CLS
trusted market solutions

CLS Group Holdings AG

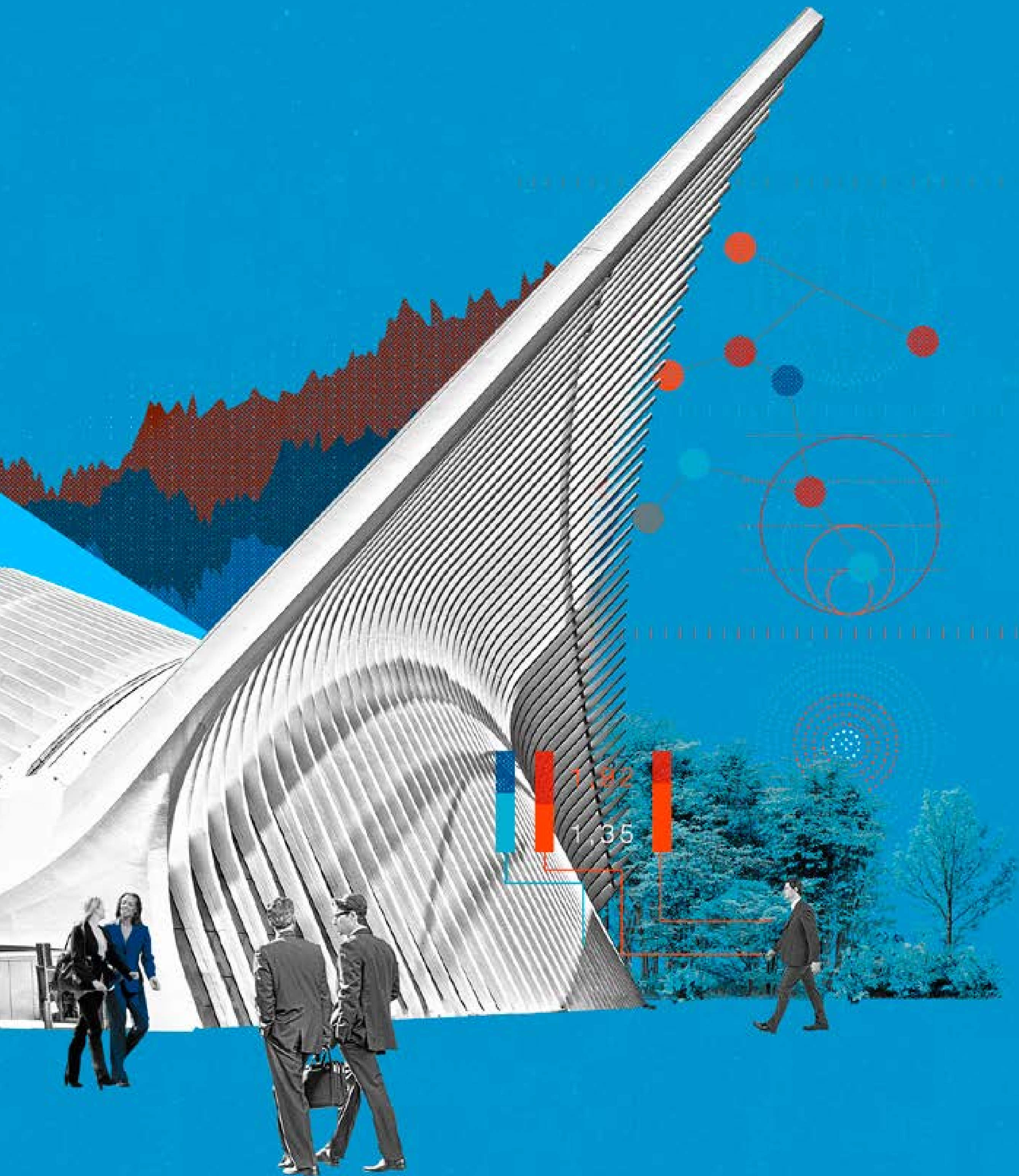
Annual Report & Consolidated Accounts 31 December 2021

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

Contents

Consolidated accounts

The effects of the Covid-19 pandemic continued to be felt across global financial markets. The FX market saw record values throughout most of the year, driven by rapid inflation, rising energy prices and supply chain disruption across much of the world. Despite these challenges, the team at CLS has remained focused on delivering the services with which you have entrusted us at the highest level of efficiency, service quality and resilience across our entire product set.


1.82
1.35

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

Created by the market for the market, our unrivaled global settlement infrastructure reduces systemic risk and provides standardization for participants in many of the world's most actively traded currencies. We deliver huge efficiencies and savings for our clients: in fact, our approach to multilateral netting shrinks funding requirements by over 96% on average.

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

18
of the most actively traded currencies globally

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

70+
settlement members

30,000+
third-party participants

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

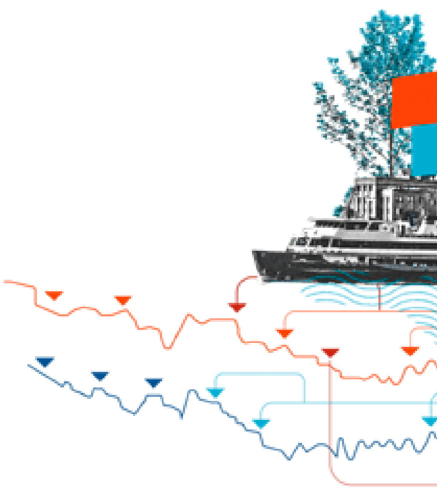
- Delivered a seamless service for our clients throughout the ongoing FX market volatility driven by rapid inflation, rising energy prices and supply-chain challenges across the world as the Covid-19 pandemic entered its second year.
- Launched an industry pilot, with a working group of 12 global banks, to evolve our service offering to further mitigate settlement risk.

Improve

- Completed Convergence – the most significant phase in our multi-year technology investment program – delivering one of the most flexible, resilient and secure post-trade technology platforms across global FMIs.
- Enhanced our control functions, particularly in operational resilience, cybersecurity and three lines of defense.

Grow

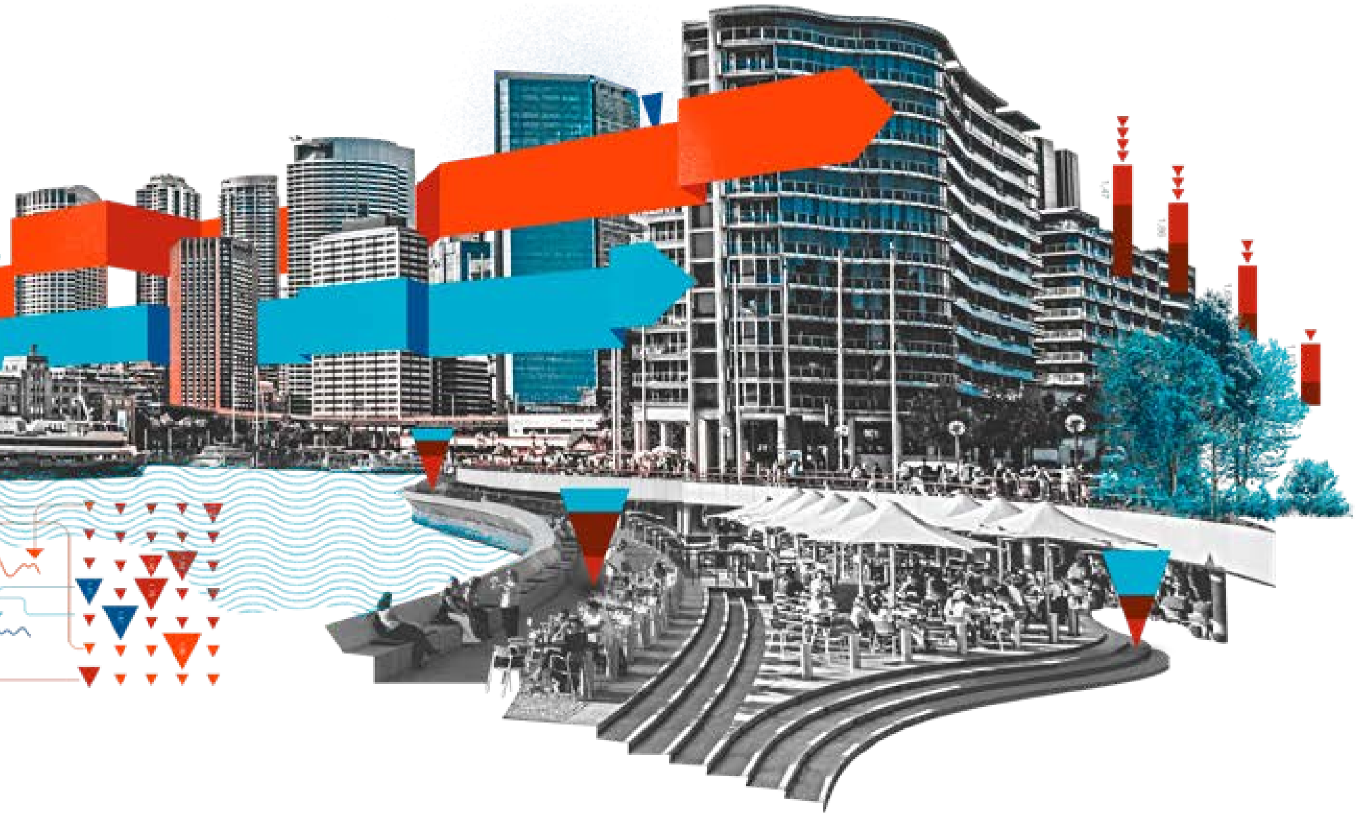
- Expanded CLSNet connectivity, resulting in submitted gross volumes doubling in 2021.
- Increased third-party adoption of CLSSettlement with over 90% of all new business growth in the service driven by funds, banks and corporates.
- Extended settlement risk mitigation further through growth in our cross-currency swaps service.
- Introduced two new datasets to our CLSMarketData product suite in response to growing demand from our clients for accessible and digestible FX market insights.



Financial highlights

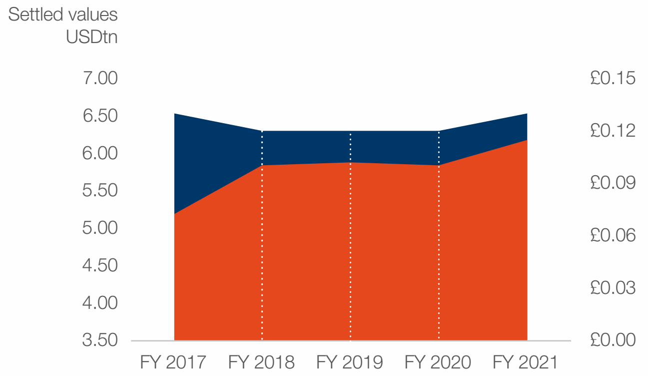
		2021	2020
Revenue for the year	GBP million	**237.9**	212.5
Operating expenses	GBP million	**254.9**	232.6
(Loss) from operations	GBP million	**(17.0)**	(20.1)
Total (loss) for the year	GBP million	**(8.3)**	(15.4)
Total equity	GBP million	**313.3**	322.8
Daily average settled value*	USD trillion	**6.2**	5.9
Daily average billable volume**	Number of sides	**972,000**	1,052,000
Average revenue per USD million settled	GBP	**0.13**	0.12
Peak value day (settled)	USD trillion	**15.4**	13.4
Peak volume day (settled)	Number of sides	**2,111,000**	2,665,000
Number of shareholders at year end		**79**	79
Number of settlement members at year end		**74**	74

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



Performance trends

Average daily settled value



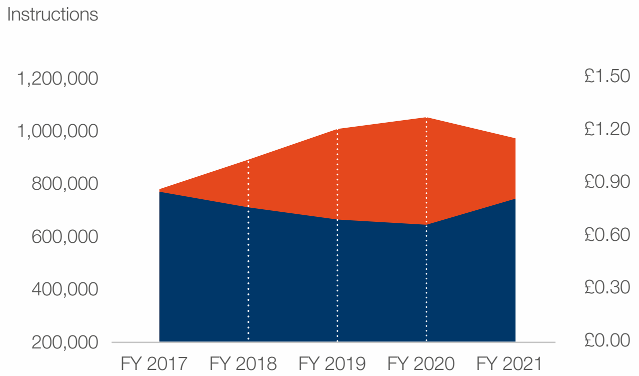
Settlement values

Average daily value at USD6.2 trillion increased 5% in 2021 compared to 2020.

Average revenue per USDm settled

Average daily settled value

Average daily billable volume

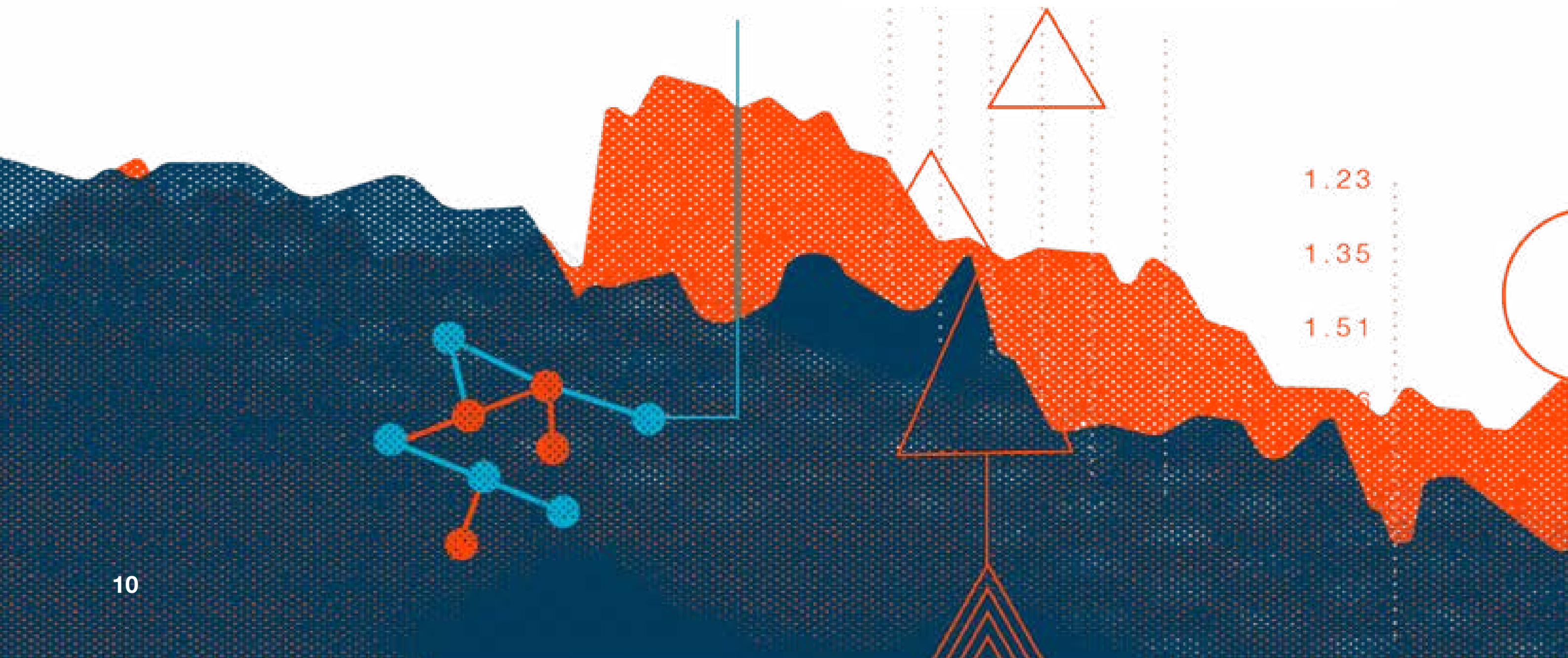


Input volumes

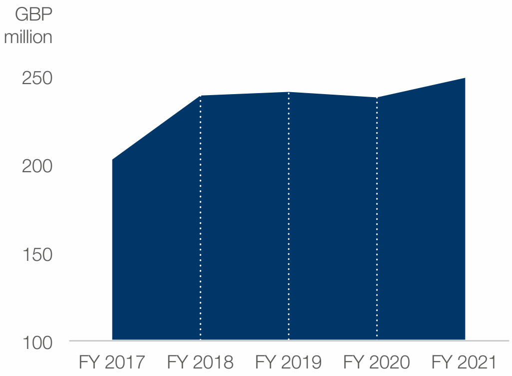
Average daily settled volumes in the core service decreased by 8% in 2021 compared to 2020.

Average revenue per instruction

Average daily billable volumes



Operating expenses

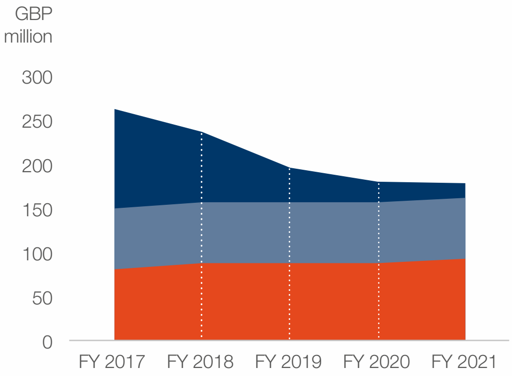


Operating expenses

Operating expenses increased 10% in 2021 compared to 2020 as a result of increased project costs expensed to the P&L.

Reported expenses

Capital resources



Capital resources

Capital resources of GBP178 million remained well above the regulatory capital requirement.

Available capital
Operational buffer and working capital
Regulatory capital

Chair's statement
Kenneth Harvey

As we enter our 20th year of service, I am pleased to report that the company has never been in a better position to support the foreign exchange market. The model of being mutually owned and globally regulated remains unique among asset classes and is proving to be exceptionally effective.

The standardization of settlement processes, combined with operational excellence, has created a product suite that reduces settlement and operational risk. In recent years, the liquidity benefits CLSSettlement provides have proved to be as powerful as its risk mitigation, with a netting efficiency of 96% on average and more than USD6 trillion on average settled each day.

As a technologist, my final Chair's statement would not be complete without reflecting on our platform. In 2021, we completed the final step of our eight-year journey to replace all our legacy technology. The last few years of this transformation were particularly challenging as we ran the legacy system in parallel with the new platform. As projected, this cautious approach to testing resulted in a material strain on our financials. However, the performance and efficiency of our new technology infrastructure will pay dividends in the decades to come.

Our engineering team accomplished numerous objectives in the rewrite, including extending our ability to deliver scale with no latency and achieve our medium-term resilience goals. Our efforts were validated at the end of 2021 when we reached our highest ever single day settlement of USD15.4 trillion in December.

In addition, CLSNet, the payment netting calculation service we launched to address currencies that are not eligible for settlement in CLSSettlement, doubled the gross volume submitted during the year. This was despite several large institutions delaying onboarding due to the pandemic. These firms have re-engaged with energy in 2022 and this service will be a key investment area for us.

You will find a more detailed progress report on our operational and financial performance in Marc's and Trevor's messages.

I want to recognize our talented Board for their extraordinary efforts. The combination of Shareholder Representatives and Outside Directors creates a depth of knowledge that is truly unique.

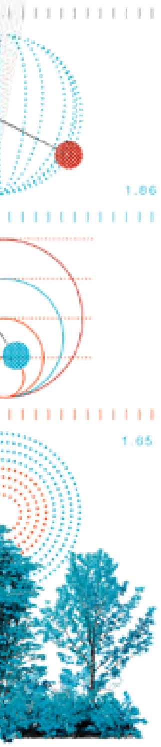
Marc, the Executive Management Committee and the broader team have delivered market leading innovation with stellar quality throughout a turbulent couple of years. Their dedication, focus and creativity are core assets to CLS.

Finally, I am pleased to announce that Gottfried Leibbrandt has been nominated to succeed me as Chair. I have really enjoyed my decade of service to CLS and have been honored to be your Chair for the last eight of those years. Gottfried is extremely well-positioned to take CLS to the next level. He brings a wealth of ecosystem experience, having served as the CEO of SWIFT. We have been actively transitioning for six months and you can expect great things to come.

Kenneth Harvey
Chair of the Board

Chief Executive Officer's report
Marc Bayle de Jessé

As we exit the second year of the Covid-19 pandemic and enter our 20th year of operations, the FX market continues to adjust to volatility, related to the challenging global environment including rising inflation, rising energy prices and changes in monetary policy. These factors have had a significant impact on the FX market, resulting in record traded values throughout most of the year.



This is reflected in our own operational performance. Apart from a slight, and expected, drop during July and August, we continued to see a marked increase in the overall value of instructions, of 5% year-on-year. This was driven predominantly by three factors; first, our own continued efforts to increase uptake in CLSSettlement, especially third-party participation which accounted for 90% of all new business growth; second, the overall growth in market activity; and third, a heightened focus on risk mitigation across the industry. As highlighted in my interim message, the asset manager and pension fund community have been of particular focus, as they continue to diversify global assets, leading to a subsequent heightened awareness of FX settlement risk management and operational efficiency within their portfolios. Third-party participants now total over 30,000.

Settlement risk continues to be a significant topic of discussion and debate across the public and private sectors. Public policy proposals acknowledge the need for greater settlement risk mitigation, including building block 9, 'Facilitating increased adoption of PvP' and related action items in the Financial Stability Board's Cross Border Payments Roadmap. The Global Foreign Exchange Committee has also published an updated version of the FX Global Code. This includes changes to the settlement risk principles, including greater emphasis on the use of PvP mechanisms where available, and provides more detailed guidance on the management of settlement risk where PvP settlement is not used.

In our role as a global FMI, we are both actively involved in these discussions and proactively working with the market to explore potential solutions. We are uniquely placed at the center of the FX industry to work in partnership with the public and private sectors to develop settlement risk mitigation solutions that will minimize settlement risk for currencies that are not currently eligible for settlement in CLSSettlement.

On the private side our efforts have focused on working with 12 banks, a subset of our settlement member community, to explore potential means to address this settlement risk and in September we formally announced the launch of the pilot I referenced in my interim statement. The support received from our settlement members through their participation in the working group and pilot is a vote of confidence in our ability to solve this industry challenge, by adapting our service offering to meet evolving market needs. However, we must continue to recognize that any such solution must prioritize safety, stability and scalability and will require detailed and measured consideration for appropriate implementation.

In this context, we are engaging the market regarding the uptake of CLSNet – our bilateral payment netting calculation service – which is already open for approximately 120 currencies. This highly effective service is designed to reduce risk and deliver efficient, automated, and standardized posttrade netting calculation and processing services for banks, asset managers and corporates across the globe. Importantly, it also supports both buy-side and sell-side adherence to the FX Global Code.

Connectivity with the platform expanded substantially in 2021, resulting in a more than doubling of gross volumes submitted, and demonstrating that the service is delivering tangible benefits to our clients. And while the onboarding of new participants slowed during the height of the Covid-19 pandemic, the overall pipeline of new joiners is strong, including several large banks and asset managers.

Other CLS services also continued to see an increase in uptake, with CLSTradeMonitor growing among the asset manager community, thanks to its integration into State Street's TradeNeXus centralized post-trade dashboard. This allows the buy-side to efficiently manage all their FX post-trade workflow within one platform, which is proving extremely valuable among our third-party participants. This increased adoption demonstrates demand for an integrated solution that supports post-trade processes across FX transactions and we expect to see further uptake of the service during 2022.

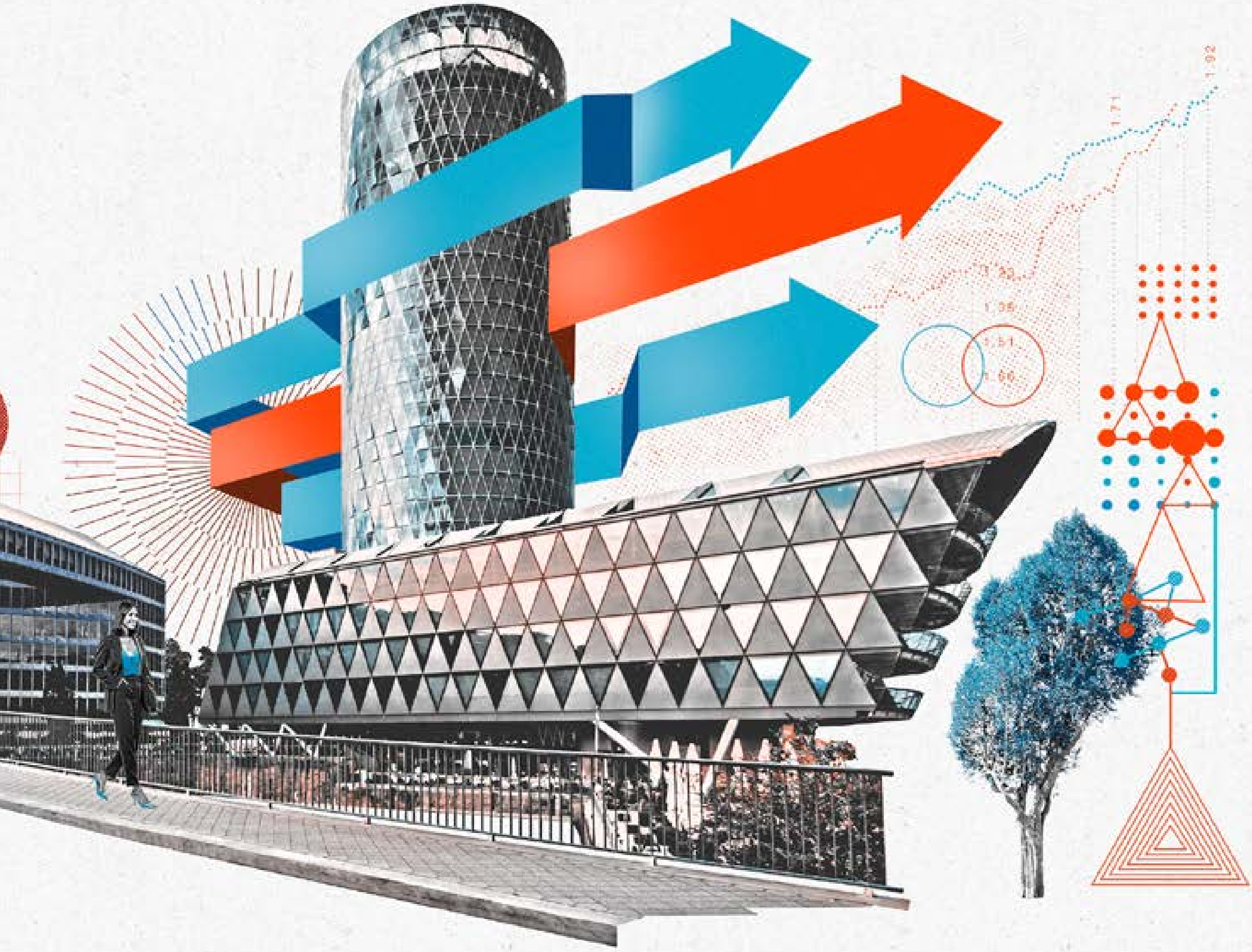
Our cross-currency swaps service also saw continued growth during 2021, both in terms of values and volumes processed. This service, which uses the MarkitSERV trade confirmation platform to allow settlement members to send their cross-currency swaps into CLSSettlement for settlement, also saw a new joiner in July. We have long advocated for greater PvP adoption to mitigate FX settlement risk, and increasing cross-currency swap flows to CLSSettlement can only help to achieve that.

In response to growing demand from our clients for accessible and digestible FX market insights, we launched an additional two new datasets to capture outstanding forward and swap positions in the FX market, in addition to making enhancements to our existing CLSMarketData suite. These outstanding forward and swap position reports are delivered daily, helping all market participants to benefit from increased visibility into cash flow and directional positioning, which will add market color and support pre-trade and post-trade analysis. As we continue to refine our datasets, market interest has grown across all client sectors with many users now signing up to multi-year contracts, up 75% year-on-year.

Investment program

We are constantly assessing and evaluating new methods to improve our services for the benefit of our members and the completion of the Convergence program is testament to our commitment to this strategy. While its completion is a major step forward, there is still more to be delivered to further strengthen our technology infrastructure, operational resilience and risk management. These efforts will continue to impact our financials for a further two to three years.

A significant proportion of our investment will now be focused on finalizing long-term hosting and support agreements with our key technology partners. In addition, as we progress the implementation of a hybrid working model in response to the pandemic, we will be focusing on delivering technological and office enhancements over the next few years that support our colleagues in this new way of working.



A strong focus for our investment policy is the ongoing enhancements to operational resilience, cybersecurity and three lines of defense. As a global FMI we are committed to upholding the highest operational standards and continuing to deliver the stable, secure and high-quality services our clients expect every day. This is particularly important given the major global challenges we are currently facing, such as increased cyber security risk and the ongoing economic impact of the pandemic.

A service to rely on

As Ken highlights, in 2022 we will be celebrating 20 years of our contribution to the stability, security and growth of the global FX ecosystem, thanks to delivering unprecedented levels of risk mitigation, liquidity optimization and operational efficiencies. As we pass this milestone, it is important that we all reflect on why you have placed your trust in us every day and what we deliver to you in return – now and in the future.

As we look to 2022, our commitment to you is to continue delivering the services with which you have entrusted us at the highest level of efficiency, service quality and resilience across our entire product set. We also look forward to partnering with you and the broader ecosystem to find opportunities to further mitigate risk and to create both operational and capital efficiencies.

Finally, 2022 is the year we bid farewell to Ken, who has chaired the Board of CLS for the last eight years. Ken's dedication and commitment has helped guide CLS through a significant phase in our evolution, cementing our credibility as the trusted market partner for mitigating FX settlement risk. On behalf of the Executive Management Committee, I thank him for his energy and support and look forward to continuing to reinforce CLS's role and relevance in the FX global ecosystem with our new Chair, Gottfried Leibbrandt.

Marc Bayle de Jessé
Chief Executive Officer

Chief Financial Officer's report
Trevor Suarez

As highlighted by both Ken and Marc, as we enter 2022, CLS celebrates 20 years of delivering unprecedented levels of risk mitigation, liquidity optimization and operational efficiencies.

We have played a key role supporting the FX market, which has grown from settling average daily values of just over USD1 trillion in the early days of CLS, almost two decades ago, to over USD6 trillion in 2021. With a proven track record of delivering critical industry-wide services at scale, we have continued to adapt and evolve to meet the changing needs of our shareholders, clients and the broader FX market.

It is within this broader context that I would like to explain our financial performance, as we continue to rightly invest in our infrastructure as well as develop and enhance our product suite to meet our clients' settlement, processing and data needs. From a financial perspective this has meant maintaining financial stability while making the necessary, and significant, investments in our technology infrastructure and control functions. This ensures we remain resilient and can deliver the high levels of service you have come to expect. We seek to grow revenues from increased levels of activity processed through the CLS ecosystem to offset the cost of our investments and other cost increases such as inflation. Combined with cost savings from our investments, this will minimize as much as possible the need for future tariff increases.

Overall financial performance showed a lower level of post tax loss in 2021 of GBP8.3 million compared to a prior year loss of GBP15.4 million, while cash and investment balances at GBP178 million were broadly flat year-on-year. (December 2020: GBP179 million). Going forward we expect our cash investment balances to increase slightly as we complete major components of our investment program. Our current balances remain well in excess of regulatory requirements. During the year following a review of assets capitalized on the balance sheet, GBP9 million of intangible assets relating to prior years were written off, with an associated adjustment to the 2021 opening reserves. Further details are disclosed in the footnote to Consolidated statement of changes in equity table on page 48 of this report and in note 9, Intangible Assets, on page 65.

Revenue for the year was GBP237.9 million, an increase of 12%, compared to 2020, resulting from a combination of tariff adjustments to CLSSettlement and higher settled values, as well as an increasing contributing revenue from products such as CLSNet, CLSTradeMonitor, Cross Currency Swaps and CLSMarketData.

Pre-tax operating losses of GBP17.0 million in 2021 compared to GBP20.1 million reported for 2020. Results for 2021 were helped by higher revenues from CLSSettlement. However this was offset by final accelerated amortization charges, following the completion of Convergence, which migrated CLSSettlement onto the new Unified Services Platform, as well as a higher level of change costs directly expensed to the P&L rather than capitalized to the balance sheet.

This allows us greater flexibility to develop and enhance new and existing services. This has been achieved by optimizing the underlying technology platform supporting our settlement services and through the complete ownership of our application development and change delivery.

However, our journey is not complete. Our ongoing investment in resilience, security and three lines of defense, alongside our focus on upgrading the hardware and data centers that support CLSSettlement will progress over the next two to three years.

Additionally, 2021 saw an increase in people costs, offset by lower third party costs, as we brought core technology capability in house, reducing our reliance on contract staff as we seek to deliver essential services and complete our long-term technology agenda.

Therefore our future income statements will continue to recognize some of this investment immediately as well as related amortization charges of prior year investments. All of these factors will influence our reported profitability for the next few years. Despite this, we expect to maintain strong capital resources in excess of any minimum regulatory and working capital requirements throughout this period.

At the start of 2021, we also went live with three new legal entities: CLS Processing Solutions Ltd., CLS Assets UK Ltd. and CLS US Services Inc. These entities were incorporated in 2018, and their establishment provides a greater level of segregation and transparency between our settlement and non-settlement product lines.

In closing we will continue to further consolidate our resources and modernize our technology and control environment in a measured and planned manner. We will always ensure we do not put our financial stability and capital at risk.

These efforts are fundamental to improving our business, protecting the settlement service and maintaining our reputation as the trusted FMI delivering high quality services to the FX market.

I look forward to 2022 as we deliver on our long-term strategy to consolidate our resources, modernize our technology and control environment and deliver on commitments to our shareholders, clients and the broader FX ecosystem.

Trevor Suarez
Chief Financial Officer

Environmental and Social Governance report Chief Risk Officer Deborah Hrvatin

One of the many significant changes brought about by the need to navigate the Covid-19 pandemic is a renewed focus by regulators, shareholders, clients, employees, and the public as a whole, on the social and environmental impact an organization has on the planet.

2021 saw continued focus on environmental, social and governance (ESG) practices. At CLS, we understand that we have an obligation to manage our organization in ways that are socially responsible and help to create a sustainable environment, and have therefore continued to develop our ESG agenda to ensure these principles are considered in everything we do.

At an organizational level, ESG is integrated into our Enterprise Risk Management Framework and risk taxonomy – both physical and transition risk. We have issued a Modern Slavery Act Statement and aligned our internal board and management reporting to the UN Sustainable Development Goals and common metrics.

Against a background of climate change and broader economic and political instability, many individuals are deciding that they will not compromise on their own priorities by working for a company that does not represent them or provide the flexibility to live a balanced life. In 2021, this manifested itself in the labor market experiencing record levels of attrition as candidates actively sought employment opportunities with companies that recognize this and act accordingly.

People are our most critical asset. Our entire organization thrives on relationships: with shareholders and clients, regulators, global policymakers, and our colleagues and community. We have remained committed to making CLS a great place to work and, as I highlighted in my previous ESG report, thanks to our purpose-driven strategy, robust people agenda, and hybrid working approach, we have continued to attract, develop and engage high-performing colleagues across the globe.

With a focus on Diversity, Equity and Inclusion (DEI) we have continued to establish three Affinity Groups – the Women's Forum, the Black Employee Network and CLS Pride.

These groups, introduced and managed by employees with support and sponsorship from senior leaders, help to facilitate connectivity between people across teams and regions while also providing essential channels for their voices to be heard. This approach has led to the delivery of a busy calendar of activities to mark and celebrate events including International Women's Day, Black History Month, Pride, Diwali, Asian Pacific Islander Heritage Month, Hanukkah and many more.

We have maintained a relentless focus on employee wellbeing, above and beyond our response to the pandemic and the adoption of hybrid working. In addition to our Employee Assistance Program, our network of health and wellbeing champions oversee a range of supporting activity. Every month, we issue a 'Pulse Check' survey to gauge mood and morale and gather feedback from employees on specific issues that might be affecting this.

This feedback has led to the delivery of a range of initiatives, including Heads Down Days and a Connections Week, and we are looking forward to providing monthly wellbeing goals and mental health first aid training.

This year, we also re-branded Sick Days as Health Days. The aim here is to shift the focus from recovery to prevention, and ensure people proactively manage their health by taking time off when they need to. It has also helped remove some of the stigma around talking about mental health, and been very well-received by colleagues as they have adjusted to an increase in working remotely.

We strive to be a force for good in our local communities. Through monthly donation days and other fundraising activities, we have continued to support Richard House Children's Hospice and facilitated contributions for Southwark Food Bank in London and City Harvest in New York.

Although public heath restrictions have made it harder to volunteer in person, several colleagues have been able to use their volunteering days entitlement – including those who devoted their time to assisting at New York's Bowery Mission, in providing meals, shelter and clothing to people experiencing homelessness, hunger and poverty and a number of colleagues (in the UK) have participated in the Writing Partners program, which aims to help 8-11 year olds in local schools learn more about the world of work from a professional role model and improve literacy through a frequent exchange of written letters.

Our position at the center of the FX market means we have a unique network of relationships, and will continue to work with our partners to ensure we are all holding ourselves to the highest environmental standards. The ultimate goal for climate protection is for global societies to achieve demonstrable reductions in actual Scope 1 greenhouse gases emissions, and we hold our suppliers to account as we believe real results are achieved when each enterprise takes responsibility to address its own emissions and improve energy efficiency. An early success in this area is that, thanks to our largest vendor, our CLSSettlement data centers now operate with 100% renewable energy.

We look forward to evolving our ESG agenda and engaging with our stakeholders – including clients, employees and vendors – as we continue to identify priorities and establish targets to ensure CLS is meeting, and exceeding, our obligations as an environmentally and socially responsible organization.

Deborah Hrvatin
Chief Risk Officer
Executive Sponsor

Directors' report

The Directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the year ending 31 December 2021. The Governance statement forms part of this report.

The Group has its registered office in Lucerne, Switzerland and subsidiaries in London, UK (CLS UK Intermediate Holdings Ltd., CLS Services Ltd., CLS Assets UK Ltd., and CLS Processing Solutions Ltd.), New York City and New Jersey, US. (CLS Bank International and CLS US Services Inc.). CLS Bank International provides FX-related settlement services, additional non-settlement services are provided by other CLS Group subsidiaries.

Principal activities and business review

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

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

Financial results and dividends

The Group reported a loss after interest and tax of GBP8.3 million, compared to a loss of GBP15.4 million in 2020. Net assets of GBP313.3 million remained broadly flat year-on-year. No dividend is recommended for the year (2020: 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.

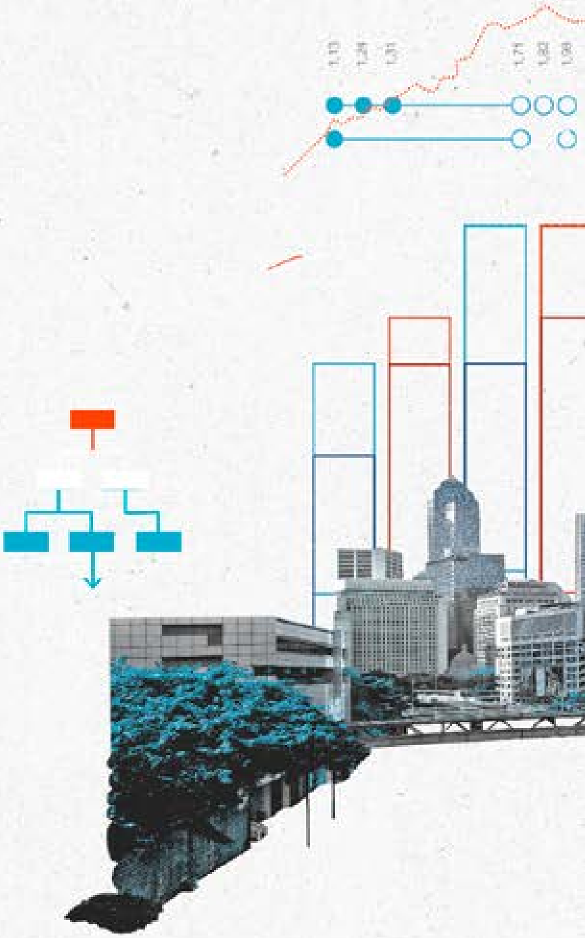
Strategy

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

In addition to reinforcing and refining its operations, the focus of CLS's strategy in 2022 will be to further its purpose and mission of settlement risk reduction by continuing to work with key stakeholders to enhance its product suite to address risk associated with non-CLSSettlement currencies.

"The focus of CLS's strategy in 2022 will be to further its purpose and mission of settlement risk reduction by enhancing its product suite to address risk associated with non-CLSSettlement currencies."

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

Regulatory affairs

The Board acknowledges that the regulatory developments in multiple jurisdictions are important for refining CLS's strategy. 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 36 to 37.

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, 2022. By order of the Board.

Kenneth M Harvey

Kenneth Harvey
CLS Group Holdings AG
Chair
21 April 2022

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

Board of Directors

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

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

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

The Board held seventeen meetings in 2021, one of which was convened partially in person as a hybrid meeting. Board Committees meet regularly, as needed, to fulfill their chartered responsibilities. In addition to its meetings, the Board receives regular communications from the Chair regarding industry or regulatory developments and from the Chief Executive Officer regarding business matters for the Group.

Board leadership and composition

As of 31 December 2021, the Board was comprised of twenty-one Directors. CLS shareholder institutions are represented by twelve Directors, with nine Outside Directors. Given CLS's global reach, we have a culturally diverse Board with a large range of different professional experiences. We continue to focus on increasing gender and ethnic diversity at Board level, recognizing the importance of reflecting the diverse ecosystem in which we operate.

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

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

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

Director compliance and Code of Conduct

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

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

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

Director development

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

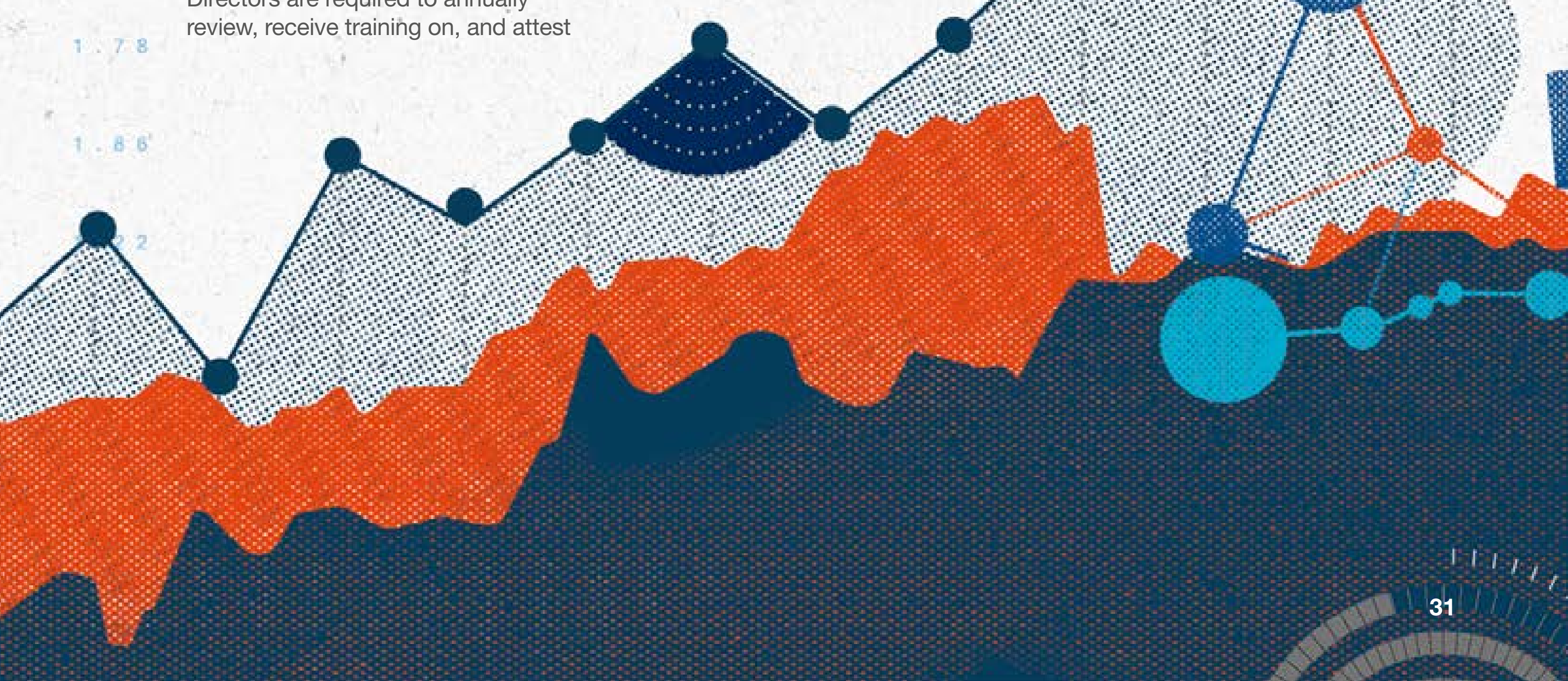
The Audit and Finance Committee (AFC) is charged with (i) overseeing the Internal Audit function, (ii) managing the relationship with the independent auditor, and (iii) overseeing finance activities, including financial strategies, capital budgeting, pricing policies, and budget and forecasting, as well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

Chair's Committee

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



Governance statement (continued)

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

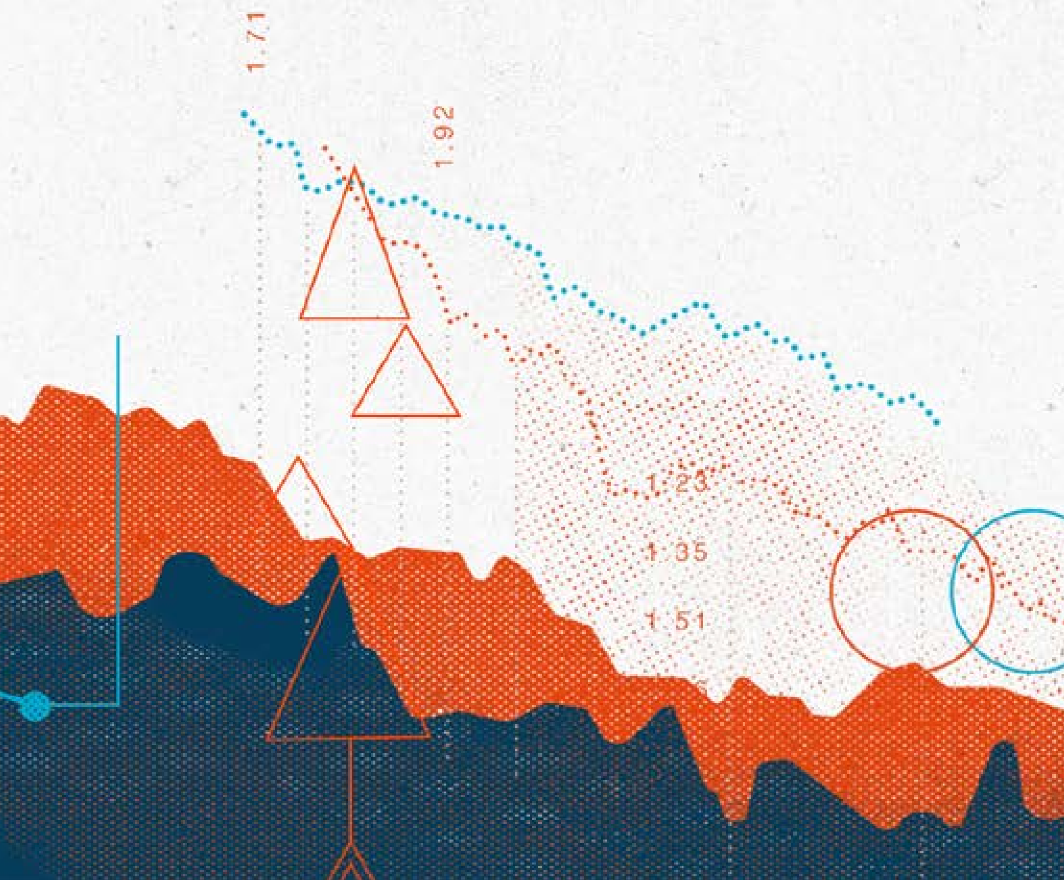
CLS Group Holdings AG, a Swiss corporation, is the parent holding company for the Group and is owned by 79 Shareholders, each of whom (with limited exceptions) is a settlement member or an affiliate of a settlement member of CLS Bank International, a US Edge Act corporation. CLS Bank International provides 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 fulfill their responsibilities to promote safety, efficiency and stability in financial markets and payment systems in which CLS Bank participates. The Federal Reserve organizes and administers the CLS Oversight Committee, which is the primary forum for the participating central banks to carry out their oversight of the CLS system.

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



CLS Group Holdings Board and Committee Composition 2021

CLS Group Holdings Board Members	CLS Group Holdings Board	Audit & Finance Committee	Chair's Committee	Nominating & Governance Committee	Product Development Committee	Risk Management Committee	Technology & Operations Committee
Total number of meetings in 2021	17	10	10	11	4	9	9
Kenneth Harvey*	Chair		Chair		●		●
Ericka Leslie	Deputy Chair		●				
Thomas Berkery*	●	Chair	●				●
Vidya Bittianda	●	●				●	
Gerard Brady	●						●
David Gary	●			●		●	
Peter Healey	●	●					
Karen Keenan*	●	●				●	
Sheryl Kennedy*	●	●	●	●			
Michael Lawrence	●					●	
Dominique Le Masson	●			●	●		
Gottfried Leibbrandt*[1]	●				●		●
Gilbert Lichter*	●		●	Chair			
Naoto Nakamura[2]	●					●	
Shuta Okawara[1]	●						●
Bryan Osmar*	●		●	●	●	Chair	
William Stenning	●		●	●	Chair		
Edward Sterba*	●	●	●				Chair
Fabrizio Tallei	●				●		
John Trundle*	●					●	●
Eddie Wen	●				●		●
Ronnie Yam	●	●					

● Denotes Board/Committee membership

Asterisk (*) indicates Outside (Independent) Director

(1) Appointed 17 May 2021
(2) Resigned 17 May 2021

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, 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 2021, CLS continued its efforts to educate and raise awareness of FX settlement risk amongst industry and regulatory stakeholders. Of note, CLS's advocacy resulted in strengthened settlement risk principles as part of the three-year review of the Global FX Code, as well as the addition of new settlement method-specific questions to the 2022 BIS Triennial FX Turnover survey. CLS continued to leverage its participation in the New York, London, and Tokyo Foreign Exchange Committees and select subcommittees to present on the topic of FX settlement risk.

In October, the Financial Stability Board published its first progress report on its roadmap to address the key challenges faced by cross-border payments. The roadmap includes 19 building blocks, many of which closely align to CLS's operations and interests (particularly building block 9, 'Facilitating increased adoption of PvP'). During the year, CLS conducted several workshops with the building block 9 workstream and participated in its request for proposals to increase the use of PvP in the market. CLS also contributed to several other building block action plans, including the workstream focused on extending and aligning RTGS operating hours.

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 2021, 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 mitigated the 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 notes that the European Commission is considering amendments to the Settlement Finality Directive, including changes relating to third country systems, CLS is monitoring the situation and will proactively respond to any proposed changes in law or regulation, as appropriate.

Cross-border recovery and resolution regimes

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

In 2020, 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 identify and consider issues that could arise in a resolution scenario with respect to participation in CLS, this included certain key takeaways from a previous 'resolution war game exercise' conducted by CLS (e.g., potential challenges with respect to the ability of the hypothetical Member in resolution to timely meet its funding obligations to CLS in all relevant currencies). The Member Resolution Working Group convened several times in 2021.

In addition, in August 2021, CLS (along with other FMIs) received an updated questionnaire from the Financial Stability Board (FSB) posing numerous resolution-related questions. This questionnaire is part of an FSB initiative to create a common template for gathering information about continuity of access to FMIs for firms in resolution. CLS distributed its response to the questionnaire (and related exhibits) to Members in January 2022.

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 Chair (former Chief Technology & Services Officer, HSBC plc)

Ericka Leslie

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

Thomas Berkery

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

Vidya Bitianda

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

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, Head of FX Trading North America

Peter Healey

Originally elected April 2015
Affiliation UBS
Role Managing Director, Global Head of Risk Assessment and 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 Citigroup
Role Managing Director, Global CAO, Rates & Currencies XVA & OCM & Markets, Transaction & Processing Risk Head

Dominique Le Masson

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

Gottfried Leibbrandt

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

Gilbert Lichter

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

Shuta Okawara

Originally elected May 2021
Affiliation MUFG Bank
Role Managing Director, Head of Transactions Services 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 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 Euro 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 Global Head of Digital Markets

Ronnie Yam

Originally elected May 2017
Affiliation United Overseas Bank Ltd
Role COO of Group Finance and Corporate Services

Directors resigned in 2021

Naoto Nakamura
Resigned 17 May 2021

Company Secretaries

Philippe Weber

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

Michael Preston

Originally appointed
April 2015
Affiliation CLS Bank International
Role Company Secretary

Executive Management Committee

Marc Bayle de Jessé
Chief Executive Officer

Thomas Barkhuff
Chief Information Officer

Duncan Barnard
Chief Internal Auditor

Michele Fleming
Chief Compliance Officer

John Hagon
Chief Operating Officer

Deborah Hrvatin
Chief Risk Officer

Dino Kos
Special Advisor to the CEO

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 2021 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 42 to 81) give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, 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 capitalisation of assets

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

Key Audit Matter

CLS Group reported intangible assets of GBP147.3 million for the year ended 31 December 2021.

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

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

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

Our response

Our audit procedures included, amongst others:

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

Other Information in the Annual Report

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

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

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

Responsibility of the Board of Directors for the Consolidated Financial Statements

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

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

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

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

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

We also:

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

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

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

Zurich, Switzerland
21 April 2022

Consolidated accounts

Consolidated statement of profit or loss

For the year ended 31 December 2021 (All amounts stated in GBP000)

	Notes	2021	2020
Revenue	4	**237,935**	**212,465**
Operating expenses			
Operating expenses		(249,302)	(228,819)
Accelerated amortization of core settlement assets		(5,602)	(3,734)
Loss from operations	5	**(16,969)**	**(20,088)**
Investment income	7	179	492
Interest expense		(825)	(575)
Loss before tax		**(17,615)**	**(20,171)**
Tax credit for the year	8	9,306	4,740
Total loss for the year		**(8,309)**	**(15,431)**

Notes from pages 50 to 81 form part of these consolidated financial statements.

Consolidated statement of comprehensive income and loss

For the year ended 31 December 2021 (All amounts stated in GBP000)

	Notes	2021	2020
Loss for the year		(8,309)	(15,431)
Exchange differences on translation of foreign operations		165	511
Exchange rate movements taken to the cash flow hedge reserve	16	5,067	(322)
Fair value movements taken to the OCI revaluation reserve		(28)	9
Tax on items accounted through OCI		93	–
Total comprehensive loss		**(3,012)**	**(15,233)**
Attributable to:			
Equity holders of parent		(3,012)	(15,233)
Total comprehensive loss		(3,012)	(15,233)

Consolidated statement of financial position

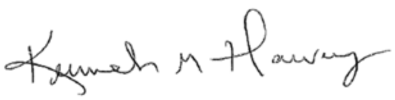
At 31 December 2021 (All amounts stated in GBP000)

	Notes	31 December 2021	31 December 2020
Non-current assets			
Intangible assets	9	147,362	173,860
Property, plant and equipment	10	3,811	5,471
Right of use assets	11	11,038	13,882
Other investments	13	260	129
Deferred tax asset	14	3,096	627
		165,567	**193,969**
Current assets			
Trade and other receivables	15	29,450	29,634
Current tax assets	21	9,691	4,533
Derivative financial instruments	16	1,581	–
Investments at fair value	19	77,813	80,248
Cash deposits	17	15,288	21,198
Cash and cash equivalents	18	84,482	77,860
		218,305	**213,473**
Total assets		**383,872**	**407,442**
Current liabilities			
Trade and other payables	20	(44,800)	(52,439)
Current tax liabilities	21	(3,662)	(715)
Derivative financial instruments	16	–	(4,376)
		(48,462)	**(57,530)**
Net current assets		**169,843**	**155,943**
Non-current liabilities			
Other liabilities	22	(6,822)	(4,611)
Deferred tax liabilities	14	(3,567)	(8,598)
Lease liabilities	23	(11,687)	(13,944)
		(22,076)	**(27,153)**
Total liabilities		**(70,538)**	**(84,683)**
Net assets		**313,334**	**322,759**

Notes from pages 50 to 81 form part of these consolidated financial statements.

	Notes	31 December 2021	31 December 2020
Equity			
Share capital	24	202,582	202,582
Share premium account		116,104	116,104
Combined merger and consolidated reserves	25	116,631	116,631
Translation reserves		1,775	1,610
Cash flow hedge reserve	16	1,440	(3,627)
OCI revaluation reserve		185	213
Retained losses		(125,383)	(110,754)
Total equity		**313,334**	**322,759**

The consolidated financial statements were approved by the Board of Directors on 21 April 2022 and signed on its behalf by:



Kenneth Harvey
CLS Group Holdings AG
Chair
21 April 2022

Marc Bayle de Jessé
CLS Group Holdings AG
Chief Executive Officer
21 April 2022

Consolidated statement of changes in equity

For the year ended 31 December 2021 (All amounts stated in GBP000)

	Notes	Share capital	Share premium	Combined merger and consolidated reserves	Translation reserves	Cash flow hedge reserve	OCI reserve	Retained losses	Total equity attributable to parent	Non-controlling interests	Total equity
Balance at 1 January 2020	24	**202,582**	**116,104**	**116,631**	**1,099**	**(3,305)**	**204**	**(95,323)**	**337,992**	**61**	**338,053**
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**
Opening balance adjustment		–	–	–	–	–	–	(6,413)	(6,413)	–	(6,413)
Balance at 1 January 2021 adjusted		**202,582**	**116,104**	**116,631**	**1,610**	**(3,627)**	**213**	**(117,167)**	**316,346**	**–**	**316,346**
Loss for the year		–	–	–	–	–	–	(8,309)	(8,309)	–	(8,309)
Other comprehensive income		–	–	–	165	5,067	(28)	93	5,297	–	5,297
Balance at 31 December 2021		**202,582**	**116,104**	**116,631**	**1,775**	**1,440**	**185**	**(125,383)**	**313,334**	**–**	**313,334**

Notes from pages 50 to 81 form part of these consolidated financial statements.

Opening reserves adjustment – as part of a review of intangible assets during 2021, GBP11.7 million of intangible assets capitalized in prior years have been identified as incorrectly capitalized and therefore subsequently removed from the balance sheet. As relevant key prior year information does not exist, Management has estimated the impact for all previous years, based on an extrapolation of the current year information.

Further given the absence of key prior year information, it is impracticable to accurately separate this estimate between 2020 and all other prior years. As such, the impact of all prior years in aggregate has been recorded as an adjustment to opening 2021 retained earnings. After offsetting adjustments of GBP2.9 million relating to amortization of these assets and GBP2.4 million of tax adjustments, the net impact is an GBP6.4 million reduction to opening 2021 retained earnings.

Given this is an accounting error of prior period expenditures between the Consolidated statement of financial position and the Consolidated statement of profit or loss, there is no impact to the Group’s cash position in 2021 or prior periods.

Consolidated cash flow statement

For the year ended 31 December 2021 (All amounts stated in GBP000)

	Notes	2021	2020
Loss from operations		**(16,969)**	**(20,088)**
Adjustments for:			
Amortization of intangible assets		37,857	37,859
Impairment of intangible assets		2,587	–
Depreciation of property, plant and equipment and right of use assets		5,586	5,675
Foreign exchange gains recognized in profit from operations		4,079	831
Operating cash flows before movements in working capital		**33,140**	**24,277**
(Increase)/decrease in receivables		(3)	1,508
(Decrease)/increase in payables		(5,337)	5,287
Lease payments		(3,080)	(2,419)
Loss on matured hedges		(5,076)	(1,028)
Cash generated from operations		**19,644**	**27,625**
Income taxes receivable/(payable)		2,144	(1,265)
Net cash inflow from operating activities		**21,788**	**26,360**
Investing activities:			
Interest received		107	807
Maturity of cash investments	18	6,000	23,552
Purchase of investment in SWIFT		(123)	–
Sale of FVTOCI investments		7,480	46,664
Purchase of FVTOCI investments		(4,715)	–
Additions to intangible assets	9	(22,793)	(44,861)
Purchases of property, plant and equipment	10	(1,082)	(627)
Net cash (outflow)/inflow from investing activities		**(15,126)**	**25,535**
Financing activities:			
Dividend: non-controlling interests		–	(61)
Net cash inflow from financing activities		**–**	**(61)**
Net increase in cash and cash equivalents		**6,662**	**51,834**
Cash and cash equivalents at beginning of year		**77,860**	**26,857**
Effect of foreign exchange rate changes		(40)	(831)
Cash and cash equivalents at end of year		**84,482**	**77,860**
Cash and cash equivalents as presented on the consolidated statement of financial position		**84,482**	**77,860**

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 30 for more information on the Financial Risk Management.

2. Significant accounting policies

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

A. Basis of consolidation

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

i. Subsidiaries

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

ii. Non-controlling interests (NCIs)

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

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

iii. Transactions eliminated on consolidation

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

B. Foreign currencies

i. Foreign currency transactions

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

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

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 lessee 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
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.

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

Intangible asset component	Maximum asset life and amortization policy
Upgrades and enhancements to the core service	10 years, straight line
Unified services platform	10 years, straight line
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 cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

iii. Non-derivative financial assets and liabilities – measurement

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.
- Following completion of the Convergence project, resulting in the migration of CLSSettlement to the our Unified Services Platform, we have applied a Useful Economic Life of 10 years and started to amortize this asset from end June 2021. As there is no direct benchmark, the UEL assessment was performed by Management considering historical experience and internal as well externally available information. A shorter UEL of 9 years would result in approx. GBP0.7 million higher amortization per annum, whilst a longer UEL of 12 years would result in GBP1.1 million lower amortization per annum.
- 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).

4. Revenue

	2021	2020
Instruction processing charges	209,221	186,420
Annual account maintenance fees	8,846	8,729
CCP settlement	7,625	6,292
Liquidity usage fees	2,608	2,698
In/Out Swap program participant fees	1,464	1,560
Credit derivatives	1,455	1,551
Cross Currency Swaps	1,547	1,155
Compression fees	983	1,574
CLSNet fees	636	54
Sundry income	3,550	2,432
Total revenue	**237,935**	**212,465**

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. Loss from operations

The loss from operations has been arrived at after charging:

	Notes	2021	2020
Staff costs	6	109,166	99,827
IT service charges		43,726	41,136
Amortization of intangible assets	9	32,255	34,125
Impairment of intangible assets	9	2,587	–
Depreciation of property, plant and equipment	10	5,586	5,675
Accelerated amortization of core settlement assets	9	5,602	3,734
Foreign exchange gain		(107)	(374)
Foreign exchange (gain)/loss on forward contracts		167	245
Telecom costs		22,826	18,878
Professional service costs		18,369	15,221
Establishment costs		3,176	3,311
Auditor's remuneration for audit services (see below)		433	337
Other		11,120	9,482

The analysis of auditor's remuneration is as follows:

	2021	2020
Fees payable to the Company's auditors for the audit of the Company's annual accounts		
– Current year	17	16
– Prior year	–	17
Audit of the Company's subsidiaries pursuant to legislation		
– Current year	416	304
– Prior year	–	–
Total audit fees	**433**	**337**
Fees payable to the Company's auditors and their associates for other services to the Group:		
Tax services	158	303
Other services	–	92
Total non-audit fees	**158**	**395**
Total fees	**591**	**732**

KPMG AG was appointed auditor for the Group at the annual general meeting on 17 May 2021 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	2021	2020
Service delivery and technology	297	259
Risk and control	193	182
Corporate	44	49
Total	**534**	**489**

Total aggregate remuneration comprised:

	2021	2020
Salaries	90,579	85,853
Temporary staff	7,890	3,358
Social security costs	7,052	7,528
Pension costs	5,684	5,288
Total	**111,205**	**102,027**

During 2021 GBP2,039,000 (2020: GBP2,200,000) of the above costs were incurred in the creation of intangible assets and have been capitalized.

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

7. Investment income

	2021	2020
Interest income on investments	179	492
Total	**179**	**492**

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

8. Tax

	2021	2020
Current tax:		
UK corporation tax		
– Current year	–	–
– Adjustments in respect of previous periods	229	512
	229	**512**
Non-UK corporation tax		
– Current year	3,995	2,500
	3,995	**2,500**
Current tax credit for the year	**4,224**	**3,012**
Deferred tax:		
Relating to the change in tax rates	–	16
Relating to origination and reversal of temporary differences	4,985	2,016
Adjustments recognized in the year for deferred tax of prior periods	97	(304)
Deferred tax credit for the year	**5,082**	**1,728**
Total tax credit for the year recognized in the income statement	**9,306**	**4,740**

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

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

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

	2021	2020
Loss before tax	(17,615)	(20,171)
UK statutory tax rate	19%	19%
At UK statutory income tax rate credit/(cost)	3,347	3,832
Current tax affecting items:		
Permanent disallowable expenses and non-taxable income	7,220	232
Adjustments in respect of current income tax of previous periods	(219)	194
Deferred tax expense relating to changes in the tax rates	–	16
Effect of different tax rates of subsidiaries operating in other jurisdictions	120	1,753
Deferred tax affecting items:		
Foreign exchange rate movement	(1,162)	(1,308)
Differences on which no deferred tax is recognized	–	21
Total tax credit for the year	**9,306**	**4,740**

9. Intangible assets

	Assets in course of construction	Settlement Assets	Non-settlement Assets	Total
Cost				
Opening balance 1 January 2020	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**
Opening balance adjustment	(3,402)	(8,337)	–	(11,739)
Opening balance 1 January 2021 adjusted	**89,955**	**392,536**	**19,123**	**501,614**
Additions	22,793	–	–	22,793
Transfers	(80,702)	75,294	5,408	–
Disposals	(2,587)	(160,363)	–	(162,950)
Closing balance 31 December 2021	**29,459**	**307,467**	**24,531**	**361,457**
Accumulated amortization				
Opening balance 1 January 2020	–	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**
Opening balance adjustment	–	(2,892)	–	(2,892)
Opening balance 1 January 2021 adjusted	**–**	**325,525**	**11,076**	**336,601**
Charge for the year	–	28,232	4,023	32,255
Accelerated amortization of core settlement assets	–	5,602	–	5,602
Impairment	2,587	–	–	2,587
Disposals	(2,587)	(160,363)	–	(162,950)
Closing balance 31 December 2021	**–**	**198,996**	**15,099**	**214,095**
Net book value				
31 December 2021	**29,459**	**108,471**	**9,432**	**147,362**
31 December 2020	89,955	72,456	8,047	173,860

Of the costs included in the opening balance on assets in course of construction GBP2.6 million no longer meets the requirements to be recognized as an asset and has been impaired in the year.

As part of a review of intangible assets during 2021, GBP11.7 million of intangible assets capitalized in prior years have been identified as incorrectly capitalized onto the balance sheet. See footnote to consolidated statement of changes in equity table on page 48 for further details of adjusting entries.

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 2020	**11,912**	**15,638**	**451**	**28,001**
Additions	–	627	–	627
Disposals	–	–	–	–
Closing balance 31 December 2020	**11,912**	**16,265**	**451**	**28,628**
Additions	1,082	–	–	1,082
Disposals	(5)	(1,299)	–	(1,304)
Closing balance 31 December 2021	**12,989**	**14,966**	**451**	**28,406**
Accumulated depreciation				
Opening balance 1 January 2020	**7,385**	**12,564**	**381**	**20,330**
Charge for the year	1,449	1,362	16	2,827
Closing balance 31 December 2020	**8,834**	**13,926**	**397**	**23,157**
Disposals	(5)	(1,299)	–	(1,304)
Charge for the year	1,451	1,275	16	2,742
Closing balance 31 December 2021	**10,280**	**13,902**	**413**	**24,595**
Net book value				
31 December 2021	**2,709**	**1,064**	**38**	**3,811**
31 December 2020	3,078	2,339	54	5,471

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

11. Right of use assets

	Property	Office Equipment	Total
Cost			
Opening balance 1 January 2020	**9,588**	**645**	**10,233**
Lease modification	8,674	–	8,674
Additions	965	61	1,026
Closing balance 31 December 2020 and 2021	**19,227**	**706**	**19,933**
Accumulated depreciation			
Opening balance 1 January 2020	**3,035**	**168**	**3,203**
Charge for the year	2,664	184	2,848
Closing balance 31 December 2020	**5,699**	**352**	**6,051**
Charge for the year	2,661	183	2,844
Closing balance 31 December 2021	**8,360**	**535**	**8,895**
Closing balance 31 December 2021	**10,867**	**171**	**11,038**
Closing balance 31 December 2020	13,528	354	13,882

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 to the CLS Settlement system and Group entities
CLS Bank International (incorporated in the US)	Common stock	100%	Foreign exchange settlement risk and liquidity management
CLS US Services Inc. (incorporated in the US)	Common stock	100%	Provision of operational support to the CLS Settlement system and Group entities
CLS Processing Solutions Ltd. (incorporated in the UK)	Ordinary shares	100%	Provision of non-settlement products
CLS Assets UK Ltd. (incorporated in the UK)	Ordinary shares	100%	Provision of intangible assets to support non-settlement products

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

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:

	2021	2020
Investment in SWIFT	260	129
Balance at 31 December	**260**	**129**

Investment in SWIFT

CLS Bank International owns 50 shares (2020: 25 shares) in SWIFT were purchased between April 2003 and May 2021. These shares are included in the balance of the Group at cost. During 2021 25 shares were redistributed and purchased from SWIFT at EUR5,705 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 May 2021 was EUR5,705 per share. The Group does not intend to dispose of this investment.

Balance at 31 December 2020	**129**
Additional investment in year	123
Foreign Exchange Movement	8
Balance at 31 December 2021	**260**

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

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

14. Deferred tax asset and liabilities

	Asset/(liability) recognized on				
	Trading losses	Tax depreciation	Accruals	Other	Total
Balance at 1 January 2020	**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)**
Opening balance adjustment	–	2,434	–	–	2,434
Opening balance at 1 January 2021 adjusted	**9,604**	**(17,414)**	**2,258**	**15**	**(5,537)**
Credit to other comprehensive income	93	–	–	–	93
Foreign exchange movement	17	(142)	16	–	(109)
(Charge)/credit to income in the year	14,313	(11,684)	2,468	(15)	5,082
Balance at 31 December 2021	**24,027**	**(29,240)**	**4,742**	**–**	**(471)**

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

As a result of the adjustments made in respect of intangible assets capitalized in prior periods, a reduction in deferred tax liability of GBP2.4 million has been recognized.

15. Trade and other receivables

	At 31 December 2021	At 31 December 2020
Trade receivables	18,184	15,574
Pre-payments and accrued income	10,142	12,676
VAT recoverable	988	784
Other receivables	136	600
Total	**29,450**	**29,634**

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 2022 and early 2023.

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

	At 31 December 2021		At 31 December 2020	
	Notional contract amount	Fair value £'000	Notional contract amount	Fair value £'000
Forward foreign currency contracts not in hedging relationships	–	–	$3m	(164)
Forward foreign currency contracts in hedging relationships	$103m	1,581	$107m	(4,212)
Closing balance at 31 December	**$103m**	**1,581**	**$110m**	**(4,376)**

The maximum length of time over which the Group hedges exposure to the variability in future cash flows for forecast transactions is 18 months (2020: 18 months).

Gains and losses transferred from the cash flow hedging reserve to the income statement included a GBP4,186,000 loss (31 December 2020: GBP2,985,000 loss) transferred to administration and general expenses including taxation.

The amount is allocated as follows: Bonus expense GBP864,000 loss (31 December 2020: GBP1,435,000 loss); payroll expense GBP1,779,000 loss (31 December 2020 GBP706,000 loss); supplier payments GBP1,543,000 loss (31 December 2020: GBP844,000 loss). Hedge ineffectiveness was GBPnil (2020:GBPnil).

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

17. Cash deposits

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

18. Cash and cash equivalents

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

Notes to the consolidated financial statements

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19. Investments at fair value

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

	At 31 December 2021	At 31 December 2020
Investments held as FVTOCI	77,813	80,248
Total	**77,813**	**80,248**

20. Trade and other payables

	At 31 December 2021	At 31 December 2020
Accruals	(32,667)	(34,130)
Deferred income	(4,890)	(7,183)
Trade payables	(3,117)	(6,653)
Taxation and social security costs	(2,092)	(2,785)
Other payables	(2,034)	(1,688)
Total	**(44,800)**	**(52,439)**

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 2021	At 31 December 2020
US Federal tax	(2,357)	(715)
US State tax	(1,279)	–
Swiss Federal tax	(26)	–
Total tax liabilities	**(3,662)**	**(715)**
UK Corporation tax	2,057	2,492
US City tax	1,760	508
US Federal tax	4,818	–
US State tax	1,056	1,533
Total tax assets	**9,691**	**4,533**
Net tax assets	**6,029**	**3,818**

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 2021	At 31 December 2020
Deferred compensation	(6,822)	(4,611)
Total	**(6,822)**	**(4,611)**

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

23. Lease liabilities

	31 December 2021	31 December 2020
Lease liabilities – Office equipment	(184)	(372)
Lease liabilities – Property	(11,503)	(13,572)
Total lease liabilities	**(11,687)**	**(13,944)**

24. Share capital

Authorized	No. ordinary shares CHF1,400 each	Total nominal value CHF000
31 December 2021	**350,997**	**491,396**

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

Allotted and fully paid	No. ordinary shares CHF1,400 each*	Total nominal value CHF000	Total nominal value GBP000
31 December 2021	**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 2020	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 has 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 at April 2002	**CLS UK Intermediate Holdings Ltd.**	**CLS Group Holdings AG**
Share capital	205.6	99.9
Share premium	11.0	–
Merger and consolidation reserve	–	116.7
Retained losses	(111.0)	(111.0)
Total equity	**105.6**	**105.6**

	Merger reserve	Consolidated reserve	Total
Balance at 1 January and 31 December 2021	**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 2021	31 December 2020
Contracted for but not provided for:		
– Services agreement	278,085	129,572
– Acquisition of intangibles	14,973	17,700
– Other	30,395	35,626
Total	**323,453**	**182,898**

27. Contingent liabilities

There are no contingent liabilities at 31 December 2021 (2020: 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 2021, the largest individual shareholder had 4.8% (2020: 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 2021	31 December 2020
Short-term employee benefits (USD)	2,443	1,993
Total (USD)	**2,443**	**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 Capital Management policy is approved by the Board and is reviewed by the AFC on an annual basis.

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

1. Market risk

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

I. Foreign currency risk

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

II. Interest rate risk

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

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

2. Credit risk

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

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 2021		31 December 2020	
	Book value	**Fair value**	**Book value**	**Fair value**
Financial assets				
1. Other investments	260	260	129	129
2. Loans and receivables:				
Trade and other receivables	29,450	29,450	29,634	29,634
Derivative financial instruments	1,581	1,581	–	–
3. FVTOCI investments	77,813	77,813	80,248	80,248
4. Deposits, cash and cash equivalents	99,770	99,770	99,058	99,058
Total financial assets	**208,874**	**208,874**	**209,069**	**209,069**
Financial liabilities				
5. Financial liabilities at amortized cost:				
Trade and other payables	(44,800)	(44,800)	(52,439)	(52,439)
6. Derivative financial instruments	–	–	(4,376)	(4,376)
7. Other liabilities	(6,822)	(6,822)	(4,611)	(4,611)
Total financial liabilities	**(51,622)**	**(51,622)**	**(61,426)**	**(61,426)**

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 2021			
	Level 1	Level 2	Level 3	Total
Financial assets				
Investment in SWIFT (Note 13)	–	–	260	260
FVTOCI investments	38,630	39,183	–	77,813
Derivative financial instruments	–	1,581	–	1,581

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

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 USD103 million (2020: USD110 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 2021				
Pound sterling	67,919	2,500	72,999	143,418
US dollar	3,418	12,788	4,814	21,020
Swiss franc	2,146	–	–	2,146
Other currencies	10,999	–	–	10,999
Total deposits, cash and cash equivalents	**84,482**	**15,288**	**77,813**	**177,583**
Fixed rate assets	–	15,288	77,813	93,101
Floating rate assets	81,064	–	–	81,064
Balances for which no interest is paid	3,418	–	–	3,418
Total deposits, cash and cash equivalents	**84,482**	**15,288**	**77,813**	**177,583**
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**

The effective interest rate on the average daily closing balances is 0.05% (2020: 0.28%).

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 0.20% or nil (2020: 0.43% or 0.13%). Profit for the year ending 31 December 2021 (assuming the same closing balance values for one year) would increase or decrease by GBP266k (2020: increase or decrease by GBP268k).
- 20 basis points higher or lower and all other variables had been constant then the effective interest rates would have been 0.25% or nil (2020: 0.48% or 0.09%). Profit for the year ending 31 December 2021 (assuming the same closing balance values for one year) would increase or decrease by GBP178k (2020: increase or decrease by GBP357k).

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 2021, GBP weakened 0.7% against the USD and strengthened 2.6% against the CHF. The led to an unrealized gain on exchange of GBP0.2 million (2020 GBP1.1 million unrealized loss) on GBP/USD and a loss of GBP47k (2020: GBP120k gain) on GBP/CHF respectively.

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

	At 31 December 2021	At 31 December 2020
US Dollar	5,297	8,962
Swiss Franc	532	814
Total	**5,829**	**9,776**

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 21 April 2022 being the date that the financial statements were available for issue by the directors and signed on their behalf by the Chief Executive Officer and the Chair.

Following the application of various sanctions relating to Russia by a number of countries in the first quarter of 2022, CLS has experienced a greater level of trading volume. CLS does not have any Settlement Members or other direct participants who are Russian banks.

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		2021	2020	2019	2018	2017
Revenue for the year	GBPm	237.9	212.5	207.8	206.1	197.5
Operating expenses (Reported basis)	GBPm	254.9	232.6	237.9	234.4	172.9
(Loss)/profit from operations	GBPm	(17.0)	(20.1)	(30.2)	(28.4)	24.6
Total (loss)/profit for the year (Reported basis)	GBPm	(8.3)	(15.4)	(28.3)	(18.5)	15.8
Total assets at year end	GBPm	383.9	407.4	417.7	457.7	469.3
Total equity	GBPm	313.3	322.8	338.1	376.0	389.1
Daily average settled values	USDtr	6.2	5.9	5.9	5.9	5.2
Average revenue per USD million settled	GBP	0.13	0.12	0.12	0.12	0.13
Daily average billable volume	Number of sides	972,000	1,052,000	1,007,000	891,000	779,000
Average revenue per instruction	GBP	0.82	0.67	0.70	0.77	0.86
Average monthly number of employees in year	No.	534	500	409	374	341
Number of shareholders at year end	No.	79	79	79	79	80
Number of members at year end	No.	74	74	72	71	67

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