CLS Group Holdings AG

Annual Report & Consolidated Accounts 31 December 2022

Twenty years of trusted market solutions within the global FX ecosystem, CLS makes FX safer, smoother and more cost effective.

20

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The FX market continues to navigate a period of uncertainty driven by geopolitical and macroeconomic challenges. The FX market saw record values throughout most of the year, driven by rapid inflation, rising energy prices and ongoing interest rate uncertainty.

253

GBP million

Revenue for the year

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 achieves a 99% reduction in funding requirements.

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

30,000+

third-party participants

70+

settlement members

18

of the most actively traded currencies globally

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

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

- Celebrated 20 years of service to the FX market and the ongoing delivery of our mission to minimize systemic risk while improving funding and operational efficiency.
- Reduced operating expenses by GBP10 million year-on-year.

Improve

- Maintained our commitment to ongoing improvements to the resilience of our services – across our infrastructure, controls and cybersecurity – to ensure we continue to maintain optimum levels of resilience.
- Strengthened our financial position with a return to profitability in 2022 and year-on-year capital growth.

Grow

- Strong year-on-year performance across our services.
- Exponential growth in CLSNet, as more users joined the service, exceeding the USD100 billion daily notional netted barrier for the first time in August 2022.
- A year-on-year increase of 60% in terms of values of cross currency swap trades processed in Q4 2022.
- Steady year-on-year revenue growth in our CLSMarketData and CLSTradeMonitor products.

Financial highlights

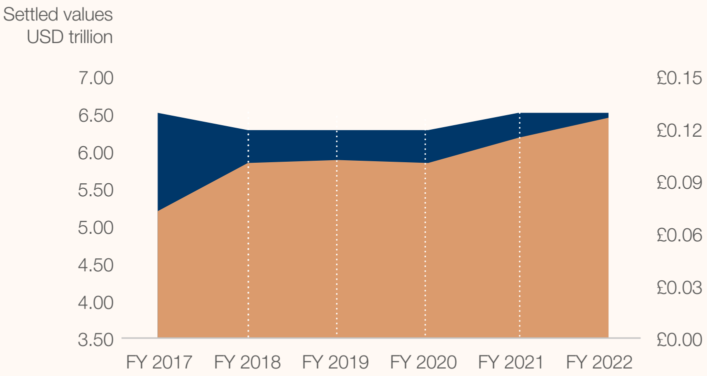
		2022	2021
Revenue for the year	GBP million	**253.3**	237.9
Operating expenses	GBP million	**244.9**	254.9
Profit/(loss) from operations	GBP million	**8.4**	(17.0)
Total profit/(loss) for the year	GBP million	**13.4**	(8.3)
Total equity	GBP million	**329.0**	313.3
Capital resources	GBP million	**202.1**	177.6
Daily average settled value*	USD trillion	**6.5**	6.2
Daily average billable volume**	Number of sides	**1,158,000**	972,000
Average revenue per USD million settled	GBP	**0.13**	0.13
Peak value day (settled)	USD trillion	**15.0**	15.4
Peak volume day (settled)	Number of sides	**2,756,000**	2,111,000
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



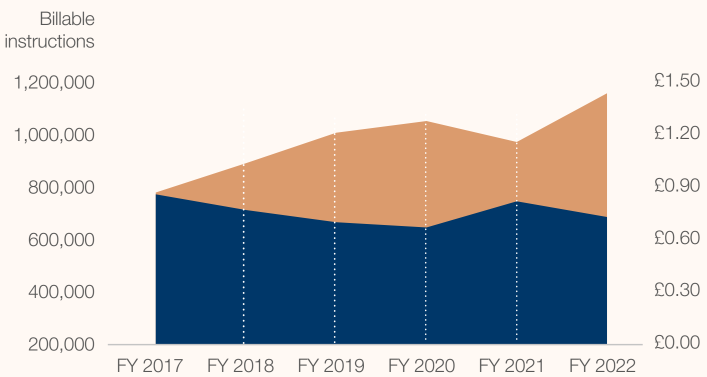
Settlement values

Average daily value at USD6.5 trillion increased 5% in 2022 compared to 2021.

Average revenue per USDm settled

Average daily settled value

Average daily billable volume

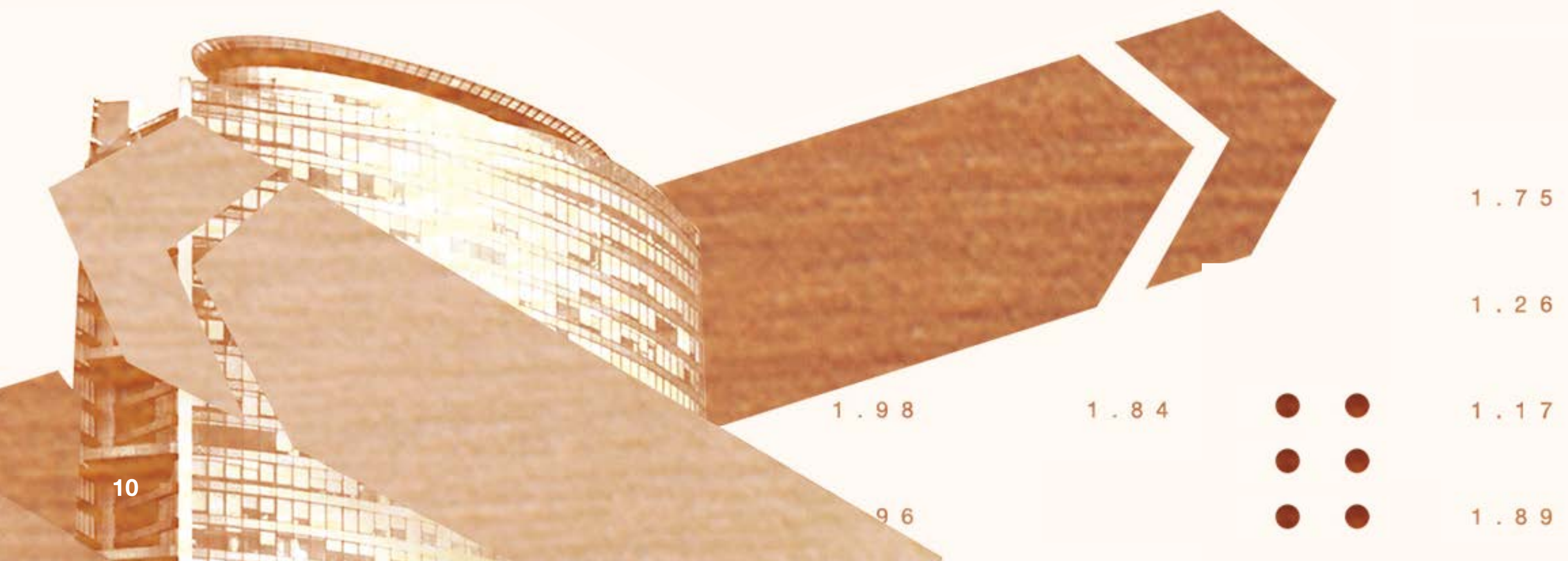


Input volumes

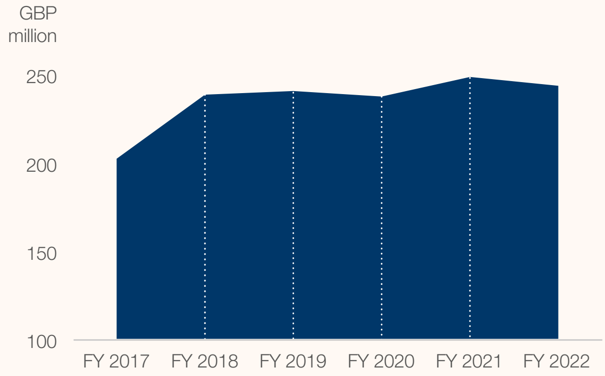
Average daily settled volumes in CLSSettlement increased by 19% in 2022 compared to 2021.

Average revenue per instruction

Average daily billable volumes



Operating expenses

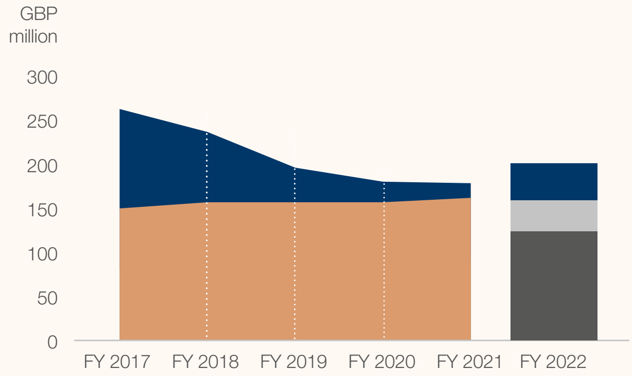


Operating expenses

Operating expenses decreased by 4% in 2022 due to cost savings and lower amortization charges.

Reported expenses

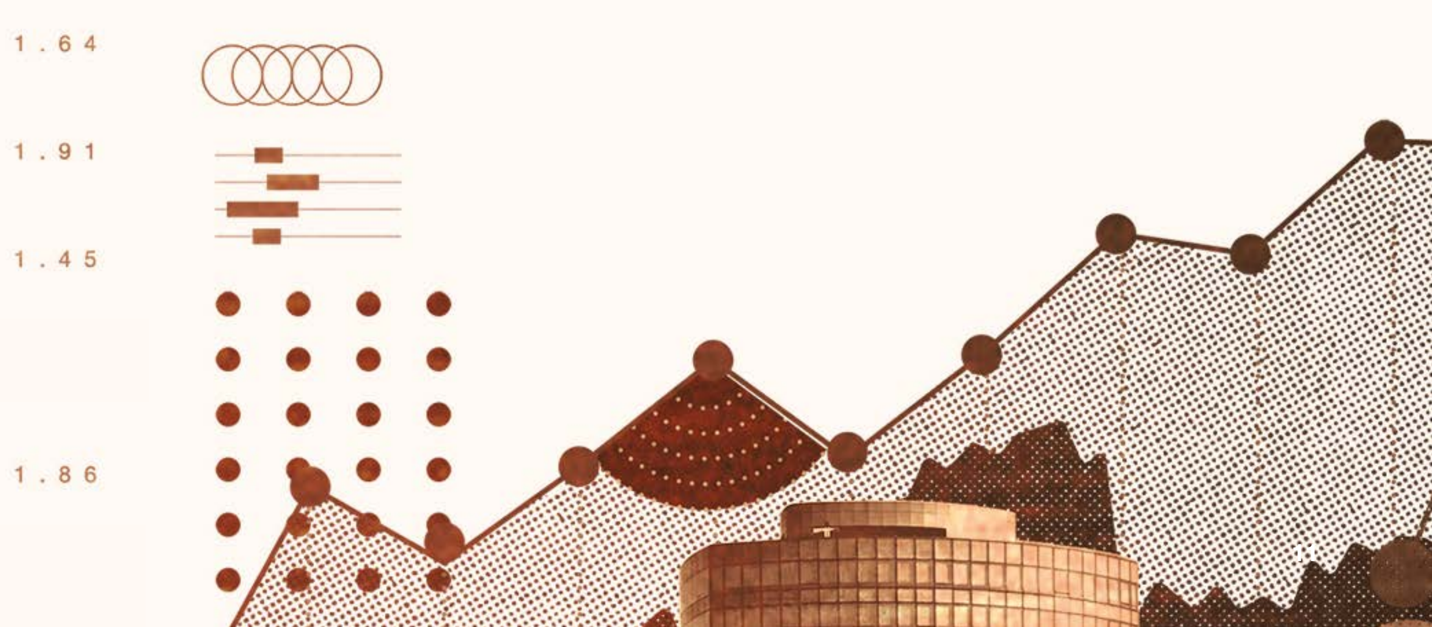
Capital resources



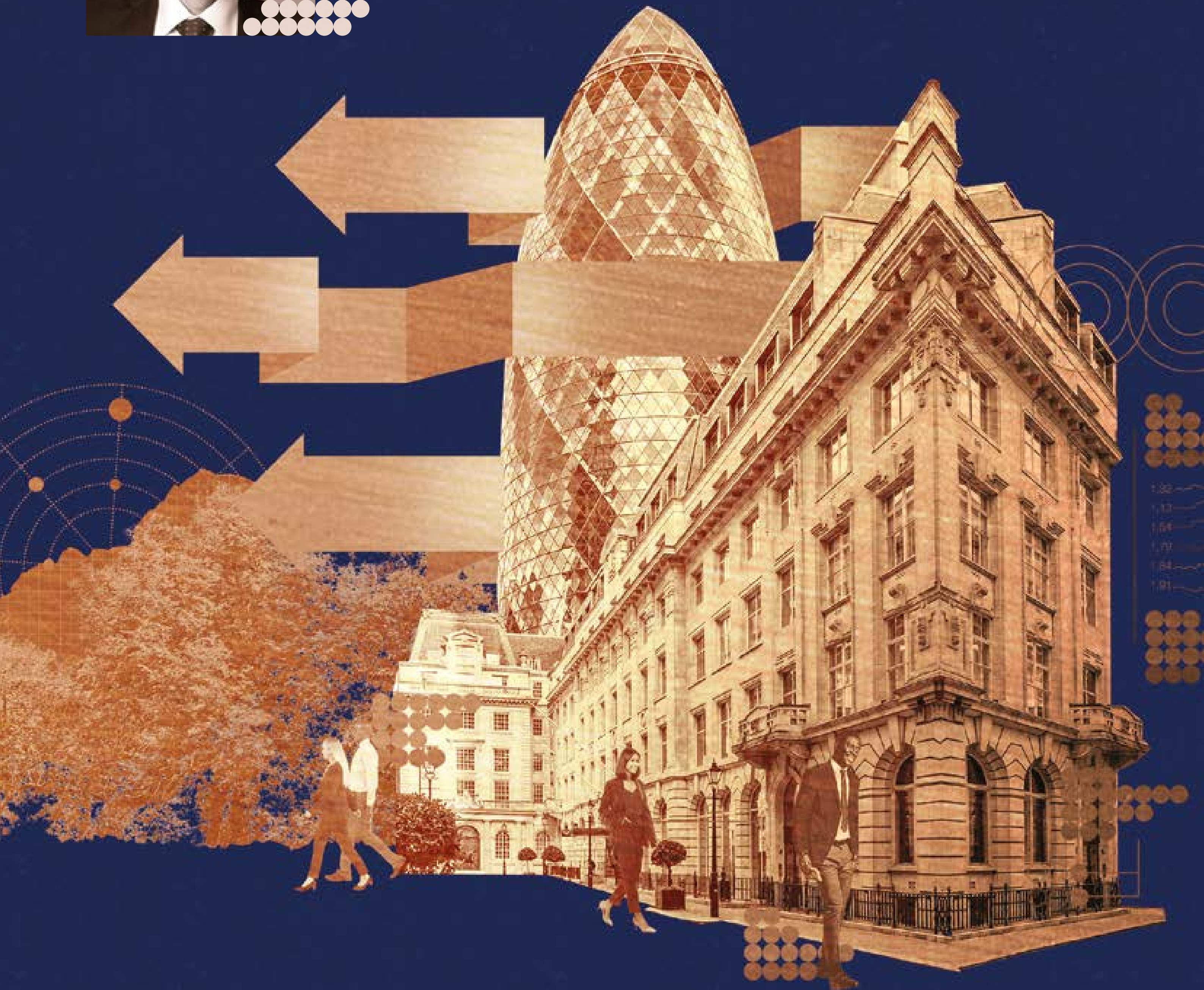
Capital resources

Capital resources increased from GBP178 million to GBP202 million at the end of 2022, with a year-on-year increase in available capital.

Available capital
Risk and working capital
Working capital
Risk capital



Chair's statement
Gottfried Leibbrandt



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.

2022 was a defining year for CLS. It marked 20 years of service to the FX market, 20 years of risk mitigation, 20 years of maximizing liquidity and 20 years of delivering operational efficiency – all for the good of the FX ecosystem.

The FX market continues to navigate a period of considerable uncertainty driven by broader geopolitical tensions and increasing macroeconomic challenges. Regulation, rising interest rates and shrinking central bank balance sheets are having a material impact on liquidity, and market participants are looking for ways to optimize that liquidity and further mitigate market and operational risk. This, if anything, has reinforced the importance of critical financial market infrastructures like CLS to continue their mission and deliver financial stability. We remain true to our purpose: strengthening resilience and efficiency in the FX ecosystem through global oversight and mutual ownership.

In addition, settlement risk continues to be an area of discussion and debate among FX market participants. Despite the growing number of financial institutions choosing to settle their FX trades through CLSSettlement, there is growing concern by policy makers and market participants that settlement risk remains high – in particular for those currencies not in CLSSettlement. We support the industry's push for further adoption of PvP settlement mechanisms and are engaging with our clients and the broader market in a search for credible solutions to address settlement risk in currencies not eligible for CLSSettlement.

In the meantime, we continue to encourage the use of CLSSettlement for the 18 settlement-eligible currencies, and of CLSNet, our bilateral payment netting calculation service, for those currencies that are not. While we saw record volumes for both services throughout the year, the most significant growth was in CLSNet, where the average daily value of net calculations increased 328% year-on-year during 2022. As more participants are onboarded onto the service, we expect volumes to increase further throughout 2023 and 2024.

The successful delivery of these services requires resilience above all else – across our infrastructure, controls and cybersecurity. I see this as an area of absolute focus for the organization, and one in which we will continue to invest significant time and financial resource. There is a need for ongoing investment in our technology, operations, risk management practices, controls, people and product enhancements to ensure we continue to deliver services that meet the standards of resilience expected of a critical market infrastructure. While we still have a significant investment program in play, our financial performance was marked by a return to profit for the full year. This was thanks to a combination of increased product revenue, strong cost control, and a reduction in amortization charges compared to previous years.

Finally, I would like to take this opportunity to thank our departing Board members: Vidya Bittianda, David Gary, Michael Lawrence, Dominique Le Masson, Bryan Osmar, William Stenning, Fabrizio Tallei, Ronnie Yam and of course my predecessor Ken Harvey for the support they have provided to me, the Board, the Executive Management Committee and the broader team through their collective insight and deep understanding of the ecosystem in which we operate. Please join me in wishing them every success in their future endeavors.

As CLS evolves to meet market challenges, I look forward to continuing to work with my Board colleagues and the Executive Management Committee to support our clients through the delivery of secure, stable and resilient services.

Gottfried Leibbrandt
Chair of the Board

Chief Executive Officer's report
Marc Bayle de Jessé

2022 was a year in which we strengthened our financial position while continuing to invest heavily in our organization at a crucial moment in CLS's history.

Part of our commitment to delivering trusted services to our clients and the market is to ensure we continue investing in the resilience of our services, and across our infrastructure, controls and cybersecurity. This is by no means a new concept for us – a highly resilient operating model has always been fundamental to our role at the center of the FX market. We are committed to ongoing improvement and have identified several enhancements to ensure we maintain optimum levels of resilience. This has culminated in an ongoing program of work across our technology and operations functions, as well as the engagement and support of our settlement members to ensure they have taken all the necessary measures to protect themselves as part of the broader CLS ecosystem.

As we close the year we can reflect on both our strong financial performance and on our broader contribution to the FX ecosystem, which over the last two decades has seen FX market turnover grow by a factor of five since we launched CLSSettlement in 2002. I believe CLS has been a key contributor to that growth, both from a settlement risk mitigation perspective and also with regard to the liquidity and operational benefits we provide.

As the market continues to evolve, our role in mitigating settlement risk becomes increasingly important. The value of our services lies in the network effect and our position at the center of the FX ecosystem. The more participants who access our services, the more all parties benefit. At launch, 39 members had direct access to CLSSettlement, today we have over 70 members and more than 30,000 third parties who use our service.

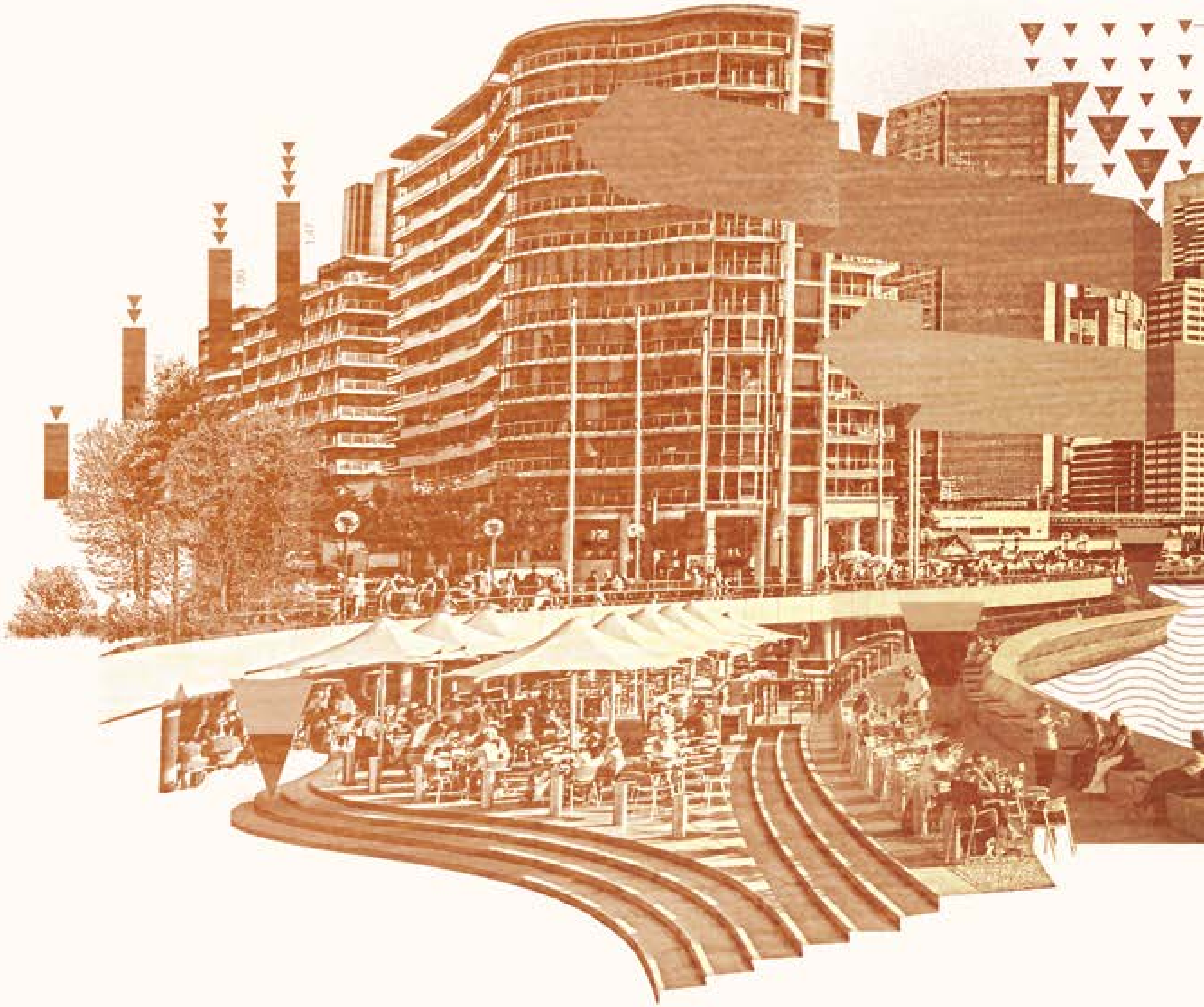
When it comes to expanding settlement risk mitigation more generally, in recent years both regulators and industry participants have become increasingly concerned about the level of FX settlement risk across the market. Our own independent analysis of some of our settlement members' book of transactions has shown that while CLSSettlement is extremely effective and addresses the large bulk of settlement risk across the 18 currencies we settle (an estimated 90% plus of eligible transactions for CLS PvP are going through our main settlement service*), there remains a proportion of FX transactions that are not settled on a PvP basis, notably from trading in emerging market currencies. Given the current macroeconomic and geopolitical environment, it is no surprise that there is a heightened focus on overall risk management in cross-border payments as both the public sector and market participants call for greater adoption of PvP mechanisms to mitigate the rise of settlement risk.

The reality of expanding PvP adoption to address this risk poses some extensive macro challenges. As a systemically important financial market infrastructure, we at CLS must ensure that the infrastructure supporting global financial markets is robust and able to withstand financial shocks.

Adding new currencies to CLS is an extended effort subject to several complex factors, particularly the necessity of verifying that critical legal risk and liquidity standards are met in the jurisdiction whose currency is onboarded. However, we believe there are opportunities to address this risk in ways other than expanding the reach of CLSSettlement, and to this end we are exploring several options for extending our bilateral payment netting calculation service – CLSNet – to support emerging market currencies. Despite the challenges involved, this service already goes some way to addressing the operational risk associated with trading emerging market currencies.

As with all industry-wide initiatives, including the original development of CLSSettlement, the delivery of trusted market solutions to address the remaining FX settlement risk will take time to define and implement.

*Excluding inter group trades or trades where either settlement occurs via single currency cashflow or over accounts within the banks' direct control.

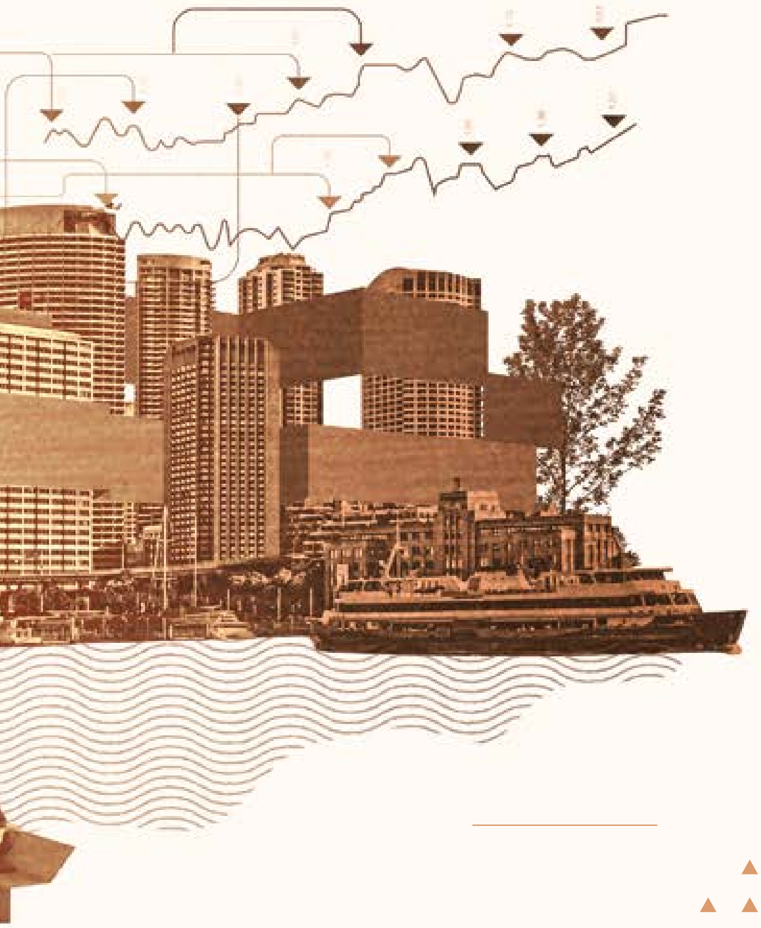


Progress in this area does not result solely from strong industry cooperation and technology advancements – we already have the requisite technology, oversight, governance, credibility and support of our members. Instead, progress will result from capitalizing on a stronger private-public sector partnership to overcome external barriers and obstacles to expanding PvP coverage.

Operating within the context of market instability due to current macroeconomic conditions, the importance of the services we currently provide is clear. This is reinforced by our operational performance throughout 2022, in which we witnessed a sustained period of growth in volumes and values in both CLSSettlement and CLSNet.

In financial performance terms this translated into a revenue increase of 6% year-on-year. While revenues largely arise from CLSSettlement, CLSNet activity is growing. In 2022 it grew exponentially, exceeding the USD100 billion daily notional netted barrier for the first time in August 2022, as new participants were onboarded to the service and active usage increased. We welcomed MUFG Bank, the first Japanese bank to commit to using CLSNet. In doing so, MUFG joined the expanding CLSNet community, which now includes eight global banks. As the global network continues to grow, participants will benefit from the expanding range of netting counterparties, as well as the improvements to liquidity optimization, operational efficiencies and the risk mitigation benefits of the service.

Other CLS services continued to see an increase in uptake, with our cross-currency swaps (CCS) service experiencing continued growth during 2022. We also broadened the reach of the service by adding SwapAgent as another submission channel. This gives settlement members the flexibility to use either SwapAgent or MarkitWire to submit their CCS trades to CLSSettlement, providing greater ease of use and access to the service. CLSMarketData saw strong growth year-on-year with the release of three new datasets to further support our clients' needs and provide greater insight into FX market dynamics.



6.5
USD trillion
Daily average settled value

From a cost management perspective, we remained focused on strong management of our overall cost base. Operating expenses were down GBP10 million year-on-year (4%), in part helped by a concerted effort by management to identify savings across the business. Overall, 2022 financial performance heralded a return to profitability with a profit before tax of GBP9.2 million for the year. We will continue to focus on financial prudence and retain a capital position well in excess of regulatory requirements.

As we look to 2023, our focus will be on delivering our services effectively and seeking opportunities to continue enhancing our core value proposition. This includes driving uptake in our services, investing in our infrastructure, expanding the reach of our products and exploring new ways to further mitigate risk and create operational efficiency, while delivering the highest levels of service quality and resilience across our entire product set.

Marc Bayle de Jessé
Chief Executive Officer

Chief Financial Officer's report
Trevor Suarez

9.2
GBP million
Profit before tax for the year

Against a backdrop of market instability, geopolitical challenges and significant inflationary pressures, I am pleased to report a return to profit in 2022, with a profit before tax of GBP9.2 million.

From a financial perspective 2022 was a strong year for CLS, returning a profit before tax of GBP9.2 million (compared to prior year losses of GBP17.6 million) and an increase in cash and investment balances to GBP202 million as at the end of 2022 (December 2021: GBP178 million). Overall our financial performance was underpinned by strong levels of CLSSettlement activity, a decrease in operating costs and careful management of our balance sheet.

Revenue of GBP253.3 million in 2022 represented an increase of GBP15.4 million compared to 2021. CLSSettlement continued to be the most significant contributor to overall revenue, underpinned by strong growth in payment instruction volumes and average daily settled values increasing from USD6.18 trillion in 2021 to USD6.46 trillion in 2022. Overall, third-party participant numbers in CLSSettlement continued to increase throughout the year, with more than 30,000 third-party participants now using the service. We remain focused on engaging the asset manager community, who continue to diversify their global assets and adopt FX as an important part of their portfolio management.

Outside of CLSSettlement, our other services saw good year-on-year progress. Though revenues remain small in relation to CLSSettlement, CLSNet, our bilateral payment netting calculation service, saw a substantial rise in adoption in 2022, with a significant year-on-year increase in average daily notional of net calculations. This increased demand for the service aligns to one of our key objectives: to help market participants address the risks associated with post-trade processing and settlement of currencies not eligible for CLSSettlement.

Uptake of our other products also increased strongly throughout the year; in our CCS service we saw a year-on-year increase of 60% in terms of values of trades processed in Q4 2022, as well as steady year-on-year revenue growth in our CLSMarketData and CLSTradeMonitor products.

On the expenses side, our operating expenses for 2022 reduced by GBP10 million. This was driven by several factors, including cost savings across the business and lower amortization costs, following completion and go-live of our Convergence program. While we continue to look for ways to improve efficiency during 2022, we recognize the importance of ongoing investment. Notably, we continued to invest in strengthening our critical infrastructure, resilience and governance and controls across all our activities.

Additionally, after several years of low interest rates, 2022 saw a return to small levels of investment income earned from our cash and investment portfolio. While interest rates remain higher, we should expect a continued return from our portfolio.

From a balance sheet perspective, our capital strength, measured in terms of cash and investments, grew year-on-year, despite significant ongoing investments in the business. Following the completion of our Convergence program, overall investment fell from amounts seen in prior years.

Given the long-term benefits of this project, this specific investment is held on our balance sheet and amortized each year. In contrast, in 2022, given the nature of our initiatives, we have charged much more of our financial investment directly to the profit and loss account than in previous years. As a result, we booked a lower level of balance sheet additions in 2022. Combined with ongoing amortization, this led to a reduction in the level of intangible assets compared to the previous year.

During 2022, we also further enhanced our Risk Capital Management framework and methodology, integrating different related activities under one approach. As a result, we have developed a framework and

202
GBP million
Capital Resources

methodology that is better aligned to the potential risks we may face, and as such we will hold a more defined and specific level of 'risk capital' to absorb the potential financial impact of operational risks. This capital will by design include at least the minimum level of capital, as required by regulations, and will also include an additional amount as determined by the CLS Board each year, after careful evaluation of the CLS risk profile. At the end of 2022, we held capital which fully met our risk capital requirements, and after allowing for day-to-day working capital requirements, we held available capital to support our strategic objectives, and if needed to provide further protection to potential operational loss events.

With a strong financial performance in 2022, combined with the strengthening of our balance sheet and an updated Risk Capital Management framework, we closed 2022 in a strong financial position.

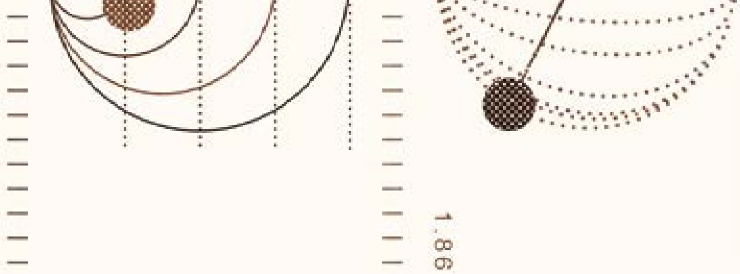
In 2023, we will maintain ongoing, and further investment in our risk management practices, cyber security and governance and controls, to deliver the level of resilience expected of a critical financial market infrastructure. We will do this in a measured manner and will pursue these objectives ensuring we have the financial stability and maintain a strong capital position at all times.

All these efforts are fundamental to improving our business, protecting CLSSettlement and maintaining our reputation as the trusted financial market infrastructure at the center of the FX ecosystem.

Trevor Suarez
Chief Financial Officer

Chief Risk Officer's report
Deborah Hrvatin

It is our mission and mandate to mitigate FX settlement risk and take a rigorous approach to risk mitigation for the benefit of the entire FX ecosystem.



As we reflect on this past year's financial and operational performance, we should also take this opportunity to look back at the risks we have faced and how we have managed them.

The past year has been eventful, both for global markets as a whole and for CLS in particular. We have faced increasing market volatility and uncertainty as well as various other challenges across the industry, including heightened geopolitical and cybersecurity risks. As a systemically important financial market infrastructure (FMI), our role at CLS is to reduce risk to as low as reasonably practicable, both for our members and our own internal operations. Despite these industry challenges, we have continued to deliver our critical services to ensure the safe and efficient functioning of FX markets.

To fulfill our mandate as a global FMI, we at CLS must rely heavily on sophisticated and flexible risk management practices which can adapt to risks stemming from fluctuations in the financial markets. During the year, we continued to enhance our risk management frameworks, policies and procedures to ensure they remain effective in identifying, assessing and managing risks. We also strengthened our risk culture and continue to work with our key stakeholders, in particular, to enhance risk awareness as it relates to the resilience of CLSSettlement. It is our mission and mandate to mitigate FX settlement risk and take a rigorous approach to risk mitigation for the benefit of the entire FX ecosystem.

Our risk management framework is based on a robust and integrated approach which considers all relevant risks, including credit, market, liquidity, operational, legal, compliance and reputational risks. We apply a risk-based approach to identify the most material risks and develop appropriate mitigation strategies. Our risk appetite framework guides our risk-taking decisions and ensures that CLS operates within appropriate risk tolerance levels.

Noteworthy risks we managed during the year include:

- Cybersecurity Risk: The cyber threat environment is evolving rapidly with attacks becoming more frequent and sophisticated. Robust cyber defenses to reduce the likelihood of a successful attack are at the forefront of our cybersecurity program. We have taken various measures to mitigate this risk, including frequent cybersecurity assessments, vulnerability testing and staff training.
- Operational Risks: Operational risks are a key focus area for the organization and range from risk of data corruption and system disruption to third party risk as an example. In order to combat these risks, we have enhanced our third party risk framework, matured our Data Governance Office and have further strengthened our Resilience Program, which will enhance and strengthen our capability in all areas of operational risk.
- Credit Risk: CLS faces exposure to participant credit risk as it relates to their ability to meet CLSSettlement obligations. In 2022, we secured regulatory approval and implemented several enhancements to our internal credit rating model, strengthening our ability to identify, measure, monitor and control credit risks relating to CLSSettlement.
- Model Risk: We also completed enhancements to our Model Risk Management framework, including updating all model documentation and model performance plans and improved Management and Board reporting on model risk. This is a core component of the organization's risk management regime and it contributes to our culture of effective challenge through rigorous examination of our core models.
- Compliance Risk: We remain fully compliant with prudential regulations and are further enhancing the firm's compliance risk management framework, which seeks to align regulation to specific risks and controls. This work will continue in 2023.

In conclusion, I would like to thank our stakeholders for their continued support and cooperation in managing these risks with us. We remain committed to maintaining a strong risk management framework and ensuring the safe and efficient functioning of our markets.

Deborah Hrvatin
Chief Risk Officer

Environmental, Social and Governance report

The organization has a renewed focus on its social and environmental impact on the planet.

We have an obligation to manage our organization in ways that are socially responsible and help to create a sustainable environment and, to this end, 2022 saw continued focus on environmental, social and governance (ESG) practices.

To help with our ESG profile, gap analysis and communication strategy, we engaged a leading ESG assessment and advisory service that specializes in developing strong, proportionate and educational sustainability plans. As a starting point we completed a detailed assessment of our current ESG positioning, which provided a solid benchmark against which to measure our actions.

Our people are our most critical asset and play a central role in bringing this to life. With this in mind, we also asked all permanent colleagues to take part in an ESG survey, establishing an essential feedback loop and laying the foundation for a stronger community, committed to further action. We were thrilled at the participation rate and at the willingness of so many to be further involved. The feedback has been extremely useful, offering up ideas for improvement and suggestions for fresh action.

As an employer, we are conscious that, 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 whose values do not align with their own, or that fails to provide the support and flexibility to live a balanced life. In 2022, this manifested itself in continued high levels of activity in the recruitment market, with candidates seeking employment opportunities from companies that offer a strong employee value proposition and clear sense of purpose.

We remain committed to making CLS a great place to work and 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.

Our focus on Diversity, Equity and Inclusion (DEI) has evolved, with the introduction of a new affinity group – the Parents & Caregivers Network – joining our Women's Forum, Black Employee Network and CLS Pride. These groups are employee-led, with support and sponsorship from senior leaders via the recently established CLS Diversity Council, which oversees all activity in this area and helps to facilitate positive developments to our culture through measurable goals and accountability. The various groups offer opportunities for connectivity between people across teams and regions, while also providing essential channels for their voices to be heard. As a result, our colleagues have access to a calendar of activities that mark and celebrate events including International Women's Day, Black History Month, Pride and a wide range of cultural festivals and holidays.

We have maintained a relentless focus on employee wellbeing that builds on our response to the pandemic and the adoption of hybrid working – as evidenced by CLS being placed third in the Britain's Healthiest Workplace initiative, run by Vitality. In addition to our Employee Assistance Program, our network of health and wellbeing champions oversee a range of supporting activities. Every month, we issue a 'Pulse Check' survey to gauge mood and morale and to gather feedback from employees on specific issues that might be affecting them. This feedback has led to the delivery of a range of initiatives, including the repositioning of sick days as health days – a more proactive and inclusive approach to encouraging people to look after their wellbeing. We continue to issue monthly health and wellbeing guidance and goals, and in 2022 were pleased to introduce a network of mental health first aiders from within our own colleague community.

Externally, 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 a number of local charities and with the easing of public health restrictions have seen an increase in the level of in-person volunteering by colleagues to support good causes.

As a result of our ongoing focus on providing a strong employee value proposition, we achieved a 92% favorability rating in our annual employee engagement survey, with 97% of respondents saying they would recommend CLS as a place to work.

Our position at the center of the FX market means we have a unique network of relationships and we will continue to engage with our industry partners to ensure we are all holding ourselves to the highest environmental standards, as we believe real results are achieved when each enterprise takes responsibility to address its own emissions and improve energy efficiency.

We will continue to build on our successes in these areas with improved coordination and consolidation of activity, organizing all facets of ESG participation into a more structured format. This will include setting goals and targets based on the areas of improvement we have identified, and will continue to be informed by developments in the ESG industry to guide us on future action.

D Hrvatin

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 2022. 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 profit after interest and tax of GBP13.4 million, compared to a loss of GBP8.3 million in 2021. Net assets of GBP329.0 million (2021: GBP313.3 million). No dividend is recommended for the year (2021: 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 2023 budget year and long-term business plans, that sufficient funds will be available in the business for the foreseeable future.

Strategy

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

In addition to reinforcing and refining its operations, the focus of CLS's strategy in 2023 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.

> "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

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

Internal controls

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

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

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

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

Executive management

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

Regulatory affairs

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

Governance

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

Capital structure

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

Directors and their interests

The Directors who served during the year are listed on pages 38 to 40.

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

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

Auditors

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

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

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

On the recommendation of the AFC, to comply with governance policy, the Board approved the submission of a proposal to shareholders for the reappointment of KPMG AG as the Independent Auditor for CLS Group Holdings AG and the reappointment of KPMG LLP as the Independent Auditor for the Group's subsidiaries at the Annual General Meeting of Shareholders to be held on June 6, 2023. By order of the Board.

Gottfried Leibbrandt
CLS Group Holdings AG
Chair
25 April 2023

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

The Directors have prepared the financial statements in accordance with the requirements of Swiss law, International Financial Reporting Standards (IFRS) and the Company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the given circumstances.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS.

However, Directors are also required to:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and;
- Make an assessment of the Group's ability to continue as a going concern.

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

Overview

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

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

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

Governance statement

At the CLS Group Holdings AG Annual General Meeting, shareholders elect Directors to the Board, approve the Group's financial statements, approve the engagement of an independent auditor and undertake any other business reserved for the shareholders. The elected Board of Directors is responsible for the oversight of the Group on behalf of its shareholders.

The Board is committed to maintaining an open dialog with individual shareholders and the shareholder community as a whole. Shareholders are invited to contact the Chair of the Board directly or the Company Secretary by using the following email: ShareholderCommunications@cls-bank.com

Board of Directors

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

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

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

The Board held meetings on fourteen days in 2022, seven of which were convened in person. Board Committees meet regularly, as needed, to fulfill their chartered responsibilities. In addition to its meetings, the Board receives regular communications from the Chair regarding industry or regulatory developments and from the Chief Executive Officer regarding business matters for the Group.

Board leadership and composition

As of 31 December 2022, the Board was comprised of twenty Directors. CLS shareholder institutions are represented by twelve Directors, with eight Outside Directors. Given CLS's global reach, we have a culturally diverse Board with a large range of different professional experiences. We continue to focus on increasing gender and ethnic diversity at Board level, recognizing the importance of reflecting the diverse ecosystem in which we operate.

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

In addition, the Group's constitutional documents mandate that the roles of Chair and Chief Executive Officer be separated in order to enhance the ability of each to discharge his or her respective duties effectively and as set out in the Group's constitutional documents.

The Chairs of the Audit and Finance Committee, the Nominating and Governance Committee, the Risk Management Committee and the Technology and Operations Committee are all Outside Directors.

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

The Nominating and Governance Committee and Board regularly consider and assess the size of the Board and whether it supports the Board's oversight responsibilities. Given the complex business relationships, global constituents, regulatory requirements and responsibilities related to its position as an FMI, the size of the Board is deemed satisfactory, as it provides robust resources and the appropriate skillsets to ensure the Board fulfills its oversight responsibilities.

Board remuneration

Only the Outside Directors, including the Chair, are remunerated for their services. In addition, expenses incurred by all Non-Executive Directors in fulfilling their Board responsibilities are reimbursed.

The Group is committed to attracting and retaining experienced and dedicated individuals, who will contribute to the long-term health and success of the Group. In doing so, it considers the appropriate level and structure of renumeration for the Chair and Outside Directors.

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

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

Product Development Committee

While the responsibility for the Group's strategic vision and its implementation lies with the Board, the Product Development Committee (PDC) reviews, refines and advises Executive Management regarding the Group's strategic vision, business opportunities and associated business plans and provides advice, counsel, and recommendations to the Board.

Chair's Committee

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

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, third party 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 (including compliance) of the Group.

Technology and Operations Committee

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

CLS Group subsidiaries

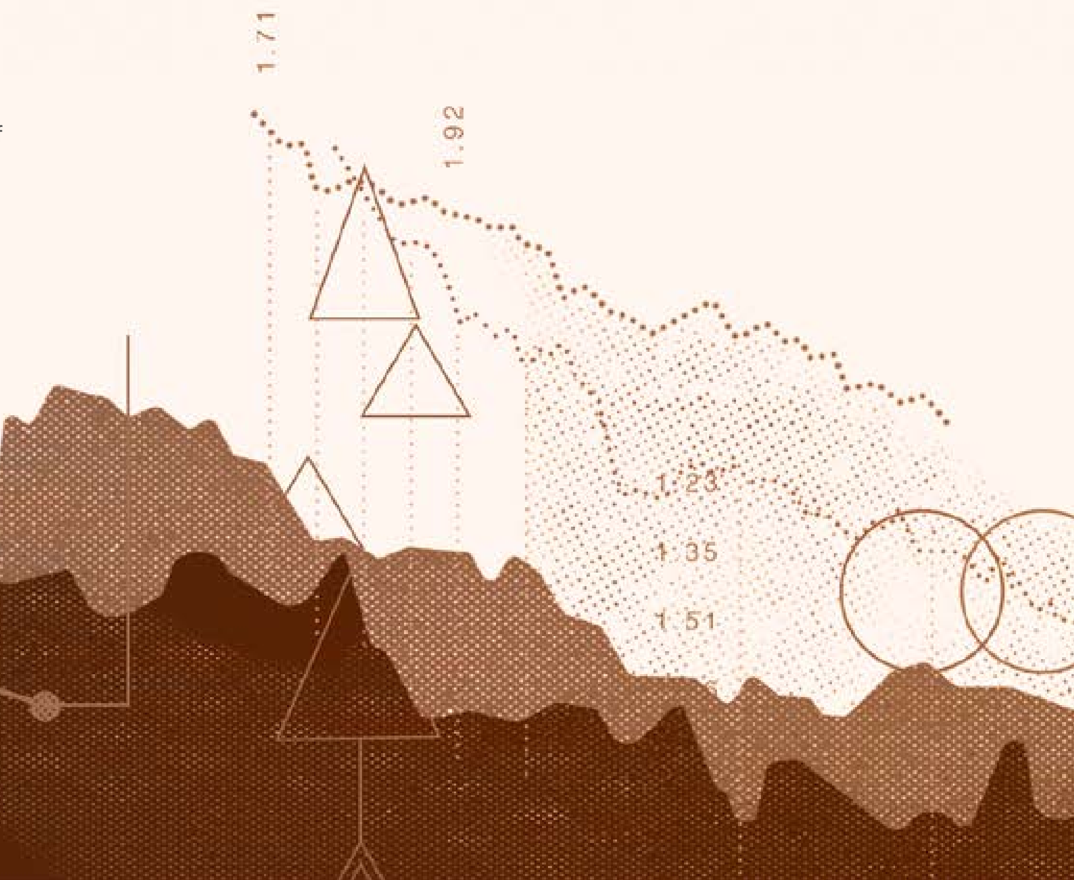
CLS Group Holdings AG, a Swiss corporation, is the parent holding company for the Group and is owned by 79 shareholders, each of whom (with limited exceptions) is a settlement member or an affiliate of a settlement member of CLS Bank International, a US Edge Act corporation. CLS Bank International provides FX-related settlement services. Additional non-settlement services are provided by other CLS Group subsidiaries.

Supervision and oversight

The Group adheres to the Swiss Code of Best Practice for Corporate Governance and laws, rules, and regulations applicable to Systemically Important Financial Market Utilities (SIFMUs), Edge Act corporations, and to bank holding companies subject to regulation and supervision by the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of New York (Federal Reserve).

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

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



CLS Group Holdings Board and Committee Composition 2022

CLS Group Holdings Board Members	CLS Group Holdings Board	Audit & Finance Committee	Chair's Committee	Nominating & Governance Committee	Product Development Committee	Risk Management Committee	Technology & Operations Committee
Total number of meetings held in 2022	14	11	9	11	4	10 †	9
Gottfried Leibbrandt*	Chair[4]		Chair[4]		•		•[6]
Michael Lawrence	Deputy Chair[4]		•			•	
Thomas Berkery*	•	Chair	•				•
Vidya Bittianda[3]	•	•				•	
Gerard Brady[2]	•						•
Brian Gallagher[1]	•						•
David Gary	•			•		•	
Kenneth Harvey[2]*	Chair[5]		Chair[5]		•		•
Peter Healey[2]	•	•					
Karen Keenan*	•	•				•	
Sheryl Kennedy*	•	•	•	•			
Ericka Leslie[2]	Deputy Chair[5]		•				
Dominique Le Masson	•			•	•		
Gilbert Lichter*	•		•	Chair			
Federica Mazzucato[1]	•			•	•		
Hari Moorthy[1]	•						•
Paolo Muzzarelli[1]	•				•		
Shuta Okawara	•						•
Bryan Osmar*	•		•	•	•	Chair	
William Stenning	•		•	•	Chair		
Edward Sterba*	•	•	•				Chair
Oliver Stuart[1]	•				•		•
Fabrizio Tallei	•				•		
John Trundle*	•					•	•
Eddie Wen[2]	•				•		•
Ronnie Yam	•	•					

• Denotes Board/Committee membership

* Outside (Independent) Director

† Includes one joint RMC-TOPS meeting on 19 October 2022

(1) Elected on 17 May 2022
(2) Resigned on 17 May 2022
(3) Resigned on 16 December 2022
(4) Elected to role on 17 May 2022
(5) Resigned from role on 17 May 2022
(6) Member of Committee until 17 May 2022

Regulatory developments

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

In 2022, CLS continued its efforts to educate and raise awareness of FX settlement risk amongst industry and regulatory stakeholders. 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.

CLS also continued to participate in industry outreach sessions related to the Financial Stability Board's Cross-Border Payments Roadmap. The roadmap, which launched in Q4 2020, 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 responded to a public consultation from the building block 9 workstream that sought input on solutions to increase the use of PvP in the market. A final report was published at the end of March 2023. CLS also contributed to several other building block action plans, including the workstream focused on extending and aligning RTGS operating hours.

Cybersecurity, operational resilience and third-party risk

There continues to be a focus from key regulatory and supervisory bodies on cybersecurity and operational resilience. In particular, the Federal Reserve Board published proposed amendments to Reg HH, to which CLS submitted a response. The proposed amendments relate to operational risk management, including technology, third party risk management, and business continuity requirements. The proposal would also adopt specific incident-notification requirements.

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

RTGS renewal initiatives

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

Jurisdiction-specific requirements for FMIs

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

This is particularly true where jurisdiction specific requirements could be duplicative, in which case CLS seeks to promote deference to cooperative arrangements such as the CLS Oversight Committee. Throughout 2022, CLS engaged in bi-lateral discussions with regulators and supervisory bodies to understand the scope of upcoming regulatory changes that may impact CLS.

Cross-border recovery and resolution regimes

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

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

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. In 2020 and 2021, the Central Bank of Chile implemented reforms to permit FX derivatives to be delivered in CLP and to permit non-residents to open CLP accounts in Chile. Once corresponding tax reforms are implemented, CLS will be positioned 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

Gottfried Leibbrandt

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

Thomas Berkery

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

David Gary

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

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

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

Ronnie Yam

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

Brian Gallagher

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

Federica Mazzucato

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

Hari Moorthy

Originally elected May 2022
Affiliation Goldman Sachs
Role Partner and Global Head of Transaction Banking at Goldman Sachs

Paolo Muzzarelli

Originally elected May 2022
Affiliation Credit Suisse
Role Managing Director

Oliver Stuart

Originally elected May 2022
Affiliation Morgan Stanley
Role Managing Director

Directors resigned in 2022

Kenneth Harvey
Resigned May 17 2022

Ericka Leslie
Resigned May 17 2022

Vidya Bittianda
Resigned December 16 2022

Peter Healey
Resigned May 17 2022

Eddie Wen
Resigned May 17 2022

Gerard Brady
Resigned May 17 2022
*reappointed Feb 2023

Company Secretaries

Philippe Weber

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

Michael Preston

Originally appointed
April 2015
Affiliation CLS Bank International
Role Company Secretary

Executive Management Committee

Marc Bayle de Jessé
Chief Executive Officer

Thomas Barkhuff
Chief Information Officer

Duncan Barnard
Chief Internal Auditor

John Hagon
Chief Operating Officer

Deborah Hrvatin
Chief Risk Officer

Trevor Suarez
Chief Financial Officer

Gaynor Wood
General Counsel

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 2022 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 46 to 51) give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Appropriateness of capitalization of assets

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

CLS Group reported intangible assets of GBP131.3 million for the year ended 31 December 2022.

The most significant asset of the Group is the core settlement system which is necessary for the core operations and provision of the Groups 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 capitalisation 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 judgement 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.

Report on other legal and regulatory requirements

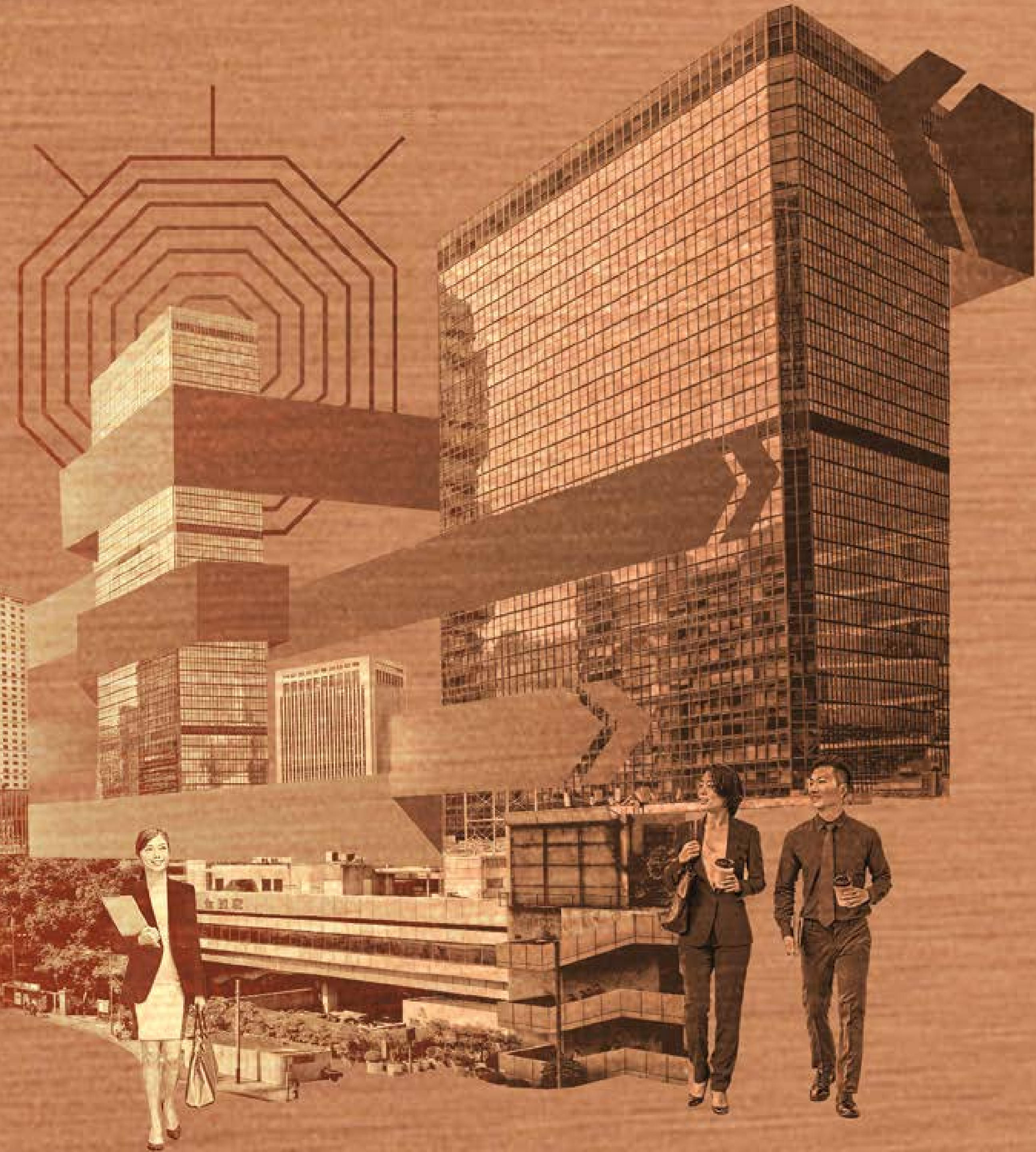
In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

KPMG AG

Stefan Biland	**Benjamin Niedermayer**
Licensed Audit Expert Auditor in Charge Zurich 26 April 2023	Licensed Audit Expert

Consolidated accounts



Consolidated statement of profit or loss

For the year ended 31 December 2022 (All amounts stated in GBP000)

	Notes	2022	2021
Revenue	4	**253,274**	**237,935**
Operating expenses			
Operating expenses		(244,901)	(249,302)
Accelerated amortization of core settlement assets		–	(5,602)
Total operating expenses		(244,901)	(254,904)
Profit/(loss) from operations	5	**8,373**	**(16,969)**
Finance income	7	1,574	179
Finance expense		(788)	(825)
Profit/(loss) before tax		**9,159**	**(17,615)**
Tax credit for the year	8	4,273	9,306
Total profit/(loss) for the year		**13,432**	**(8,309)**

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

Consolidated statement of comprehensive income and loss

For the year ended 31 December 2022 (All amounts stated in GBP000)

	Notes	2022	2021
Profit/(loss) for the year		13,432	(8,309)
Exchange rate differences on translation of foreign operations		1,741	165
Exchange rate movements taken to the cash flow hedge reserve	16	495	5,067
Fair value movements taken to the OCI revaluation reserve		51	(28)
Tax on items accounted through OCI		(93)	93
Total comprehensive profit/(loss)		**15,626**	**(3,012)**
Attributable to:			
Equity holders of parent		15,626	(3,012)
Total comprehensive profit/(loss)		15,626	(3,012)

Consolidated statement of financial position

At 31 December 2022 (All amounts stated in GBP000)

	Notes	31 December 2022	31 December 2021
Non-current assets			
Intangible assets	9	131,255	147,362
Property, plant and equipment	10	4,916	3,811
Right of use assets	11	9,066	11,038
Other investments	13	323	260
Deferred tax asset	14	2,383	3,096
		147,943	**165,567**
Current assets			
Trade and other receivables	15	38,402	29,450
Current tax assets	21	11,428	9,691
Derivative financial instruments	16	2,339	1,581
Investments at fair value	19	72,751	77,813
Cash deposits	17	38,482	15,288
Cash and cash equivalents	18	90,827	84,482
		254,229	**218,305**
Total assets		**402,172**	**383,872**
Current liabilities			
Trade and other payables	20	(56,326)	(44,800)
Current tax liabilities	21	–	(3,662)
Derivative financial instruments	16	–	–
		(56,326)	**(48,462)**
Net current assets		**197,903**	**169,843**
Non-current liabilities			
Other liabilities	22	(5,702)	(6,822)
Deferred tax liabilities	14	–	(3,567)
Lease liabilities	23	(11,184)	(11,687)
		(16,886)	**(22,076)**
Total liabilities		**(73,212)**	**(70,538)**
Net assets		**328,960**	**313,334**

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

	Notes	31 December 2022	31 December 2021
Equity			
Share capital	24	202,582	202,582
Share premium account		116,104	116,104
Combined merger and consolidated reserves	25	116,631	116,631
Translation reserves		3,516	1,775
Cash flow hedge reserve		1,935	1,440
OCI revaluation reserve		236	185
Retained losses		(112,044)	(125,383)
Total equity		**328,960**	**313,334**

The consolidated financial statements were approved by the Board of Directors on 25 April 2023 and signed on its behalf by:

Gottfried Leibbrandt
CLS Group Holdings AG
Chair
25 April 2023

Marc Bayle de Jessé
CLS Group Holdings AG
Chief Executive Officer
25 April 2023

Consolidated statement of changes in equity

For the year ended 31 December 2022 (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 2021 adjusted	24	**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)
Distributions paid		–	–	–	–	–	–	–	–	–	–
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**
Profit for the year		–	–	–	–	–	–	13,432	13,432	–	13,432
Other comprehensive income		–	–	–	1,741	495	51	(93)	2,194	–	2,194
Balance at 31 December 2022		**202,582**	**116,104**	**116,631**	**3,516**	**1,935**	**236**	**(112,044)**	**328,960**	**–**	**328,960**

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

Consolidated cash flow statement

For the year ended 31 December 2022 (All amounts stated in GBP000)

	Notes	2022	2021
Profit/(loss) from operations		**8,373**	**(16,969)**
Adjustments for:			
Amortization of intangible assets		27,881	37,857
Impairment of intangible assets		–	2,587
Depreciation of property, plant and equipment and right of use assets		4,717	5,586
Foreign exchange (losses)/gains recognized in profit from operations		(7,708)	4,079
Operating cash flows before movements in working capital		**33,263**	**33,140**
(Increase) in receivables		(8,960)	(3)
Increase/(decrease) in payables		9,473	(5,337)
Lease payments		(1,293)	(3,080)
Profit/(loss) on matured hedges		7,009	(5,076)
Cash generated from operations		**39,492**	**19,644**
Income taxes (payable)/receivable		(5,615)	2,144
Net cash inflow from operating activities		**33,877**	**21,788**
Investing activities:			
Interest received		645	107
Maturity of cash investments	18	8,386	6,000
Placing of cash investments		(30,000)	–
Purchase of investment in SWIFT		–	(123)
Sale of FVTOCI investments		6,571	7,480
Purchase of FVTOCI investments		–	(4,715)
Additions to intangible assets	9	(11,771)	(22,793)
Purchases of property, plant and equipment	10	(2,603)	(1,082)
Net cash outflow from investing activities		**(28,772)**	**(15,126)**
Net increase in cash and cash equivalents		**5,105**	**6,662**
Cash and cash equivalents at beginning of year		84,482	77,860
Effect of foreign exchange rate changes		1,240	(40)
Cash and cash equivalents at end of year		**90,827**	**84,482**
Cash and cash equivalents as presented on the consolidated statement of financial position		**90,827**	**84,482**

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 products	5 years, straight line
All other business systems	5 years, straight line

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

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. 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 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

	2022	2021
Instruction processing charges	223,460	209,221
Annual account maintenance fees	8,840	8,846
CCP Settlement	7,625	7,625
Liquidity usage fees	2,703	2,608
Other revenues*	10,646	9,635
Total revenue	**253,274**	**237,935**

*Prior year numbers have been adjusted to represent the current year revenue categories. As the Group only operates in a single global market and only has one class of business, the number of revenue categories has been adjusted this year.

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

5. Profit/(loss) from operations

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

	Notes	2022	2021
Staff costs	6	115,771	109,166
IT service charges		46,100	43,726
Amortization of intangible assets	9	27,881	32,255
Impairment of intangible assets	9	–	2,587
Depreciation of property, plant and equipment	10,11	4,717	5,586
Accelerated amortization of core settlement assets	9	–	5,602
Foreign exchange gain		(365)	(107)
Foreign exchange (gain)/loss on forward contracts		(403)	167
Telecom costs		21,254	22,824
Professional service costs		19,595	18,369
Establishment costs		2,665	3,176
Auditor's remuneration for audit services (see below)		713	433
Other		6,973	11,120

The analysis of auditor's remuneration is as follows:

	2022	2021
Fees payable to the Company's auditors for the audit of the Company's annual accounts		
– Current year	27	17
– Prior year	16	–
Audit of the Company's subsidiaries pursuant to legislation		
– Current year	517	416
– Prior year	153	–
Total audit fees	**713**	**433**
Fees payable to the Company's auditors and their associates for other services to the Group:		
Tax services	187	158
Other services	–	–
Total non-audit fees	**187**	**158**
Total fees	**900**	**591**

KPMG AG was appointed auditor for the Group at the annual general meeting on 6 June 2023 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	2022	2021
Service delivery and technology	328	297
Risk and control	187	193
Corporate	48	44
Total	**563**	**534**

Total aggregate remuneration comprised:

	2022	2021
Salaries	97,176	90,579
Temporary staff	6,414	7,890
Social security costs	8,416	7,052
Pension costs	6,494	5,684
Total	**118,500**	**111,205**

During 2022 GBP2,729,000 (2021: GBP2,039,000) of the above costs were incurred in the creation of intangible assets and have been capitalized.

Analysis of Directors’ remuneration is included in note 28.

7. Finance income

	2022	2021
Investment income	240	179
Interest income	1,334	–
Total	**1,574**	**179**

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All amounts in GBP000 unless stated otherwise

8. Tax

	2022	2021
Current tax:		
UK corporation tax		
– Current year	–	–
– Adjustments in respect of previous periods	–	229
	–	**229**
Non-UK corporation tax		
– Current year	(114)	3,995
– Withholding tax	(146)	–
Current tax (expense)/credit for the year	**(260)**	**4,224**
Deferred tax:		
Relating to origination and reversal of temporary differences	1,234	4,800
Adjustments recognized in the year for deferred tax of prior periods	432	97
Differences arising from deferred tax functional currency	2,867	185
Deferred tax credit for the year	**4,533**	**5,082**
Total tax credit for the year	**4,273**	**9,306**

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:

	2022	2021
Profit/(loss) before tax	9,159	(17,615)
UK statutory tax rate	19%	19%
At UK statutory income tax rate credit/(cost)	(1,740)	3,347
Current tax affecting items:		
Permanent disallowable expenses and non-taxable income	3,597	7,220
Adjustments in respect of current income tax of previous periods	176	(219)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(503)	120
Deferred tax affecting items:		
Foreign exchange rate movement	2,832	(1,162)
Differences on which no deferred tax is recognized	(89)	–
Under provided deferred tax in prior years	–	–
Total tax credit for the year	**4,273**	**9,306**

9. Intangible assets

	Assets in course of construction	Settlement Assets	Non-settlement Assets	Total
Cost				
Opening balance 1 January 2021	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**
Additions	11,771	–	–	11,771
Transfers	(30,850)	30,456	394	–
Disposals	–	(38,615)	(1,519)	(40,134)
Closing balance 31 December 2022	**10,380**	**299,308**	**23,406**	**333,094**
Accumulated amortization				
Opening balance 1 January 2021	–	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**
Charge for the year	–	23,930	3,951	27,881
Disposals	–	(38,618)	(1,519)	(40,137)
Closing balance 31 December 2022	**–**	**184,308**	**17,531**	**201,839**
Net book value				
31 December 2022	**10,380**	**115,000**	**5,875**	**131,255**
31 December 2021	29,459	108,471	9,432	147,362

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 2021	**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**
Additions	1,544	1,059	–	2,603
Disposals	(5,696)	(5,983)	(42)	(11,721)
Closing balance 31 December 2022	**8,837**	**10,042**	**409**	**19,288**
Accumulated depreciation				
Opening balance 1 January 2021	**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**
Disposals	(5,696)	(5,983)	(42)	(11,721)
Charge for the year	586	896	16	1,498
Closing balance 31 December 2022	**5,170**	**8,815**	**387**	**14,372**
Net book value				
31 December 2022	**3,667**	**1,227**	**22**	**4,916**
31 December 2021	2,709	1,064	38	3,811

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 2021	**19,227**	**706**	**19,933**
Lease modification	1,247	–	1,247
Additions	–	–	–
Closing balance 31 December 2021 and 2022	**20,474**	**706**	**21,180**
Accumulated depreciation			
Opening balance 1 January 2021	**5,699**	**352**	**6,051**
Charge for the year	2,661	183	2,844
Closing balance 31 December 2021	**8,360**	**535**	**8,895**
Charge for the year	3,073	146	3,219
Closing balance 31 December 2022	**11,433**	**681**	**12,114**
Closing balance 31 December 2022	**9,041**	**25**	**9,066**
Closing balance 31 December 2021	10,867	171	11,038

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:

	2022	2021
Investment in SWIFT	323	260
Balance at 31 December	**323**	**260**

Investment in SWIFT

CLS Bank International owns 50 shares (2021: 50 shares) in SWIFT were purchased between April 2003 and May 2021. These shares are included in the balance of the Group at cost. This investment is not required to be accounted for under the equity method of accounting as the Company does not have significant influence. The investment is held on the Group balance sheet at FVTOCI in accordance with IFRS 9.

The shares do not have a quoted market price in an active market. The fair value of the investment has been determined using the nominal value per share calculated annually and approved by the board of SWIFT. The last available price determined in June 2022 was EUR7,275 (2021: EUR5,705) per share. The Group does not intend to dispose of this investment.

Balance at 31 December 2021	**260**
FVTOCI	67
Foreign Exchange Movement	(4)
Balance at 31 December 2022	**323**

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 2021	**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)**
Credit to other comprehensive income	(93)	–	–	–	(93)
Foreign exchange movement	11	(2,150)	553	–	(1,586)
(Charge)/credit to income in the year	(901)	6,927	(1,493)	–	4,533
Balance at 31 December 2022	**23,044**	**(24,463)**	**3,802**	**–**	**2,383**

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

15. Trade and other receivables

	At 31 December 2022	At 31 December 2021
Trade receivables	23,676	18,184
Pre-payments and accrued income	13,622	10,142
VAT recoverable	877	988
Other receivables	227	136
Total	**38,402**	**29,450**

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 2022		At 31 December 2021	
	Notional contract amount	**Fair value £'000**	**Notional contract amount**	**Fair value £'000**
Forward foreign currency contracts not in hedging relationships	–	–	–	–
Forward foreign currency contracts in hedging relationships	$129m	2,339	$103m	1,581
Closing balance at 31 December	**$129m**	**2,339**	**$103m**	**1,581**

The maximum length of time over which the Group hedges exposure to the variability in future cash flows for forecast transactions is 18 months (2021: 18 months).

Gains and losses transferred from the cash flow hedging reserve to the income statement included a GBP6,939,000 gain (31 December 2021: GBP4,186,000 loss) transferred to administration and general expenses including taxation.

The amount is allocated as follows: Bonus expense GBP21,000 gain (31 December 2021: GBP864,000 loss); payroll expense GBP3,027,000 gain (31 December 2021: GBP1,779,000 loss); supplier payments GBP2,594,000 gain (31 December 2021: GBP1,543,000 loss); tax expense GBP1,297,000 (31 December 2021: GBPnil). Hedge ineffectiveness was GBPnil (2021: GBPnil).

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

17. Cash deposits

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

18. Cash and cash equivalents

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

Notes to the consolidated financial statements

All amounts in GBP000 unless stated otherwise

19. Investments at fair value

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

	At 31 December 2022	At 31 December 2021
Investments held as FVTOCI	72,751	77,813
Total	**72,751**	**77,813**

20. Trade and other payables

	At 31 December 2022	At 31 December 2021
Accruals	(40,776)	(32,667)
Deferred income	(8,720)	(4,890)
Trade payables	(842)	(3,117)
Taxation and social security costs	(2,648)	(2,092)
Other payables	(3,340)	(2,034)
Total	**(56,326)**	**(44,800)**

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 2022	At 31 December 2021
US Federal tax	–	(2,357)
US State tax	–	(1,279)
Swiss Federal tax	–	(26)
Total tax liabilities	**–**	**(3,662)**
UK Corporation tax	1,874	2,057
US City tax	1,351	1,760
US Federal tax	6,435	4,818
US State tax	1,229	1,056
US New Jersey tax	539	
Total tax assets	**11,428**	**9,691**
Net tax assets	**11,428**	**6,029**

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 2021
Deferred compensation	(5,702)	(6,822)
Total	**(5,702)**	**(6,822)**

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

23. Lease liabilities

	31 December 2022	31 December 2021
Lease liabilities – Office equipment	(46)	(184)
Lease liabilities – Property	(11,138)	(11,503)
Total lease liabilities	**(11,184)**	**(11,687)**

24. Share capital

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

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

Allotted and fully paid	No. ordinary shares CHF1,400 each*	Total nominal value CHF000	Total nominal value GBP000
31 December 2022	**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 2021	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.

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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 2022	**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 2022	31 December 2021
Contracted for but not provided for:		
– Services agreement	253,064	278,085
– Acquisition of intangibles	11,703	14,973
– Other	33,873	30,395
Total	**298,640**	**323,453**

27. Contingent liabilities

There are no contingent liabilities at 31 December 2022 (2021: 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 2022, the largest individual shareholder had 4.8% (2021: 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 2022	31 December 2021
Short-term employee benefits (USD)	2,414	2,443
Total (USD)	**2,414**	**2,443**

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.

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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.

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.

30. Treasury and capital risk management (continued)

4. Capital risk

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

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

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 2022		31 December 2021	
	Book value	**Fair value**	**Book value**	**Fair value**
Financial assets				
1. Other investments	323	323	260	260
2. Loans and receivables:				
Trade and other receivables	38,402	38,402	29,450	29,450
Derivative financial instruments	2,339	2,339	1,581	1,581
3. FVTOCI investments	72,751	72,751	77,813	77,813
4. Deposits, cash and cash equivalents	129,309	129,309	99,770	99,770
Total financial assets	**243,124**	**243,124**	**208,874**	**208,874**
Financial liabilities				
5. Financial liabilities at amortized cost:				
Trade and other payables	(56,326)	(56,326)	(44,800)	(44,800)
6. Derivative financial instruments	–	–	–	–
7. Other liabilities	(5,702)	(5,702)	(6,822)	(6,822)
Total financial liabilities	**(62,028)**	**(62,028)**	**(51,622)**	**(51,622)**

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

	Fair value hierarchy as at 31 December 2021			
	Level 1	Level 2	Level 3	Total
Financial assets/(liability)				
Investment in SWIFT (Note 13)	–	–	260	260
FVTOCI investments	38,630	39,183	–	77,813
Derivative financial instruments	–	1,581	–	1,581

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 USD129 million (2021: USD103 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 2022				
Pound sterling	78,170	30,000	72,751	180,921
US dollar	9,315	8,482	–	17,797
Swiss franc	2,388	–	–	2,388
Other currencies	954	–	–	954
Total deposits, cash and cash equivalents	**90,827**	**38,482**	**72,751**	**202,060**
Fixed rate assets	–	38,482	72,751	111,233
Floating rate assets	71,626	–	–	71,626
Balances for which no interest is paid	19,201	–	–	19,201
Total deposits, cash and cash equivalents	**90,827**	**38,482**	**72,751**	**202,060**
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**

The effective interest rate on the average daily closing balances is 2.91% (2021: 0.05%).

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 0.18% or nil (2021: 0.20% or nil). Profit for the year ending 31 December 2022 (assuming the same closing balance values for one year) would increase or decrease by GBP303k (2021: increase or decrease by GBP266k).
- 20 basis points higher or lower and all other variables had been constant then the effective interest rates would have been 0.13% or nil (2021: 0.25% or nil). Profit for the year ending 31 December 2022 (assuming the same closing balance values for one year) would increase or decrease by GBP404k (2021: increase or decrease by GBP178k).

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 2022, GBP weakened 11% against the USD and weakened 10% against the CHF. This led to an unrealized gain on exchange of GBP1.7 million (2021 GBP0.2 million unrealized gain) on GBP/USD and a gain of GBP1.1k (2021: GBP47k loss) on GBP/CHF respectively.

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

	At 31 December 2022	At 31 December 2021
US Dollar	17,795	5,297
Swiss Franc	2,390	532
Total	**20,185**	**5,829**

31. Capital management

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

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

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

32. Post balance sheet events

Subsequent events were evaluated through to 25 April 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.

There were no post balance sheet events after 31 December 2022. CLS has continued to operate effectively despite recent geopolitical and other market events.

33. Standards issued but not yet adopted

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

Five year summary

Unaudited		**2022**	**2021**	**2020**	**2019**	**2018**
Revenue for the year	GBPm	253.3	237.9	212.5	207.8	206.1
Operating expenses (Reported basis)	GBPm	244.9	254.9	232.6	237.9	234.4
Profit/(loss) from operations	GBPm	8.4	(17.0)	(20.1)	(30.2)	(28.4)
Total profit/(loss) for the year	GBPm	13.4	(8.3)	(15.4)	(28.3)	(18.5)
Total assets at year end	GBPm	402.2	383.9	407.4	417.7	457.7
Total equity	GBPm	329.0	313.3	322.8	338.1	376.0
Daily average settled values	USDtr	6.5	6.2	5.9	5.9	5.9
Average revenue per USD million settled	GBP	0.13	0.13	0.12	0.12	0.12
Daily average billable volume	Number of sides	1,158,000	972,000	1,052,000	1,007,000	891,000
Average revenue per instruction	GBP	0.73	0.82	0.67	0.70	0.77
Average monthly number of employees in year	No.	563	534	500	409	374
Number of shareholders at year end	No.	79	79	79	79	79
Number of members at year end	No.	74	74	74	72	71

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