	–	–	–	–	–	–	–	–
Loss for the year		–	–	–	–	–	–	(28,253)	(28,253)	(27)	(28,280)
Dividend: non-controlling interest		–	–	–	–	–	–	(1,440)	(1,440)	(1,632)	(3,072)
Other comprehensive income		–	–	–	(235)	(6,593)	224	–	(6,604)	–	(6,604)
Balance at 31 December 2019	24	**202,582**	**116,104**	**116,631**	**1,099**	**(3,305)**	**204**	**(95,323)**	**337,992**	**61**	**338,053**
Issue of shares		–	–	–	–	–	–	–	–	–	–
Redemption of shares		–	–	–	–	–	–	–	–	–	–
Loss for the year		–	–	–	–	–	–	(15,431)	(15,431)	–	(15,431)
Distributions paid		–	–	–	–	–	–	–	–	(61)	(61)
Other comprehensive income		–	–	–	511	(322)	9	–	198	–	198
Balance at 31 December 2020	24	**202,582**	**116,104**	**116,631**	**1,610**	**(3,627)**	**213**	**(110,754)**	**322,759**	**–**	**322,759**

Notes from pages 54 to 85 form part of these consolidated financial statements.

Consolidated cash flow statement

For the year ended 31 December 2020 (All amounts stated in GBP000)

	Notes	2020	2019
(Loss)/profit from operations		**(20,088)**	**(30,164)**
Adjustments for:			
Amortization of intangible assets		37,859	50,308
Depreciation of property, plant and equipment and right of use assets		5,675	6,805
Foreign exchange gains recognized in profit from operations		831	(7,072)
Operating cash flows before movements in working capital		**24,277**	**19,877**
Decrease/(increase) in receivables		1,508	(970)
Increase/(decrease) in payables		5,287	(3,010)
Operating lease payments		(2,419)	(2,775)
(Loss)/gain on matured hedges		(1,028)	3,592
Cash generated from operations		**27,625**	**16,714**
Income taxes (payable)/receivable		(1,265)	3,412
Net cash inflow from operating activities		**26,360**	**20,126**
Net cash inflow from operating activities (continued)		26,360	19,990
Net cash inflow from operating activities (discontinued)		–	136
Investing activities:			
Interest received		807	1,587
Sale of investments	18	23,552	32,677
Sale of FVTOCI investments		46,664	4,680
Purchases of intangible assets	9	(44,861)	(56,764)
Purchases of property, plant and equipment	10	(627)	(1,986)
Net cash (outflow) from investing activities		**25,535**	**(19,806)**
Net cash (outflow) from investing activities (continued)		25,535	(19,806)
Net cash (outflow) from investing activities (discontinued)		–	–
Financing activities:			
Dividend: non-controlling interests		(61)	(3,072)
Net cash inflow from financing activities		**(61)**	**(3,072)**
Net cash (outflow) from financing activities (continued)		–	(1,440)
Net cash (outflow) from financing activities (discontinued)		(61)	(1,632)
Net increase/(decrease) in cash and cash equivalents		**51,834**	**(2,572)**
Cash and cash equivalents at beginning of year		**26,857**	**29,963**
Effect of foreign exchange rate changes		(831)	(354)
Cash and cash equivalents at end of year		**77,860**	**26,857**
Cash from discontinued operation		–	(76)
Cash and cash equivalents as presented on the consolidated statement of financial position		**77,860**	**26,781**

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

1. General information

Reporting entity

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

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

Basis of accounting

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

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

Basis of preparation

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

Functional and presentation currency

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

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

Risk report

CLS has established an Enterprise-wide Risk Management Framework (the 'ERM Framework'), which is reviewed and approved by the CLS Group Board and remains subject to the CLS Group Board's oversight. The ERM Framework, covering 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. Please refer to note 28 for more information on the Financial Risk Management.

2. Significant accounting policies

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

A. Basis of consolidation

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

i. Subsidiaries

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

ii. Non-controlling interests (NCIs)

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

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

iii. Transactions eliminated on consolidation

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

B. Foreign currencies

i. Foreign currency transactions

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

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

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

2. Significant accounting policies (continued)

B. Foreign currencies (continued)

ii. Foreign operations

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

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

C. Revenue recognition

i. Instruction processing charges, fees and other income

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

The five-step model includes:

1) identifying the contract with the customer;

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

3) determining the amount of consideration in the contract;

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

5) recognizing revenue as each performance obligation is satisfied.

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

D. Employee benefits

i. Short-term employee benefits

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

ii. Pension costs

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

iii. Deferred compensation

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

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

E. Leasing

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

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

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

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

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

F. Borrowing costs

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

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

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

G. Interest income

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

H. Taxation

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

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

2. Significant accounting policies (continued)

i. Current tax

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

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

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

ii. Deferred tax

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

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

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

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

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

l. Intangible assets

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

The Group has identified the following assets:

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

i. Recognition and measurement

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

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

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

ii. Subsequent expenditure

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

iii. Amortization

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

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

This change of UEL and amortization method is considered a change of estimate only and therefore has been applied prospectively from 1 January 2018. At 31 December 2020 the carrying value of the assets was the lower of historical amortized cost or recoverable value.

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

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

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

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

2. Significant accounting policies (continued)

J. Financial instruments

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

i. Non-derivative financial assets and liabilities – recognition

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

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

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

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

A financial liability is classified as held for trading if:

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

ii. Non-derivative financial assets and liabilities – derecognition

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

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

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

Derecognition of financial liabilities

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

iii. Non-derivative financial assets and liabilities – measurement

Investments at fair value

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

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

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

FVTOCI equity investments

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

Amortized cost

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

iv. Derivative financial instruments

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

Hedge accounting

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

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

2. Significant accounting policies (continued)

J. Financial instruments (continued)

Cash flow hedge accounting

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

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

v. Impairment

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

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

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

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

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

vi. Non financial assets

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

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

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

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

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

K. Equity instruments

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

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

3. Critical accounting judgments and key sources of estimation uncertainty

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

Assumptions and estimation uncertainties

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

- Tax: At the balance sheet date there are prior tax years for which management believes a provision is required. The provision has been estimated by management at an appropriate level calculated at the more likely outcome. This provision will be released if not expensed once the years in question are formally agreed and closed with relevant tax authorities.

- Deferred Tax: At the balance sheet date, management has reviewed the carrying value of the deferred tax asset using as its support the Group's projected five year plan. The forecasted income profile contained within the plan supports the value of the asset and therefore management is of the opinion that the value is appropriate. Deferred tax assets are described in note 14.

- Useful Economic Life (UEL): During the year, management has conducted a review of the estimated UEL of the internally generated intangible asset. Continued expenditure on application development maintains and enhances its future economic benefits and therefore management is of the opinion that the current estimated UEL can be maintained. Intangible assets are described in note 9.

- Transfer to cost: In addition, at the balance sheet date, management has continued its policy of reviewing the assets in the course of construction and deemed the balances within it suitable not to be amortized until that asset is fully operational and put into production. All these assets relate to software.

- Valuation of financial instruments: The valuation of financial instruments often involves a significant degree of judgment and complexity, in particular where valuation models make use of unobservable inputs (Level 3 assets and liabilities). Note 30 provides information on these instruments, including the related unrealized gains and losses recognized in the period, a description of significant valuation techniques and unobservable inputs, and a sensitivity analysis.

4. Revenue

	2020	2019
Instruction processing charges	186,420	182,930
Annual account maintenance fees	8,729	8,445
CCP settlement	6,292	6,125
Liquidity usage fees	2,698	2,703
In/Out Swap program participant fees	1,560	1,386
Credit derivatives	1,551	1,579
Account opening fees	150	150
Cross Currency Swaps	1,155	882
Compression fees	1,574	1,089
Sundry income	2,336	2,486
Total revenue	**212,465**	**207,775**

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

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

5. Profit from operations

The profit from operations has been arrived at after charging:

	Notes	2020	2019
Staff costs	6	100,783	90,542
IT service charges		41,136	39,807
Amortization of intangible assets	9	34,125	29,758
Depreciation of property, plant and equipment	10	5,675	6,805
Accelerated amortization of core settlement assets	9	3,734	16,727
Impairment of intangibles		–	4,800
Traiana service charges		–	82
Foreign exchange (gain)/loss		(374)	331
Foreign exchange loss on forward contracts		245	148
Telecom costs		18,878	18,097
Professional service costs		15,221	18,127
Establishment costs		3,311	3,007
Other		9,482	9,958
Auditor’s remuneration for audit services (see below)		337	318

The analysis of auditor’s remuneration is as follows:

	2020	2019
Fees payable to the Company’s auditors for the audit of the Company’s annual accounts		
– Current year	16	16
– Prior year	17	18
Audit of the Company’s subsidiaries pursuant to legislation		
– Current year	304	284
– Prior year	–	–
Total audit fees	**337**	**318**
Fees payable to the Company’s auditors and their associates for other services to the Group:		
Tax services	303	265
Other services	92	–
Total non-audit fees	**395**	**265**
Total fees	**732**	**583**

KPMG AG was appointed auditor for the Group at the annual general meeting on 11 May 2020 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	2020	2019
Service delivery and technology	259	198
Risk and control	181	149
Corporate	60	62
Total	**500**	**409**

Total aggregate remuneration comprised:

	2020	2019
Salaries	84,609	69,222
Temporary staff	3,358	11,580
Social security costs	7,528	5,465
Pension costs	5,288	4,275
Total	**100,783**	**90,542**

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

7. Investment income

	2020	2019
Interest income on investments	492	1,699
Total	**492**	**1,699**

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

8. Tax

	2020	2019
Current tax:		
UK corporation tax		
– Current period	–	–
– Adjustments in respect of previous periods	512	911
	512	**911**
Non-UK corporation tax		
– Current period	2,500	(1,066)
	2,500	**(1,066)**
Current tax credit/(charge) for the period	**3,012**	**(155)**
Deferred tax:		
Relating to the change in tax rates	16	318
Relating to origination and reversal of temporary differences	2,016	1,603
Adjustments recognized in the period for deferred tax of prior periods	(304)	(1,101)
Deferred tax credit/(charge) for the period	**1,728**	**820**
Total tax credit/(charge) for the period recognized in the income statement	**4,740**	**665**

Non-UK tax relates to USA and Japan.

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

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

	2020	2019
(Loss)/profit before tax	(20,171)	(28,945)
UK statutory tax rate	19%	19%
At UK statutory income tax rate credit/(cost)	3,832	5,500
Current tax affecting items:		
Permanent disallowable expenses and non-taxable income	232	(383)
Adjustments in respect of current income tax of previous periods	194	468
Deferred tax expense relating to changes in the tax rates	16	(340)
Effect of different tax rates of subsidiaries operating in other jurisdictions	1,753	(687)
Deferred tax affecting items:		
Distribution income not taxable	–	764
Foreign exchange rate movement	(1,308)	218
Differences on which no deferred tax is recognized	21	(16)
Over provided deferred tax in prior years	–	(4,859)
Total tax credit/(charge) for the period	**4,740**	**665**

9. Intangible assets

	Assets in course of construction	Settlement Assets	Non-settlement Assets	Total
Cost				
Opening balance 1 January 2019	50,793	355,807	11,767	418,367
Additions	53,623	–	–	53,623
Transfers	(44,242)	39,946	4,296	–
Disposals	–	–	(2,511)	(2,511)
Closing balance 31 December 2019	**60,174**	**395,753**	**13,552**	**469,479**
Additions	43,874	–	–	43,874
Transfers	(10,691)	5,120	5,571	–
Closing balance 31 December 2020	**93,357**	**400,873**	**19,123**	**513,353**
Accumulated amortization				
Opening balance 1 January 2019	–	248,927	3,933	252,860
Charge for the year	–	27,166	2,592	29,758
Accelerated amortization of core settlement assets	–	16,727	–	16,727
Impairment during the year	–	–	4,800	4,800
Disposals	–	–	(2,511)	(2,511)
Closing balance 31 December 2019	**–**	**292,820**	**8,814**	**301,634**
Charge for the year	–	31,863	2,262	34,125
Accelerated amortization of core settlement assets	–	3,734	–	3,734
Closing balance 31 December 2020	**–**	**328,417**	**11,076**	**339,493**
Net book value				
31 December 2020	**93,357**	**72,456**	**8,047**	**173,860**
31 December 2019	60,174	102,933	4,738	167,845

The multi-year Convergence program which replaces and modernizes our current technology platform supporting CLSSettlement continued to be developed in 2020 and reduces the useful economic life of the existing CLSSettlement assets.

Management's best estimate of the go live date is Q2 2021 based on current plans for technical readiness and regulatory approval. On this basis the accelerated amortization figure for 2020 is GBP3,734k. The impact of an later go live date of Q3 2021 would be an additional amortization charge of GBP880k per month.

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 2019	**11,912**	**13,652**	**451**	**26,015**
Additions	–	1,986	–	1,986
Disposals	–	–	–	–
Closing balance 31 December 2019	**11,912**	**15,638**	**451**	**28,001**
Additions	–	627	–	627
Disposals	–	–	–	–
Closing balance 31 December 2020	**11,912**	**16,265**	**451**	**28,628**
Accumulated depreciation				
Opening balance 1 January 2019	**5,908**	**10,457**	**363**	**16,728**
Charge for the year	1,477	2,107	18	3,602
Disposals	–	–	–	–
Closing balance 31 December 2019	**7,385**	**12,564**	**381**	**20,330**
Charge for the year	1,449	1,362	16	2,827
Disposals	–	–	–	–
Closing balance 31 December 2020	**8,834**	**13,926**	**397**	**23,157**
Net book value				
31 December 2020	**3,078**	**2,339**	**54**	**5,471**
31 December 2019	4,527	3,074	70	7,671

11. Right of use assets

	Property	Office Equipment	Total
Cost			
Opening balance 1 January 2019	**–**	**–**	**–**
Recognition of IFRS 16	8,987	579	9,566
Lease modification	601	–	601
Additions	–	66	66
Closing balance 31 December 2019	**9,588**	**645**	**10,233**
Lease modification	8,674	–	8,674
Additions	965	61	1,026
Closing balance 31 December 2020	**19,227**	**706**	**19,933**
Accumulated depreciation			
Opening balance 1 January 2019	**–**	**–**	**–**
Charge for the year	3,035	168	3,203
Closing balance 31 December 2019	**3,035**	**168**	**3,203**
Charge for the year	2,664	184	2,848
Closing balance 31 December 2020	**5,699**	**352**	**6,051**
Closing balance 31 December 2020	**13,528**	**354**	**13,882**
Closing balance 31 December 2019	6,553	477	7,030

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

Notes to the consolidated financial statements

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 of the CLS system
CLS Bank International (incorporated in the US)	Common stock	100%	Foreign exchange settlement risk and liquidity management
CLS US Services Inc.[1] (incorporated in the US)	Common stock	100%	Provision of operational support of the CLS system
CLS Processing Solutions Ltd.[1] (incorporated in the UK)	Ordinary shares	100%	Provision of non-settlement products
CLS Assets UK Ltd.[1] (incorporated in the UK)	Ordinary shares	100%	Software and IP holding company which licences its assets to other CLS Group companies

CLS 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.

The following table summarizes information regarding CLS Aggregation Services LLC, which was fully liquidated in 2020, before any group eliminations.

	2020	2019
Current assets	–	194
Current liabilities	–	(69)
Net assets	**–**	**125**
Carrying amount of NCI	**–**	**61**

[1]Not operational as at 31 December 2020.

	2020	2019
Revenue	–	–
(Loss)/profit	–	(54)
Other comprehensive income (OCI)	–	–
Total comprehensive income	**–**	**(54)**
(Loss)/profit allocated to NCI	**–**	**(27)**
OCI allocated to NCI	**–**	**–**
Cash flows from operating activities	–	(136)
Distribution paid	(61)	(4,593)
Net (decrease)/increase in cash and cash equivalents	**(61)**	**(4,729)**

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:

	2020	2019
Investment in R3	–	3,120
Investment in SWIFT	129	285
Balance at 31 December 2019	**129**	**3,405**

Investment in R3 LLC

Given the Group's current priorities investing in CLS's infrastructure, resilience and controls framework, the decision was taken to divest our investment in the blockchain and DLT software development company R3. The sale took place in December 2020 selling 27,790 shares in R3 for USD4.5m.

Balance at 31 December 2019	**3,120**
FV Movement	76
Foreign Exchange Movement	160
Sale of shares	(3,356)
Balance at the 31 December 2020	**–**

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All amounts in GBP000 unless stated otherwise

Investment in SWIFT

CLS Bank International owns 25 shares (2019: 66 shares) in SWIFT which is purchased between April 2003 and April 2012. These shares were included in the balance of the Group at cost. During 2020 41 shares were redistributed and sold back to SWIFT at EUR4,665 per share. 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 2020 was EUR 5,705 per share. The Group does not intend to dispose of this investment.

Balance at 31 December 2019	**285**
Sale of shares	(160)
FV loss on sale	(1)
Foreign Exchange Movement	5
Balance at 31 December 2020	**129**

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

14. Deferred tax asset and liabilities

	Asset/(liability) recognized on				
	Trading losses	Tax depreciation	Accruals	Other	Total
Balance at 1 January 2019	**11,582**	**(27,337)**	**1,520**	**1,981**	**(12,254)**
Foreign exchange movement	110	1,067	–	–	1,177
(Charge)/credit to income in the year	615	2,316	(1,520)	(1,895)	(484)
Balance at 31 December 2019	**12,307**	**(23,954)**	**–**	**86**	**(11,561)**
Foreign exchange movement	(320)	940	(80)	2	542
(Charge)/credit to income in the year	(2,383)	3,166	2,338	(73)	3,048
Balance at 31 December 2020	**9,604**	**(19,848)**	**2,258**	**15**	**(7,971)**

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

15. Trade and other receivables

	At 31 December 2020	At 31 December 2019
Trade receivables	15,574	14,486
Pre-payments and accrued income	12,676	15,428
VAT recoverable	784	1,431
Other receivables	600	524
Total	**29,634**	**31,869**

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 2021 and early 2022.

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

	At 31 December 2020		At 31 December 2019	
	Notional contract amount	Fair value £'000	Notional contract amount	Fair value £'000
Forward foreign currency contracts not in hedging relationships	$3m	(164)	$10m	(257)
Forward foreign currency contracts in hedging relationships	$107m	(4,212)	$103m	(2,531)
Closing balance at 31 December	**$110m**	**(4,376)**	**$113m**	**(2,788)**

The maximum length of time over which the Group hedges exposure to the variability in future cash flows for forecast transactions is 18 months (2019: 18 months).

Gains and losses transferred from the cash flow hedging reserve to the income statement included a GBP2,985,189 (31 December 2019: GBP3,400,628 gain) transferred to administration and general expenses including taxation.

The amount is allocated as follows: Bonus expense GBP1,434,872 (31 December 2019: GBP383,059 gain); payroll expense GBP706,503 loss (31 December 2019 GBP1,508,785 gain); supplier payments GBP843,813 loss (31 December 2019: GBP1,508,785 gain) Hedge ineffectiveness was GBPnil (2019 GBPnil).

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

17. Cash deposits

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

18. Cash and cash equivalents

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

19. Investments at fair value

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

	At 31 December 2020	At 31 December 2019
Investments held as FVTOCI	80,248	123,636
Total	**80,248**	**123,636**

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

20. Trade and other payables

	At 31 December 2020	At 31 December 2019
Accruals	(34,130)	(35,290)
Deferred income	(7,183)	(3,168)
Trade payables	(6,653)	(2,713)
Taxation and social security costs	(2,785)	(6,614)
Other payables	(1,688)	(2,479)
Total	**(52,439)**	**(50,264)**

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

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

21. Current tax assets/(liabilities)

	At 31 December 2020	At 31 December 2019
UK Corporation tax	–	–
US Federal tax	(715)	(3,366)
Total tax liabilities	**(715)**	**(3,366)**
UK Corporation tax	2,492	1,874
US City tax	508	601
US Federal tax	1,533	1,638
Total tax assets	**4,533**	**4,113**
Net tax assets	**3,818**	**747**

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 2020	At 31 December 2019
Deferred compensation	(4,611)	(4,530)
Total	**(4,611)**	**(4,530)**

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

23. Lease liabilities

	31 December 2020	31 December 2019
Lease liabilities – Office equipment	(372)	(490)
Lease liabilities – Property	(13,572)	(6,173)
Total lease liabilities	**(13,944)**	**(6,663)**

24. Share capital

Authorized	No. ordinary shares CHF1,400 each	Total nominal value CHF000
31 December 2020	**350,997**	**491,396**

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

Allotted and fully paid	No. ordinary shares CHF1,400 each*	Total nominal value CHF000	Total Nominal value GBP000
31 December 2020	**291,858**	**408,601**	**202,582**

Allotted and fully paid	No. ordinary shares CHF1,400 each*	Total nominal value CHF000	Total Nominal value GBP000
31 December 2019	291,858	408,601	202,582

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

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

*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 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 2020	**5,686**	**110,945**	**116,631**

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

26. Financial commitments

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

Financial commitments are as follows:

	31 December 2020	31 December 2019
Contracted for but not provided for:		
– Services agreement	129,572	160,678
– Acquisition of intangibles	17,700	19,550
– Other	35,626	27,163
Total	**182,898**	**207,391**

27. Contingent liabilities

There are no contingent liabilities at 31 December 2020 (2019: 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 2020, the largest individual shareholder had 4.8% (2019: 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 2020	31 December 2019
Short-term employee benefits	1,993	1,993
Total	1,993	1,993

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

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 Investment policy is approved by the Board and is reviewed by the AFC on an annual basis.

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

1. Market risk

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

I. Foreign currency risk

The Group's foreign exchange risk is comprised of structural foreign exchange exposures from its overseas operations, primarily in the US and to a lesser extent in Switzerland, Japan and Hong Kong. To reduce exposure to currency fluctuations the Group has a policy which allows the purchasing of forward exchange contracts and applying cash flow hedge 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.

30. Treasury and capital risk management (continued)

3. Liquidity risk

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

4. Capital risk

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

CLS has developed a Recovery and Orderly Wind-Down Plan, 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 in aggregate holds an additional capital and liquidity buffer as approved by the CLS Group Board.

Fair value of financial assets and financial liabilities

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

	31 December 2020		31 December 2019	
	Book value	**Fair value**	**Book value**	**Fair value**
Financial assets				
1. Other investments	129	129	3,405	3,405
2. Loans and receivables:				
Trade and other receivables	29,634	29,634	31,869	31,869
3. FVTOCI investments	80,248	80,248	123,636	123,636
4. Deposits, cash and cash equivalents	99,058	99,058	71,531	71,531
Total financial assets	**209,069**	**209,069**	**230,441**	**230,441**
Financial liabilities				
5. Financial liabilities at amortized cost:				
Trade and other payables	(52,439)	(52,439)	(50,264)	(50,264)
6. Derivative financial instruments	(4,376)	(4,376)	(2,788)	(2,788)
7. Other liabilities	(4,611)	(4,611)	(4,530)	(4,530)
Total financial liabilities	**(61,426)**	**(61,426)**	**(57,582)**	**(57,582)**

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

30. Treasury and capital risk management (continued)

Fair value of financial assets and financial liabilities (continued)

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

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

	Fair value hierarchy as at 31 December 2020			
	Level 1	Level 2	Level 3	Total
Financial assets/(liability)				
Unquoted equities (Note 13)	–	–	129	129
FVTOCI investments	53,916	26,332	–	80,248
Derivative financial instruments	–	(4,376)	–	(4,376)

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

30. Treasury and capital risk management (continued)

Fair value through profit and loss

Derivative financial instruments at fair value through profit or loss represent forward foreign currency contracts with a notional value of USD110 million (2019: USD113 million).

I. Interest rate risk profile

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

	Cash at bank	Deposits less than 3 months	Quoted commercial paper investments	Total
As at 31 December 2020				
Pound sterling	57,520	8,500	80,248	146,268
US dollar	17,409	12,698	–	30,107
Swiss franc	2,081	–	–	2,081
Other currencies	850	–	–	850
Total deposits, cash and cash equivalents	**77,860**	**21,198**	**80,248**	**179,306**
Fixed rate assets	–	21,198	80,248	101,446
Floating rate assets	60,451	–	–	60,451
Balances for which no interest is paid	17,409	–	–	17,409
Total deposits, cash and cash equivalents	**77,860**	**21,198**	**80,248**	**179,306**
As at 31 December 2019				
Pound sterling	18,252	27,500	123,636	169,388
US dollar	6,198	17,250	–	23,448
Swiss franc	1,948	–	–	1,948
Other currencies	383	–	–	383
Total deposits, cash and cash equivalents	**26,781**	**44,750**	**123,636**	**195,167**
Fixed rate assets	–	44,750	123,636	168,386
Floating rate assets	20,583	–	–	20,583
Balances for which no interest is paid	6,198	–	–	6,198
Total deposits, cash and cash equivalents	**26,781**	**44,750**	**123,636**	**195,167**

The effective interest rate on the average daily closing balances is 0.28% (2019: 0.82%).

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

30. Treasury and capital risk management (continued)

Fair value through profit and loss (continued)

II. Interest rate sensitivity on cash balances

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

- 15 basis points higher or lower and all other variables had been constant then the effective interest rates would have been 0.43% or 0.13% (2019: 0.97% or 0.62%). Profit for the year ending 31 December 2020 (assuming the same closing balance values for one year) would increase or decrease by GBP268k (2019: increase or decrease by GBP292k).

- 20 basis points higher or lower and all other variables had been constant then the effective interest rates would have been 0.48% or 0.09% (2019: 1.02% or 0.62%). Profit for the year ending 31 December 2020 (assuming the same closing balance values for one year) would increase or decrease by GBP357k (2019: increase or decrease by GBP398k).

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 2020, GBP strengthened 3.4% against the USD and weakened 6.1% against the CHF. The led to an unrealized loss on exchange of GBP1.1 million (2019 GBP0.6 million unrealized loss) on GBP/USD and a gain of GBP120k (2019: GBP25k loss) 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 2020	At 31 December 2019
US Dollar	8,962	7,142
Swiss Franc	814	624
Total	**9,776**	**7,766**

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 March 22, 2021 being the date that the financial statements were available for issue by the directors and signed on their behalf by the Chief Executive Officer and the Chairman. No items were noted.

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.

Five year summary

Unaudited		2020	2019	2018	2017	2016
Revenue for the year	GBPm	212.5	207.8	206.1	197.5	201.2
Operating expenses (Reported basis)	GBPm	232.6	237.9	234.4	172.9	164.1*
(Loss)/profit from operations	GBPm	(20.1)	(30.2)	(28.4)	24.6	37.1*
Total (loss)/profit for the year (Reported basis)	GBPm	(15.4)	(28.3)	(18.5)	15.8	41.6*
Total assets at year end	GBPm	407.4	417.7	457.7	469.3	459.9
Total equity	GBPm	322.8	338.1	376.0	389.1	380.1*
Capital expenditure	GBPm	44.5	55.6	58.4	42.2	25.4
Daily average settled values	USDtr	5.9	5.9	5.9	5.2	4.8
Average revenue per USD million settled	GBP	0.12	0.12	0.12	0.13	0.14
Daily average billable volume	Number of sides	1,052,000	1,007,000	891,000	779,000	818,000
Average revenue per instruction	GBP	0.67	0.70	0.77	0.86	0.83
Daily average aggregation volumes	Number of sides	–	–	208,831	225,193	247,166
Average monthly number of employees in year	No.	500	409	374	341	343
Number of shareholders at year end	No.	79	79	79	80	79
Number of members at year end	No.	74	72	71	67	66

*Numbers are on a restated basis.

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